The United Laboratories International Holdings Limited
聯邦制藥國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

2008 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2008 *HK$'000*	2007 *HK$'000*	**Increase / (decrease)** %
Turnover	**3,755,856**	2,594,937	**44.7%**
EBITDA	**902,876**	824,918	**9.5%**
Profit before taxation	**532,530**	558,341	**(4.6%)**
Profit for the year attributable to equity holders of the Company	**430,169**	510,463	**(15.7%)**
Earning per share (HK cents)	**HK35.8cents**	HK48.0cents	**(25.4%)**

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited ("United Laboratories" or the "Group"), I am pleased to present to all shareholders the annual results of the Group for the year ended 31 December 2008.

Despite the tremendous changes in the global economy, the overall sales of the Group achieved strong growth in 2008. During the year, the Group recorded a turnover of approximately HK$3.76 billion, representing an increase of 44.7% as compared to last year. The Group's gross profit and EBITDA grew by 18.6% and 9.5% to HK$1.43 billion and HK$0.9 billion respectively. Profit attributable to shareholders decreased to approximately HK$430 million as compared to last year, which was mainly due to rapid fall in the prices of intermediate products and bulk medicine in the second half of the year that caused a decrease in gross profit margin. As global financial tsunami broke in the second half of the year, global currencies such as Euro and Indian Rupee subsequently and sharply depreciated and the exchange rate between United States dollars and Renminbi was continuously weakened. The sudden contraction of global economic activities resulted in a decline in market prices, although negative impact experienced by the PRC market was not as serious as compared to other markets, a slight decline in the fourth quarter was still inevitable. The adverse effect brought by global financial tsunami caused spiraling down of the market prices of intermediate products and bulk medicine in the second half of the year, which consequently resulted in a decrease in the Group's gross profit margin in that respect. Earnings per share for the year ended 31 December 2008 is HK35.8 cents. The Board recommended the payment of a final dividend of HK15 cents per share for the year ended 31 December 2008.

During the year of 2008, the sales of the Group's three core products, namely intermediate products, bulk medicine and finished products, continued to maintain an upward trend. The sales of intermediate products and bulk medicine were particularly strong last year. This was mainly because the Group's production plant in Inner Mongolia was officially put into operation at the end of 2007, which greatly enhanced the capacity of intermediate products manufacturing. The sales of finished products also had a rapid growth during the year. The Group currently has five production bases, namely the intermediate products plant in Chengdu, the bulk medicine plant in Zhuhai, the finished products plant in Zhongshan, the finished products plant in Hong Kong, and the comprehensive integrated production plant in Inner Mongolia that manufactures intermediate products.

Looking ahead to year 2009, we anticipate a sustainable growth in the global pharmaceutical markets, as there will be a solid demand for medicines in the market, though the global economy is still gloomy due to the adverse influences of the financial crisis. Moreover, the State Council of the People's Republic of China ("PRC") announced in early 2009 that it would inject in RMB850 billion in the forthcoming three years for the reform of PRC's medical and sanitary system, with emphasis on improvement of the medical insurance system and basic medical services. The goal is to increase the medical insurance coverage to 90% of its population, and to increase the average annual premium per capita from RMB80 to RMB120 by 2011. The new medical reform indicates that the PRC government will gradually increase its investment in the medical care system in an attempt to build a complete medical insurance network strong enough to serve the whole population. That also implies sustainable growth for PRC's medicine market and valuable opportunities for pharmaceutical companies.

In view of this, the Group will proactively improve the production efficiency and utilization rate of each of its production plants and expedite the extension project of existing production bases, and it will also boost the sales of its products and increase brand awareness to expand the market share of its key products. The management of the Group will follow the original plan to continue with Phase II construction of Inner Mongolia plant and expansions of Zhongshan and Zhuhai plants, in order to leverage the strength of vertically integrated production and operation. The Group will also improve the existing production techniques, strengthen cost control, cut cost and increase production efficiency, thereby raising the gross profit of the Group.

Meanwhile, the Group will make efforts to develop and improve its sales network, boost the sales of its new products, in particular the sales of specialized products, and raise the proportion of sales of its new products and OTC drugs to maximize its profits. The Group has put a great deal of resources to recruit more sales personnel and to expand its sales network in 2008. The management expects to obtain fruitful results in 2009 from this investment in the previous year. Moreover, despite both its finished product plants in Zhongshan and bulk medicine plant in Zhuhai received the accreditation as a "High and New Technology Enterprise", the Group will continue to invest in research and development so as to give impetus to its future development. In respect of overseas sales, the Group will continue to preserve its existing share in mature markets, improve its distribution system, safeguard its distributors' interests and progressively explore immature markets to seek and select potential distributors to establish an extensive marketing network by integrating points of sales to expand market coverage and enhance its brand name, especially its position among the PRC pharmaceutical plants. In respect of cost control, the Group will cut costs further and improve efficiency, and it will also provide its staff with more training on crisis consciousness, conduct feasibility study of technical improvements on existing products and refine management of post operations.

As a large market-leading and socially responsible pharmaceutical enterprise, the Group undertakes that it will not conduct any layoff or salary cut in current year. Our staff is an important asset of the Group, and their contributions are sincerely valued by the management.

I would like to extend my gratitude to our staff for their tireless and continuous efforts, which drive the constant improvement in the results of United Laboratories. I also take this opportunity to thank the shareholders for their enormous support to the Group, and their affirmation to the Group's future business development plans and strategies. In rewarding the trusts vested by shareholders, the entire United Laboratories team will continuously strive to become the leading and largest high quality pharmaceutical manufacturer in the PRC, and bring fruitful returns to shareholders.

2008 ANNUAL RESULTS

The Board of the Company is pleased to announce the consolidated results of the Group for the year ended 31 December 2008 and the comparative figures for the year 2007 as follows:

Consolidated Income Statement
For the year ended 31 December 2008

	Notes	**2008** *HK$'000*	2007 *HK$'000*
Turnover	4	**3,755,856**	2,594,937
Cost of sales		**(2,326,256)**	(1,389,152)
Gross profit		**1,429,600**	1,205,785
Other income	5	**63,038**	25,753
Selling and distribution expenses		**(554,479)**	(381,535)
Administrative expenses		**(247,561)**	(173,267)
Other expenses		**(40,887)**	(38,434)
Finance costs	6	**(117,181)**	(79,961)
Profit before taxation		**532,530**	558,341
Taxation	7	**(102,361)**	(47,878)
Profit for the year attributable to equity holders of the Company	8	**430,169**	510,463
Dividend / Distributions	9	**204,000**	277,083
Earning per share (HK cents)	10	**35.8**	48.0

Consolidated Balance Sheet
As at 31 December 2008

	Notes	**2008** ***HK$'000***	2007 *HK$'000*
Non-current assets			
Property, plant and equipment	11	**3,466,393**	2,349,792
Prepaid lease payments		**131,921**	99,495
Goodwill		**3,428**	3,226
Intangible assets		**3,935**	5,343
Deposits for acquisition of property, plant and machinery		**128,319**	69,145
Available-for-sale investment		**-**	-
Deferred tax asset		**6,249**	9,649
		3,740,245	2,536,650
Current assets			
Inventories		**773,991**	550,165
Trade and bills receivables, deposits and prepayments	12	**1,198,190**	905,461
Derivative financial instrument		**3,240**	-
Prepaid lease payments		**3,073**	2,339
Pledged bank deposits		**286,045**	354,211
Bank balances and cash		**165,474**	401,262
		2,430,013	2,213,438
Current liabilities			
Trade and bills payables and accrued charges	13	**1,509,928**	890,912
Tax payables		**32,836**	12,564
Borrowings		**1,350,850**	836,735
		2,893,614	1,740,211
Net current (liabilities) assets		**(463,601)**	473,227
Total assets less current liabilities		**3,276,644**	3,009,877
Non-current liabilities			
Borrowings		**424,692**	543,110
Deferred tax liabilities		**35,457**	14,235
		460,149	557,345
		2,816,495	2,452,532
Capital and reserves			
Share Capital		**12,000**	12,000
Reserves		**2,804,495**	2,440,532
Equity attributable to equity holders		**2,816,495**	2,452,532

Notes:

1. General

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company is Heren Far East Limited, a company incorporated in the British Virgin Islands and its ultimate holding company is Gesell Holdings Limited, a company incorporated in the British Virgin Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories.

The Company acts as an investment holdings company.

The functional currency of the Company and its subsidiaries in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The consolidated financial statements of the Group are presented in Hong Kong dollars because the Company is a public company with the shares listed on The Stock Exchange of Hong Kong Limited, and a majority of its investors are based in Hong Kong and therefore, the directors consider that Hong Kong dollar is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. Basis of preparation of consolidated financial statements

As at 31 December 2008, the Group has net current liabilities of HK$463,601,000 and which included borrowings of HK$1,350,850,000. Subsequent to the balance sheet date, the Group has obtained new bank loans amounting to HK$57,000,000 and HK$55,000,000 which will mature in 2010 and 2011, respectively. In February 2009, the Group has also obtained a bank loan of HK$271,440,000 with the maturity date in August 2011 and used it to repay a bank loan which will mature in December 2009. In addition, the directors of the Company believe those resolving bank borrowings included in current liabilities at balance sheet date could be successfully renewed on renewal date.

Taking into account the financial resources available to the Group, including internally generated funds, the directors of the Company are of the view that the Group has sufficient working capital for its present requirements for the next twelve months from the balance sheet date and accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) - Int 11	HKFRS 2 : Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]

HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) - Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) - Int 18	Transfers of Assets from Customers[7]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2009
[3] Effective for annual periods beginning on or after 1 July 2009
[4] Effective for annual periods ending on or after 30 June 2009
[5] Effective for annual periods beginning on or after 1 July 2008
[6] Effective for annual periods beginning on or after 1 October 2008
[7] Effective for transfers on or after 1 July 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. Turnover and Segment information

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

	2008	2007
	HK$'000	*HK$'000*
Sales of goods	**3,755,856**	2,594,937

Business segments

The Group is currently organised into three revenue streams - (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These revenue streams are the basis on which the Group reports its primary segment information.

Segmental information about these businesses is presented below:-

For the year ended 31 December 2008

	Intermediate products *HK$'000*	**Bulk medicine** *HK$'000*	**Finished products** *HK$'000*	**Elimination** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER					
External sales	**742,386**	**1,712,200**	**1,301,270**	**-**	**3,755,856**
Inter-segment sales	**680,319**	**175,757**	**-**	**(856,076)**	**-**
	1,422,705	**1,887,957**	**1,301,270**	**(856,076)**	**3,755,856**
RESULT					
Segment result	**107,220**	**231,148**	**348,851**		**687,219**
Unallocated other income					**21,568**
Unallocated corporate expenses					**(59,076)**
Finance costs					**(117,181)**
Profit before taxation					**532,530**
Taxation					**(102,361)**
Profit for the year attributable to equity holders of the Company					**430,169**

For the year ended 31 December 2007

	Intermediate products *HK$'000*	Bulk medicine *HK$'000*	Finished products *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	265,677	1,362,262	966,998	-	2,594,937
Inter-segment sales	885,377	147,570	-	(1,032,947)	-
	1,151,054	1,509,832	966,998	(1,032,947)	2,594,937
RESULT					
Segment result	253,053	171,645	235,018		659,716
Unallocated other income					16,133
Unallocated corporate expenses					(37,547)
Finance costs					(79,961)
Profit before taxation					558,341
Taxation					(47,878)
Profit for the year attributable to equity holders of the Company					510,463

Geographical segments

Segment information regarding the Group's sales by geographical market, irrespective of the origin of the goods is presented below:

	2008 *HK$'000*	2007 *HK$'000*
PRC	**2,919,420**	1,988,218
Europe	**166,184**	204,789
India	**301,137**	90,979
Hong Kong	**9,729**	4,928
Other Asian regions	**301,745**	230,798
Other regions	**57,641**	75,225
	3,755,856	2,594,937

5. Other income

	2008 *HK$'000*	2007 *HK$'000*
Bank interest income	**9,594**	15,317
Sales of raw materials	**13,107**	3,116
Subsidy income	**15,685**	4,816
Sundry income	**2,160**	2,504
Tax incentive for re-investing the profit distribution in a subsidiary in accordance with relevant jurisdiction in the PRC	**8,734**	-
Fair value change on foreign currency forward contract	**3,240**	-
Insurance compensation	**10,518**	-
	63,038	25,753

Insurance compensation represents the insurance claimed for the compensation of the property and inventory lost during Wenchuan earthquake in the PRC.

6. Finance costs

	2008 *HK$'000*	2007 *HK$'000*
Interest on borrowings wholly repayable within five years	**117,181**	75,152
Interest on loan from a director	**-**	4,809
	117,181	79,961

7. Taxation

	2008 *HK$'000*	2007 *HK$'000*
The charge comprises:		
Current tax		
Hong Kong	**10,633**	10,519
PRC	**71,161**	44,518
(Over) underprovision in prior years		
Hong Kong	**1,050**	4,125
PRC	**(5,105)**	-
	77,739	59,162
Deferred tax		
Current year	**25,016**	(11,284)
Attributable to a change in tax rate	**(394)**	-
	102,361	47,878

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

PRC Enterprise Income Taxes are calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises (《外商投資企業和外國企業所得稅法》) and Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises (《外商投資企業和外國企業所得稅法實施細則》), both of which came into force on 1 July 1999, certain subsidiaries in the PRC are entitled to exemption from the PRC Enterprise Income Tax for the first two years commencing from their first profit-making year of operations, after offsetting all unexpired tax losses carried forward from previous years, and thereafter will be entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. Such tax benefit for respective subsidiaries will expire from 1 January 2010 to 1 January 2013. In addition, certain subsidiaries are entitled to a preferential tax rate as these subsidiaries are regarded as high-technology companies.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, for those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate is increased from 18% over 5 years to 25% as a result of the grandfathering provisions. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled at the rate of 15%. Deferred tax is recognised based on the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 and held by the PRC entity shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. Deferred tax of HK$22,432,000 on the undistributed earnings has been charged to the consolidated income statement for the year ended 31 December 2008.

8. Profit for the year

	2008	2007
	HK$'000	*HK$'000*
Profit for the year had been arrived at after charging (crediting):		
(Reversals of) allowances for inventories	**(6,895)**	20,301
(Reversals of) allowances for doubtful debts	**(12,650)**	333
Auditor's remuneration	**2,800**	2,755
Listing expenses (included in other expenses)	**-**	26,683
Depreciation and amortisation		
Depreciation of property, plant and equipment	**248,249**	181,779
Amortisation		
- intangible assets (include in administrative expenses)	**1,843**	2,749
- prepaid lease payments	**3,073**	2,088
	253,165	186,616
Less: amount included in research and development expenditures	**(1,094)**	(1,059)
	252,071	185,557
Exchange loss, net	**2,875**	6,154
Net loss on disposal of property, plant and equipment	**3,906**	272
Operating lease payments in respect of rented premises	**2,700**	1,116
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**267,546**	165,171
Retirement benefit costs	**17,966**	9,669
	285,512	174,840
Less: amount included in research and development expenditures	**(2,626)**	(2,045)
	282,886	172,795
Loss on production suspension in Wenchuan earthquake (included in other expenses)	**25,028**	-
Research and development expenditures (included in other expenses)	**15,436**	11,494

9. Dividend / Distributions

In June 2008, the final dividend in respect of the financial year ended 31 December 2007 of HK17 cents (year ended 31 December 2006: nil) per share totaling HK$204,000,000 (year ended 31 December 2006: nil) was paid to shareholders during the year.

A final dividend for the year ended 31 December 2008 of HK15 cents per share has been proposed by the directors and is subject to the approval by the shareholders in the forthcoming annual general meeting.

On 21 May 2007, The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group declared a special dividend of HK$277,083,000 to its then sole shareholder. Such dividend was settled by way of offsetting the amount due from a director of HK$437,183,000 and loan from a director of HK$160,100,000 during the year ended 31 December 2007.

10. Earnings per share

The calculation of the basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to the equity holders of the Company and the weighted average number of 1,200,000,000 (2007: 1,064,383,562) shares.

11. Movements in property, plant and equipment

During the year, the Group spent approximately HK$1,204,705,000 (2007: HK$749,233,000) on the construction of factory premises and manufacturing plant, in order to upgrade its manufacturing capabilities.

12. Trade and bills receivables, deposits and prepayments

The Group normally allows an average credit period of 30 days to 120 days to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have average maturity period of 90 days -180 days.

The following is an aged analysis of trade and bills receivables at the respective balance sheet dates:

	2008	2007
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**217,571**	257,875
31 to 60 days	**162,033**	109,685
61 to 90 days	**59,459**	40,532
91 to 120 days	**3,440**	17,234
121 to 180 days	**3,246**	7,890
Over 180 days	**1,288**	3,598
	447,037	436,814
Bills receivables		
0 to 30 days	**93,362**	59,770
31 to 60 days	**75,233**	64,210
61 to 90 days	**125,347**	47,362
91 to 120 days	**122,536**	67,208
121 to 180 days	**225,019**	135,026
Over 180 days	**2,658**	3,272
	644,155	376,848
Deposits and prepayments	**106,998**	91,799
	1,198,190	905,461

13. Trade and bills payables and accrued charges

The Group normally receives credit terms of 0 days to 120 days from its suppliers. The following is an aged analysis of the trade and bills payables at the respective balance sheet dates:

	2008	2007
	HK$'000	*HK$'000*
Trade payables		
0 to 90 days	**475,476**	293,970
91 to 180 days	**256,842**	54,348
Over 180 days	**17,210**	20,334
	749,528	368,652
Bills payables		
0 to 90 days	**145,466**	116,782
91 to 180 days	**159,551**	123,886
	305,017	240,668
Other payables and accruals	**455,383**	281,592
	1,509,928	890,912

14. Capital commitments

At 31 December 2008, the Group had commitments for capital expenditure of HK$471,189,000 (2007: HK$459,970,000) in respect of the acquisition of plant and equipment contracted for but not provided in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

Financial Performance

For the year ended 31 December 2008, the Group achieved excellent results and recorded a turnover of approximately HK$3,756 million, an increase of 44.7% as compared to last year. The profit attributable to shareholders was approximately HK$430 million, representing a decrease of 15.7% as compared to last year. The decrease in net profit for the year is mainly due to the decrease in gross profit margin resulted from the decrease in average price of intermediate and bulk medicine products, increase in selling and distrubution expenses and financial costs and increase in effective tax rate as compared with last year. The effective tax rate increased during the year was mainly due to the decrease in the profit for the year of Chengdu's subsidiary of the Group, which is being within tax exemption period under the PRC income tax regulation, and provision of deferred taxation amounting to HK$22.0 million regarding the PRC income tax on undistributed earnings of the PRC subsidiaries of the Group. The Group's overall gross profit margin and net profit margin had dropped by 8.4% and 8.2% respectively, as compared with last year. For the year ended 31 December 2008, segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 23.6%, 25.0% and 34.6% respectively, as compared with last year. Segment results of bulk medicine products and finished products increased by 34.7% and 48.4% respectively, but intermediate products decreased by 57.6%.

The Group has successfully established long and stable business relationships with its customers, hospitals and distributors that resulted in continuing increase in the Group's turnover in the PRC markets. During the year, the overseas sales were approximately HK$836 million, representing an increase of 37.9% as compared with last year and contributed approximately 22.3% of the Group's total turnover. The Group has adopted a vertically integrated production operation which in turn maximized the economies of scales and enhanced the Group's profitability.

Business Review

The global financial tsunami that wrought havoc in the second half of 2008 has led to a flagging global economy and a sluggish demand for all kinds of commodities in its wake. As a result, the PRC market inevitably contracted but showed comparative advantages over the other regions. As all sectors in the world suffered in slump, the Group took all difficulties in its stride, minimizing the negative impact on its results. Focusing on the domestic market of the PRC, the Group strived to expand its market share in bulk medicines and intermediate products, and achieved preliminary results in opening up rural markets. As a result, our turnover reached historic high. The following are the factors that affect the Group's turnover and results for the year:

1. *Increase in sales of bulk medicines and intermediate products but decrease in their prices*

   As one of the key manufacturers of bulk medicines for 6-APA and antibiotics in the world and the PRC, the Group is in a leading position in the global and Chinese markets. During the year, the significant increase in its productivity of intermediate products was primarily due to the commencement of the full-scale production of its Inner Mongolia plant. As the PRC government intensified its efforts in the enforcement of environment protection laws and regulations, many medium and small-sized manufactures for intermediate products and bulk medicines of antibiotics were forced to cease production during the year. Leveraging on its advanced production lines and top product quality, the Group successfully expanded its market share in intermediate products and bulk medicines and increased its turnover. The external sales of intermediate products and bulk medicines increased by 50.8% as compared with last year.

   Although the Group successfully increased its market share and sales in intermediate products and bulk medicines during the year, their average prices fell as compared to the last year, especially in the second half. During the first half of the year, the supply of the intermediate products and bulk medicines rebounded to normal level led to the drop in prices as compared to the higher price of last year. In the second half year, as the financial turmoil took place, most of the finished product manufacturers or agents remained cautious and were not willing to increase their inventories. This triggered the substantial slide in market demand for intermediate products and bulk medicines in the fourth quarter, which in turn led to further drop in their prices. Decrease in prices of intermediate products and bulk medicines resulted in the decrease in the Group's gross profit margin for the year by 8.4% as compared to the previous year, one of the factors contributing to the decline in our results for the year.

2. *Export business became weakness in the second half year*

   As global financial tsunami started to surge in the second half of the year, global currencies, such as Euro and Indian Rupee, subsequently and sharply depreciated and therefore the sudden contraction of global economic activities resulted in a decline in exporting market prices of intermediate and bulk medicines products. In additions, the weakness of the exchange rate between United States dollars and Renminbi led to a decrease in demand on intermediate and bulk medicine products by manufacturers causing negative effect of the Group's result in the second half year of 2008.

3. *Expansion in sales team and exploration in rural markets*

   During the year, the Group aggressively expanded into the rural market and recruited additional sales persons, so as to strengthen sales channels in rural areas. For the year ended 31 December 2008, the Group's results from finished products increased by 48.4% over last year. Meanwhile, the Group's selling and distribution expenses increased by 45.3% as compared with last year. The increase in selling and distribution expenses was attributable to expansion in sales team and expansion in rural market. As the Group's exploration of rural market was still at its infancy in 2008, and it has not attained the optimised efficiency in terms of the operating costs, therefore the Group's net profit for the year was reduced.

4. *Increase in finance costs*

For the year ended 31 December 2008, the Group's borrowings and the finance costs increased by 28.7% and 46.5% respectively as compared with last year, and the increase in finance costs was due to the increase in borrowings and the interest rate as compared with last year. The increased borrowings were used to expand and enhance the Group's productivity.

Despite the decline of its performance for the year, the Group has done much better than its competitors and managed to reduce the impact of the economic turmoil to the greatest possible extent, thus maximizing the return for the shareholders.

Liquidity and Financial Resources

As at 31 December 2008, the Group had bank deposits, cash and bank balances amounted to HK$452 million (2007: HK$755 million).

As at 31 December 2008, the Group had interest-bearing bank borrowings of approximately HK$1,776 million (2007: HK$1,380 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK$245 million are fixed rate loans while the remaining balance of approximately HK$1,531 million is at floating rate. The Directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 31 December 2008, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	2008	2007
	HK$'000	*HK$'000*
Property, plant and equipment	**897,499**	557,284
Prepaid lease payments	**120,942**	72,025
Bills receivables	**122,249**	150,754
Pledged bank deposits	**286,045**	354,211
	1,426,735	1,134,274

Certain banking facilities are secured by the charge over all assets of certain subsidiaries of the Group. The trust receipt loans are secured by the Group's leasehold land and buildings and bank deposits.

As at 31 December 2008, current assets of the Group amounted to approximately HK$2,430 million (2007: HK$2,213 million). The Group's current ratio was approximately 0.84 as at 31 December 2008, as compared with 1.27 as at 31 December 2007. As at 31 December 2008, the Group had total assets of approximately HK$6,170 million (2007: HK$4,750 million) and total liabilities of approximately HK$3,354 million (2007: HK$2,298 million), representing a net gearing ratio (calculated as total borrowings less cash and bank balances to total equity) of 57.2% as at 31 December 2008, as compared with 39.9% as at 31 December 2007.

Use of Proceeds from Global Offering

On 4 June 2007, the Company issued 300,000,000 ordinary shares at an offer price of HK$2.75 per share through international placing and public offer, the net proceeds after deducting the professional fees and all related expenses were approximately HK$780,500,000. Up to 31 December 2008, the Company had applied part of the net proceeds as follows:

- approximately HK$289,000,000 for expanding and upgrading the Group's production facilities;
- approximately HK$110,800,000 for developing markets and expanding the Group's sales and marketing network;
- approximately HK$22,500,000 for strengthening the Group's research and development capabilities by setting up additional research and development facilities;
- approximately HK$209,200,000 partially re-paying two of the Group's outstanding loan facilities, one of which was due in September 2007 and carried an interest rate of 5.76% per annum and the other was due in December 2007 and carried an interest rate of 6.12% per annum; and
- approximately HK$21,000,000 for the general working capital of the Group.

As at 31 December 2008, approximately HK$128,000,000 of the net proceeds has been deposited into banks and qualified financial institution, and will be applied in accordance with the plans disclosed in the Prospectus.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi and Hong Kong dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Contingent Liabilities

As at 31 December 2007 and 2008, the Group had no material contingent liabilities.

Outlook for 2009

The global economic downturn will last through 2009 as a result of the economic crisis. In the first half of 2009, the PRC government launched the multi-trillion economic stimulus package, which included plans for accelerating medical system construction and expanding medical care coverage. The management expected that the medical and pharmaceutical sector would be less affected than other sectors and the sales of the whole sector will continue to grow. With our robust vertically-integrated production model and a seasoned team of sales veterans, the management is confident that we can withstand all the adverse impacts of the economic storm while expanding our market share and increasing turnover.

The prospect of intermediate products and bulk medicine market

The management expected that the prices for the intermediate products and bulk medicine would remain stable and the suppressed prices will gradually return to a reasonable level. The markets of intermediate products and bulk medicine have entered into a stage of relentless elimination, in which many small and medium-sized drug makers, according to the management's estimation, will be gradually phased out, leaving their share of the market to be taken over by large high-quality pharmacy manufacturers. As a main producer of 6-APA and antibiotics bulk medicine in China, the Group will increase its market share and continue to dominate the market in 2009.

As a result of the economic downturn, the prices of the raw materials and production costs will continue to drop. Moreover, the economic benefits arising from the large-scale vertically integrated production operation will bring down the production costs of the Group, which will in turn expand the Group's competitive edge and fortify its defence against the impact of low-priced products and increase the gross profit margin.

The prospect of finished products market

The Group will continue to develop the rural markets in an effort to expand its market share. With the launch of the economic stimulus package by the PRC government, under which the plan to increase medical and pharmaceutical consumption will be implemented, the management expect that the sales of our finished products will continue to grow. As a result, the Group will continue to reinforce its sales team in 2009 in an effort to lay a solid foundation for the future penetration into the rural markets.

Meanwhile, the Group is currently developing over 30 high-end products, such as drugs for the treatment of hepatitis B, hypertension and diabetes and immunity enhancement, which will greatly diversify the Group's product lines and generate higher turnover.

Employees and Remuneration

As at 31 December 2008, the Group had approximately 7,300 (2007: 6,000) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board proposed a final dividend of HK15 cents per share (2007: HK17 cents) to be payable to shareholders whose names appear in the register of members of the Company on 29 May 2009. The register of members will be closed from 26 May 2009 to 29 May 2009 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 May 2009.

The dividend warrants are expected to be dispatched to shareholders on about 12 June 2009.

CORPORATE GOVERNANCE

The Company is committed to a high standard of corporate governance in the interest of its shareholders.

The Company has adopted and complied with the code provisions as set out in the Code on Corporate Governance Practices as stated in Appendix 14 to the Listing Rules for the year ended 31 December 2008.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

The Audit Committee comprises of three independent non-executive directors, namely Messrs. Chong Peng Oon, Huang Bao Guang and Song Ming. The Audit Committee has reviewed and discussed matters relating to internal controls and financial statement, including a review of the audited financial statement for the year ended 31 December 2008.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises (1) Mr. Choy Kam Lok, Ms. Peng Wei, Mr. Leung Wing Hon and Mr. Tsoi Hoi Shan as executive directors; (2) Ms. Choy Siu Chit as a non-executive director; and (3) Messrs. Huang Bao Guang, Song Ming and Chong Peng Oon as independent non-executive directors.

On behalf of the Board
Choy Kam Lok
Chairman

Hong Kong, 7 April 2009