



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

(a company incorporated in the Cayman Islands with limited liability)



Meropenem for Injection

Stock Code : 3933

Interim Report
2007

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	Six months ended 30 June		Increase
	2007 HK\$'000	2006 HK\$'000	
Turnover	1,215,989	948,626	28.2%
EBITDA	348,792	231,962	50.4%
Profit before taxation	209,431	109,081	92.0%
Profit attributable to equity holders of the Company	174,294	83,666	108.3%
Earnings per share attributable to equity holders of the Company	HK18.8 cents	HK9.3 cents	102.2%

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business in Hong Kong	6 Fuk Wang Street Yuen Long Industrial Estate New Territories Hong Kong
Board of Directors	<i>Executive directors</i> Choy Kam Lok Peng Wei Leung Wing Hon <i>Non-executive director</i> Choy Siu Chit <i>Independent non-executive directors</i> Heng Kwo Seng Huang Bao Guang Song Ming
Company secretary	Leung Wing Hon (CPA)
Qualified accountant	Leung Wing Hon (CPA)
Authorised representatives	Choy Kam Lok Leung Wing Hon
Audit committee	Heng Kwo Seng (Chairman) Huang Bao Guang Song Ming
Remuneration committee	Heng Kwo Seng (Chairman) Huang Bao Guang Song Ming
Compliance adviser	Goldbond Capital (Asia) Limited
Independent auditor	Deloitte Touche Tohmatsu

Principal bankers*China*

Shenzhen Golden Garden Sub-branch of
China Merchants Bank Co., Limited
Qintai Sub-branch of Chengdu City
Commercial Bank

Hong Kong

Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

**Principal share registrar
and transfer office**

Butterfield Fund Services (Cayman)
Limited

**Hong Kong branch share registrar
and transfer office**

Computershare Hong Kong Investor
Services Limited

Website

www.tul.com.cn

Deloitte.**德勤****TO THE BOARD OF DIRECTORS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED***(incorporated in the Cayman Islands with limited liability)***INTRODUCTION**

We have reviewed the interim financial information set out on pages 6 to 21, which comprises the condensed consolidated balance sheet of The United Laboratories International Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six-month period ended 30 June 2006 and the comparative condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period ended 30 June 2006 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche TohmatsuCertified Public Accountants
Hong Kong

20 September 2007

The Board of Directors (the "Directors") of The United Laboratories International Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 and the comparative figures for the corresponding period in 2006 as follows:

	Notes	Six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	3	1,215,989	948,626
Cost of sales		(684,838)	(605,385)
Gross profit		531,151	343,241
Other income	4	10,211	10,266
Selling and distribution costs		(190,161)	(148,303)
Administrative expenses		(68,941)	(54,461)
Other expenses		(32,443)	(9,263)
Finance costs	5	(40,386)	(38,285)
Share of results of an associate		–	(2,726)
Gain on disposal of an associate		–	8,612
Profit before taxation		209,431	109,081
Taxation	6	(35,137)	(25,415)
Profit for the period attributable to equity holders of the Company	7	174,294	83,666
Distributions	8	277,083	–
Earnings per share – Basic	9	HK18.8 cents	HK9.3 cents

	Notes	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	1,752,186	1,640,077
Prepaid lease payments		81,591	80,392
Goodwill		3,110	3,001
Intangible assets		2,564	3,663
Deposits for acquisition of property, plant and equipment		104,993	7,454
		1,944,444	1,734,587
Current assets			
Inventories		413,781	344,115
Trade and bills receivables, deposits and prepayments	11	735,174	798,387
Loan receivable		–	1,779
Prepaid lease payments		1,936	1,888
Amount due from a director		–	515,673
Pledged bank deposits		182,172	216,565
Bank balances and cash		859,213	99,226
		2,192,276	1,977,633
Current liabilities			
Trade and bills payables and accrued charges	12	866,806	894,309
Tax payables		28,747	24,100
Borrowings	13	877,033	1,047,460
Trust receipt loans		675	701
Bank overdraft, unsecured		4,772	5,956
		1,778,033	1,972,526
Net current assets		414,243	5,107
Total assets less current liabilities		2,358,687	1,739,694
Non-current liabilities			
Borrowings	13	317,023	252,129
Loan from a director		–	160,100
Deferred taxation		15,289	15,870
		332,312	428,099
		2,026,375	1,311,595
Capital and reserves			
Share capital	14	12,000	390
Reserves		2,014,375	1,311,205
Total equity		2,026,375	1,311,595

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company								
	Share capital	Share premium	Special reserve	Capital reserve	Foreign	Retained profits	Sub-total	Minority interests	Total
					exchange reserve				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006 (audited)	390	–	208,792	190,526	16,548	596,709	1,012,965	112,042	1,125,007
Acquisition of additional interests in subsidiaries	–	–	77,240	–	–	–	77,240	(112,042)	(34,802)
Profit for the period and total recognized income	–	–	–	–	–	83,666	83,666	–	83,666
Transferred to capital reserve	–	–	–	1,792	–	(1,792)	–	–	–
At 30 June 2006 (unaudited)	390	–	286,032	192,318	16,548	678,583	1,173,871	–	1,173,871
At 1 January 2007 (audited)	390	–	286,032	192,380	64,100	768,693	1,311,595	–	1,311,595
Exchange differences arising on translation of foreign operations and total income recognized directly in equity	–	–	–	–	37,013	–	37,013	–	37,013
Profit for the period	–	–	–	–	–	174,294	174,294	–	174,294
Total recognized income for the period	–	–	–	–	37,013	174,294	211,307	–	211,307
Transferred to capital reserve	–	–	–	53,587	–	(53,587)	–	–	–
Exchange of shares upon group reorganisation	(390)	390	–	–	–	–	–	–	–
Capitalisation issue	9,000	(9,000)	–	–	–	–	–	–	–
Issue of new shares	3,000	822,000	–	–	–	–	825,000	–	825,000
Expenses relating to issue of new shares	–	(44,444)	–	–	–	–	(44,444)	–	(44,444)
Distributions	–	–	–	–	–	(277,083)	(277,083)	–	(277,083)
At 30 June 2007 (unaudited)	12,000	768,946	286,032	245,967	101,113	612,317	2,026,375	–	2,026,375

Capital reserve represents the People's Republic of China ("PRC") statutory reserves provided before declaring dividends to their shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries.

Included in special reserve is an amount of HK\$208,792,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain former beneficial owners of the Company. The remaining amount of HK\$77,240,000 represents the difference between the carrying amount of the minority interests acquired and the fair value of consideration paid for acquisition of additional interests in subsidiaries.

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Operating activities:		
Profit before taxation	209,431	109,081
Depreciation of property, plant and equipment	96,834	82,385
Increase in inventories	(55,651)	(25,930)
Decrease (increase) in trade and bills receivables, deposits and prepayments	91,844	(25,191)
Decrease in trade and bills payables and accrued charges	(59,015)	(13,639)
Tax paid	(31,889)	(35,240)
Others	5,715	1,521
Net cash from operating activities	<u>257,269</u>	<u>92,987</u>
Investing activities:		
Purchases of property, plant and equipment	(147,979)	(65,713)
Deposit paid for purchase of property, plant and equipment	(104,993)	(25,674)
Decrease (increase) in pledged bank deposits	34,393	(40,815)
Repayment of advance to a director	187,785	3,463
Advance to a director	(114,104)	–
Acquisition of subsidiaries	–	(13,800)
Acquisition of an additional interest in a subsidiary	–	(31,095)
Other investing activities	4,503	10,754
Net cash used in investing activities	<u>(140,395)</u>	<u>(162,880)</u>
Financing activities:		
New borrowings raised	662,848	483,393
Repayment of borrowings	(799,734)	(484,141)
Proceeds from issue of new shares	825,000	–
Expenses relating to issue of new shares	(44,444)	–
(Decrease) increase in trust receipt loans	(26)	149
Net cash from (used in) financing activities	<u>643,644</u>	<u>(599)</u>
Net increase (decrease) in cash and cash equivalents	760,518	(70,492)
Cash and cash equivalents at 1 January	93,270	147,135
Effect of foreign exchange rate changes	653	–
	<u>854,441</u>	<u>76,643</u>
Cash and cash equivalents at 30 June, represented by		
Bank balances and cash	859,213	76,643
Bank overdraft, unsecured	(4,772)	–
	<u>854,441</u>	<u>76,643</u>

1. BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman 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 Wong Street, Yuen Long Industrial Estate, Yuen Long, New Territories. The Company is an investment holding company.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as set out in "Statutory and General Information" in the prospectus issued by the Company dated 4 June 2007 (the "Prospectus"), the Company became the holding company from 25 May 2007. The Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement have been prepared on the basis as if the Company had always been the holding company of the Group.

The shares of the Company have been listed on the Stock Exchange with effect from 15 June 2007.

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the accountant's report on the Group's financial information for the year ended 31 December 2006 as set out in Appendix I to the Prospectus.

In the current interim period, the Group has applied, for the first time, new standard, amendment and interpretations ("new HKFRSs") issued by HKICPA, which are effective for the Group's financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

3. 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, and sub-contracting service income for sub-contracting services rendered by the Group to outside customers.

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Sales of goods	1,215,989	940,364
Sub-contracting service income	–	8,262
	1,215,989	948,626

Business segments

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

Segment information about these businesses is presented below:

For the six months ended 30 June 2007

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Elimination HK\$'000	Combined HK\$'000
TURNOVER					
External sales	57,976	707,713	450,300	–	1,215,989
Inter-segment sales	328,262	76,062	–	(404,324)	–
	386,238	783,775	450,300	(404,324)	1,215,989
RESULT					
Segment result	3,125	171,358	102,001		276,484
Unallocated other income					3,257
Unallocated corporate expenses					(29,924)
Finance costs					(40,386)
Profit before taxation					209,431
Taxation					(35,137)
Profit attributable to equity holders of the Company					174,294

3. TURNOVER AND SEGMENT INFORMATION *(continued)**For the six months ended 30 June 2006*

	Intermediate products <i>HK\$'000</i>	Bulk medicine <i>HK\$'000</i>	Finished products <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Combined <i>HK\$'000</i>
TURNOVER					
External sales	77,166	465,730	405,730	–	948,626
Inter-segment sales	289,193	149,716	–	(438,909)	–
	<u>366,359</u>	<u>615,446</u>	<u>405,730</u>	<u>(438,909)</u>	<u>948,626</u>
RESULT					
Segment result	<u>3,448</u>	<u>22,837</u>	<u>114,637</u>		140,922
Unallocated other income					1,035
Unallocated corporate expenses					(477)
Finance costs					(38,285)
Share of results of an associate					(2,726)
Gain on disposal of an associate					<u>8,612</u>
Profit before taxation					109,081
Taxation					<u>(25,415)</u>
Profit attributable to equity holders of the Company					<u>83,666</u>

4. OTHER INCOME

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Bank interest income	1,680	1,403
Gain on disposal of property, plant and equipment	–	326
Interest income from share subscription (Note)	1,548	–
Net exchange gain	–	1,132
Sales of raw materials	5,052	3,053
Subsidy income	1,542	3,558
Sundry income	389	794
	10,211	10,266

Note: Interest income from share subscription represents deposit interest income arising from the Company's share application under the public offering in June 2007.

5. FINANCE COSTS

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank borrowings		
wholly repayable within five years	35,577	31,962
Interest on loan from a director	4,809	6,156
Finance charges on obligations under finance leases	–	167
	40,386	38,285

6. TAXATION

	Six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
The charge comprises:		
Current tax:		
– Hong Kong Profits Tax	5,757	6,490
– PRC enterprise income tax	29,961	20,453
– Overprovision of PRC enterprise income tax in prior years	–	(1,413)
	<u>35,718</u>	<u>25,530</u>
Deferred tax	(581)	(115)
	<u>35,137</u>	<u>25,415</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the periods.

PRC enterprise income tax 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 《外商投資企業和外國企業所得稅法》(the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises) and 《外商投資企業和外國企業所得稅法實施細則》(Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises), 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 or are entitled to a preferential tax rate as the subsidiaries are regarded as high-technology companies.

7. PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period attributable to equity holders of the Company has been arrived at after charging:		
Allowance for inventories	2,773	–
Allowance for doubtful debts	793	760
Listing expenses (included in other expenses)	27,652	–
Depreciation and amortisation		
Property, plant and equipment	96,834	82,385
Intangible assets (included in administrative expenses)	1,220	1,347
Prepaid lease payments on land use rights	921	864
	98,975	84,596

8. DISTRIBUTIONS

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.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2007.

9. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2007 is based on the profit attributable to the equity holders of the Company and the weighted average number of 926,519,337 (for the six months ended 30 June 2006: 900,000,000) shares in issue assuming that the capitalisation issue has taken place on 1 January 2006.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately HK\$64,174,000 on construction of factory premises and HK\$91,166,000 on additions to manufacturing plant in the PRC, in order to upgrade its manufacturing capabilities.

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Trade receivables		
0 to 60 days	262,900	309,877
61 to 90 days	13,492	25,394
Over 90 days	12,981	24,657
	289,373	359,928
Bills receivables		
0 to 60 days	164,841	175,379
61 to 90 days	66,679	79,761
Over 90 days	138,737	136,329
	370,257	391,469
Deposits, other receivables and prepayments	75,544	46,990
	735,174	798,387

12. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Trade payables		
0 to 90 days	280,349	318,133
91 to 180 days	100,798	89,335
Over 180 days	67,392	18,666
	448,539	426,134
Bills payables		
0 to 90 days	109,693	183,839
91 to 180 days	131,396	163,508
Over 180 days	9,813	–
	250,902	347,347
Other payables and accruals (<i>Note</i>)	167,365	120,828
	866,806	894,309

Note: Included in other payables and accruals was an amount of HK\$32,808,000 (2006 : HK\$25,850,000) payable for acquisition of property, plant and equipment.

13. BORROWINGS

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Bank loans	970,176	1,112,152
Discounted bills	223,880	181,067
Other borrowings	–	6,370
	<u>1,194,056</u>	<u>1,299,589</u>
Analysed as:		
Secured	710,135	752,456
Unsecured	483,921	547,133
	<u>1,194,056</u>	<u>1,299,589</u>
The borrowings are repayable as follows:		
On demand or within one year	877,033	1,047,460
More than one year, but not exceeding two years	317,023	240,626
More than two years, but not exceeding five years	–	11,503
	<u>1,194,056</u>	<u>1,299,589</u>
Less : Amount due within one year shown under current liabilities	<u>(877,033)</u>	<u>(1,047,460)</u>
Amount due after one year	<u>317,023</u>	<u>252,129</u>

The ranges of average effective interest rates per annum of the borrowings at the respective balance sheet dates are as follows:

At 31 December 2006	<u>5.02% – 7.06%</u>
At 30 June 2007	<u>5.20% – 8.75%</u>

14. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
<i>Ordinary shares of HK\$0.01 each</i>			
Authorised:			
On 6 March 2006 (date of incorporation)	(a)	38,000,000	380
Increase on 25 May 2007	(b)	<u>3,762,000,000</u>	<u>37,620</u>
At 30 June 2007		<u><u>3,800,000,000</u></u>	<u><u>38,000</u></u>
Issued and fully paid:			
On 6 March 2006 (date of incorporation)	(a)	1	–
Issue of shares upon the Group Reorganisation	(c)	999	–
Capitalisation issue	(d)	899,999,000	9,000
Issue of new shares	(e)	<u>300,000,000</u>	<u>3,000</u>
At 30 June 2007		<u><u>1,200,000,000</u></u>	<u><u>12,000</u></u>

The following changes in the share capital of the Company took place during the period from 6 March 2006 (date of incorporation) to 30 June 2007:

- (a) The Company was incorporated on 6 March 2006 with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On the same date, 1 ordinary share of HK\$0.01 was allotted and issued, credited as fully paid to Mr. Choy Kam Lok, a director of the Company.
- (b) On 25 May 2007, the authorised share capital of the Company increased from HK\$380,000 to HK\$38,000,000 by the creation of an additional 3,762,000,000 new shares of HK\$0.01 each. The new shares rank *pari passu* in all respects with the existing shares.
- (c) As consideration for the acquisition of the entire issued share capital of The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group, the Company issued an aggregate of 999 shares of HK\$0.01 each, credited as fully paid under the Group Reorganisation which took place on 25 May 2007. The difference between the nominal value of the issued share capital of The United Laboratories (Hong Kong) Holding Limited and the nominal value of the shares issued by the Company has been credited to share premium.
- (d) 899,999,000 shares of HK\$0.01 each in the Company were allotted and issued, credited as fully paid to the shareholders of the Company whose names appeared on the register of members at the close of business on 1 June 2007 in proportion to their respective shareholdings by the capitalisation of an amount of HK\$8,999,990 from the amount standing to the credit of the share premium account of the Company.

14. SHARE CAPITAL *(continued)*

- (e) On 15 June 2007, 300,000,000 new ordinary shares of the Company of HK\$0.01 each were issued at HK\$2.75 per share for cash through an initial public offering.

The share capital at 31 December 2006 as shown in the condensed consolidated balance sheet represented the issued and fully paid share capital of The United Laboratories (Hong Kong) Holding Limited, the then holding company of the Group.

15. CAPITAL COMMITMENTS

At 30 June 2007, the Group had commitments for capital expenditure of HK\$251,675,000 (2006: HK\$79,455,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

16. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	At 30 June 2007 (Unaudited) HK\$'000	At 31 December 2006 (Audited) HK\$'000
Property, plant and equipment	509,092	484,384
Prepaid lease payments	68,871	67,973
Trade and bills receivables	223,880	162,944
Pledged bank deposits	182,172	216,565
	984,015	931,886

17. SUBSEQUENT EVENT

Subsequent to 30 June 2007, a wholly owned subsidiary, 聯邦制藥(內蒙古)有限公司 (“United Laboratories (Inner Mongolia)”), was approved by local government authority to be established in the PRC on 24 July 2007 with registered capital of RMB50,000,000. United Laboratories (Inner Mongolia) will be principally engaged in the manufacturing and sale of pharmaceutical intermediate products in Inner Mongolia, PRC. The registered capital of RMB50,000,000 has been fully paid by the Group on 17 August 2007.

BUSINESS REVIEW AND FINANCIAL PERFORMANCE

Market Review in the Six Months Ended 30 June 2007

Due to an expanding proportion of the elderly in the PRC population, together with the fact that people in the PRC have gradually paid more attention to healthcare, there is a trend on increasing average expenditure on personal healthcare, which has driven a huge development in the pharmaceutical industry. Sales of bulk medicine, chemical finished products and biological medicine in the PRC market have increased stably, which reflect that market demands are still huge.

In the first six months ended 30 June 2007 (the "Period"), the productivity and sales of the pharmaceutical industry were kept at fast growth with huge improvements in economies of scale. The National Development and Reform Commission of the PRC ("NDRC") has been in conformity with the mission of promoting development of a balance between economy and society. During the Period, strengthened macro measures were introduced to improve and provide solutions to major social problems within the public. The NDRC mainly focused on improving the people's social medical insurance welfare, with such improvements which in general focused on three major areas including medical policies, healthcare system reform and rural medical policies. For medical policies, the PRC government focused on promoting national policies including expansion of the scope of social medical insurance and increase of the amount of investment in resources for medical healthcare. Nationwide healthcare system reform has been implementing steadily and the construction of healthcare medical services in the cities has been accelerated. As to improvement of medical system in the rural areas, the scope of medical healthcare services and number of people benefiting from such services will be enlarged and increased respectively.

Due to the increase in the total expenditure on public healthcare and average personal healthcare, together with the PRC government's focus on improvement of medical policies and environmental system, we believe that these will be beneficial to the Group's future development and offer new opportunities to the Group.

FINANCIAL PERFORMANCE

In the six months ended 30 June 2007, the Group achieved excellent results with its turnover increased by 28.2% to HK\$1,216 million, as compared with the same period in the preceding year. The Group's profit attributable to shareholders was approximately HK\$174 million, representing a heavy increase of 108.3%, as compared with the same period in the preceding year. The great increase in the Group's results was mainly due to increase in price and sales of bulk medicine products. The Group's overall gross profit and net profit margin were continuously increased by 7.5% and 5.5% respectively, as compared with the same period in the preceding year. Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products were increased by 5.4%, 27.4% and 11.0% respectively for the six months ended 30 June 2007, as compared with the same period in preceding year. Segmental results of bulk medicine increased by 650.4% while segmental results of intermediate products and finished products decreased by 9.4% and 11.0%, respectively.

The Group has successfully established long, good and stable business relationships with its customers, hospitals and distributors, which has led to continued increase in the turnover of the Group derived from the PRC market. During the Period, the proportion of overseas sales increased to take up approximately 25.0% of the Group's total turnover, representing an increase of 62.1% as compared with the same period in the preceding year. The Group has a vertically integrated production operation which maximizes the efficiency of scales and increases the Group's profitability.

BUSINESS REVIEW

Distribution

The Group has set up a large sales network for the marketing and promotion of antibiotics finished products and other non-antibiotics finished products in the PRC. As at 30 June 2007, the Group had 1,600 sales representatives stationed in 24 sales offices who are responsible for the Group's sales of antibiotics finished products and other non-antibiotics finished products. The sales network covers all provinces, autonomous regions and directly-administrated municipalities in the PRC except for the Tibet Autonomous Region and Inner Mongolia Autonomous Region. Other than the 24 sales offices, the Group also engaged a separate sales team for sales and marketing of the bulk medicine and intermediate products.

Research and Development

The Group has constantly allocated a large amount of resources on research activities. During the Period, the Group continued to undertake research and development on its own and to collaborate with reputable universities and other medical research institutions in the PRC, including the chemical engineering department of Tsinghua University and the Sichuan Industrial Institute of Antibiotic of China National Pharmaceutical Group Corporation. The activities of the Group's research and development focused on improvement of product quality and productivity as well as development of new products.

A new product, "Adefovir Dipivoxil Capsules", was launched to the market in September 2007.

Environmental Engineering

Environmental protection is one of the policies which is given high priority within the nation, especially for control of high pollution industries, for which medicine industry is one of the strictly controlled industries. During the Period, the Group completed a number of environmental engineering projects, with all of its plants reached the national environmental standards. All sewage treatment measures and facilities situated in the Group's production plant in Chengdu, the PRC, for the production of intermediate products have complied with national standards and the plant has obtained approval to run at its full capacity and therefore the competitiveness of the Group has been strengthened.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, the Group had bank deposits, cash and bank balances amounted to HK\$1,041 million (31 December 2006: HK\$316 million).

As at 30 June 2007, the Group had interest-bearing bank borrowings of approximately HK\$1,194 million (31 December 2006: HK\$1,300 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK\$682 million are fixed rate loans while the remaining balance of approximate approximately HK\$512 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 30 June 2007, the Group had pledged the following assets to banks as securities against the banking facilities granted to the Group:

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Property, plant and equipment	509,092	484,384
Prepaid lease payments	68,871	67,973
Trade and bills receivables	223,880	162,944
Pledged bank deposits	182,172	216,565
	984,015	931,886

As at 30 June 2007, current assets of the Group amounted to approximately HK\$2,192 million (31 December 2006: HK\$1,978 million). The Group's current ratio was approximately 1.23 as at 30 June 2007, as compared with 1.00 as at 31 December 2006. As at 30 June 2007, the Group had total assets of approximately HK\$4,137 million (31 December 2006: HK\$3,712 million) and total liabilities of approximately HK\$2,110 million (31 December 2006: HK\$2,401 million), representing a gearing ratio (calculated as total liabilities to total assets) of 51.0% as at 30 June 2007, as compared with 64.7% as at 31 December 2006.

USE OF PROCEEDS FROM GLOBAL OFFERING

On 4 June 2007, the Company offered for subscription under an international placing and public offer for 300,000,000 ordinary shares of HK\$0.01 each at an offer price of HK\$2.75 per share (the "Share Offer"). Net proceeds from the Share Offer, after deducting the professional fees and all related expenses, amounted to approximately HK\$761 million. The net proceeds have not been used by the Company as at 30 June 2007.

CURRENCY EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are mainly in Hong Kong dollars and Renminbi. The Group uses forward contracts to hedge the currency exchange risk as necessary.

CONTINGENT LIABILITIES

As at 30 June 2007 and 31 December 2006, respectively, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2007

Looking forward, the pharmaceutical market in the second half of 2007 appears prosperous, as the pharmaceutical industry is expected to experience abundant growth, in spite of the continuously rising cost pressure. Demand for bulk medicine and intermediate products is expected to rise steadily in overseas markets.

In the PRC market, promotion of the New Rural Cooperative Medical Scheme (新型農村合作醫療制度) is expected to accelerate with test points expected to be set up in 79 cities under the State Basic Medical Insurance Scheme. Potentially, enormous increase in medicine consumption is expected to gradually emerge in both urban and rural areas. Under the positive acceleration of the State policy, the operation segment including research, manufacturing and sales, etc. in pharmaceutical enterprise will become institutionalised and, the order of business operation in the industry will be improved. It is expected that resources will be further concentrated on more superior enterprise, resulting in rise of revenue.

Grasping Opportunity and Facing Challenges

Seizing the enormous opportunities in the PRC market, the Group has decided to enlarge its manufacturing efficiency in intermediate products and to further utilise the benefits of the vertically integrated production model adopted by the Group. The Group has also decided to set up a production plant in Inner Mongolia for the production of intermediate productions in order to cope with the mighty growth of the PRC market which is expected in the future. A wholly owned subsidiary, 聯邦制藥(內蒙古)有限公司 (United Laboratories (Inner Mongolia) Co., Ltd.), will be established in Inner Mongolia Autonomous Region. It was approved by the PRC local government authority in July 2007 with a registered capital of RMB50,000,000, which will be financed by internally generated resources.

Moreover, the Group will continue to improve its product development capacity by focusing on exploitation of new products, refinement of existing production techniques as well as improvement of product quality and production efficiency; to reduce operation cost and optimise product mix; to improve sales network; and to maintain stricter cost control. The Group believes that such measures will contribute to better profit making capacity, which in turn will bring more desirable revenue for the shareholders.

With the accelerated medical reform to the pharmaceutical industry undertaken by the PRC government, the pharmaceutical industry will experience fine market integration with glorious prospects and enormous growth capacity. The Group will endeavour to grasp market opportunities with all the advantages stated above, and seek to be the pilot of high quality antibiotics producers with the largest scale in the PRC.

EMPLOYEES AND REMUNERATION

As at 30 June 2007, the Group had approximately 4,800 employees in Hong Kong and Mainland China. 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2007, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long positions in the ordinary shares of the Company:

Name of director	Company/name of associated corporation		Number of Shares		Notes	Capacity	Percentage of interests
Mr. Choy Kam Lok	Company	855,000,000	(1)	Founder of a trust	71.25%		
Mr. Choy Kam Lok	Gesell Holdings Limited	855,000,000	(2)	Founder of a trust	100%		
Mr. Choy Kam Lok	Heren Far East Limited	855,000,000	(3)	Founder of a trust	100%		

Notes:

- Mr. Choy Kam Lok ("Mr. Choy") is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the non-executive director of the Company, Ms. Choy Siu Chit and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose of Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell Holdings Limited ("Gesell") and Heren Far East Limited ("Heren") which form part of the property of The Choy Family Trust and therefore deemed and taken to be interested in the 855,000,000 shares of the Company beneficially owned by Gesell for the purpose of the SFO.
- Mr. Choy is the founder of The Choy Family Trust and is deemed or taken to be interested in the entire issued share capital of Gesell which forms part of the property of The Choy Family Trust for the purpose of the SFO.
- Mr. Choy is the founder of The Choy Family Trust and is deemed or taken to be interested in the entire issued share capital of Heren which forms part of the property of The Choy Family Trust for the purpose of the SFO.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company, or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group.

As at 30 June 2007, no share option has been offered and/or granted to any participants under the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the following persons, other than the directors or chief executive of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares of underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	Notes	Capacity	Number of shares held	Percentage of interest
Heren		Beneficiary owners	855,000,000	71.25%
Gesell	(1)	Interest in controlled corporation	855,000,000	71.25%
DBS Trustee H.K. (Jersey) Limited	(2)	Trustee	855,000,000	71.25%

Notes:

- (1) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 855,000,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

- (2) DBS Trustee H.K. (Jersey) Limited ("DBS Trustee") is the trustee of The Choy Family Trust and is deemed to be interested in the 855,000,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other parties were recorded in the register required to be kept under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2007.

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 Period.

CORPORATE GOVERNANCE

The Company is committed to ensure high standards 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 six months ended 30 June 2007.

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 period covered by this interim report.

AUDIT COMMITTEE REVIEW

The Audit Committee consists of independent non-executive directors, namely Messrs Heng Kwo Seng, Huang Bao Guang and Song Ming. The Audit Committee and the Company's external auditor have reviewed and discussed matters relating to internal controls and financial statement, including a review of the unaudited financial statement for the six months ended 30 June 2007.

On behalf of the Board

CHOY KAM LOK

Chairman

Hong Kong, 20 September 2007