



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)
(Stock Code: 3933)



INTERIM REPORT **2008**



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Financial Highlight



	Six months ended 30 June		
	2008 HK\$'000	2007 HK\$'000	Increase
Turnover	1,971,720	1,215,989	62.1%
EBITDA	545,276	348,792	56.3%
Profit before taxation	367,975	209,431	75.7%
Profit attributable to equity holders of the Company	300,039	174,294	72.1%
Earnings per share attributable to equity holders of the Company	HK25.0 cents	HK18.8 cents	33.0%



Board of Directors

Executive directors

Choy Kam Lok (*Chairman*)
Peng Wei (*General manager*)
Leung Wing Hon

Non-executive director

Choy Siu Chit

Independent non-executive directors

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

Piper Jaffray Asia Limited

Independent auditor

Deloitte Touche Tohmatsu

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



Principal bankers

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jian Yuan Sub-branch
HSBC Bank (China) Company Limited,
Guangzhou Branch
Industrial and Commercial Bank of China Ltd.,
Zhuhai Branch
Shenzhen Development Bank Co., Ltd.,
Zhuhai Branch
China Citic Bank Corporation Ltd.
Chengdu Qingjiang Road Sub-branch

Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Wing Lung Bank 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

Report on Review of Interim Financial Information



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 20, which comprises the condensed consolidated balance sheet of The United Laboratories International Holdings Limited as of 30 June 2008 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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15 August 2008

Condensed Consolidated Income Statement

For the six months ended 30 June 2008



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 2008 and the comparative figures for the corresponding period in 2007 as follows:

		Six months ended 30 June	
		2008	2007
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Notes		
Turnover	3	1,971,720	1,215,989
Cost of sales		(1,182,808)	(684,838)
Gross profit		788,912	531,151
Other income	4	16,248	10,211
Selling and distribution expenses		(270,603)	(190,161)
Administrative expenses		(105,980)	(68,941)
Other expenses		(8,915)	(32,443)
Finance costs	5	(51,687)	(40,386)
Profit before taxation		367,975	209,431
Taxation	6	(67,936)	(35,137)
Profit for the period attributable to equity holders of the Company	7	300,039	174,294
Distributions	8	204,000	277,083
Earnings per share – Basic	9	HK25.0 cents	HK18.8 cents

Condensed Consolidated Balance Sheet

At 30 June 2008



	Notes	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	2,870,800	2,349,792
Prepaid lease payments		121,265	99,495
Goodwill		3,447	3,226
Intangible assets		4,530	5,343
Deposits for acquisition of property, plant and machinery		113,843	69,145
Available-for-sale investment		–	–
Deferred tax assets		14,988	9,649
		3,128,873	2,536,650
Current assets			
Inventories		829,010	550,165
Trade and bills receivables, deposits and prepayments	11	1,304,432	905,461
Prepaid lease payments		2,758	2,339
Pledged bank deposits		544,918	354,211
Bank balances and cash		285,910	401,262
		2,967,028	2,213,438
Current liabilities			
Trade and bills payables and accrued charges	12	1,179,442	890,912
Tax payables		55,767	12,564
Borrowings	13	1,511,656	833,334
Trust receipt loans		3,550	3,350
Bank overdraft, secured		10,671	51
		2,761,086	1,740,211
Net current assets		205,942	473,227
Total assets less current liabilities		3,334,815	3,009,877
Non-current liabilities			
Borrowings	13	629,997	543,110
Deferred tax liabilities		29,415	14,235
		659,412	557,345
		2,675,403	2,452,532
Capital and reserves			
Share capital	14	12,000	12,000
Reserves		2,663,403	2,440,532
Equity attributable to equity holders		2,675,403	2,452,532

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2008



	Attributable to equity holders of the Company						
	Share capital	Share premium	Special reserve	Capital reserve	Foreign exchange reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007 (audited)	390	–	286,032	192,380	64,100	768,693	1,311,595
Exchange differences arising on translation and total income recognised directly in equity	–	–	–	–	37,013	–	37,013
Profit for the period	–	–	–	–	–	174,294	174,294
Total recognised income for the period	–	–	–	–	37,013	174,294	211,307
Transferred to capital reserve	–	–	–	53,587	–	(53,587)	–
Exchange of share upon group reorganisation	(390)	390	–	–	–	–	–
Capitalisation issue	9,000	(9,000)	–	–	–	–	–
Issue of new shares	3,000	822,000	–	–	–	–	825,000
Expenses relating to issue of new shares	–	(44,444)	–	–	–	–	(44,444)
Distributions	–	–	–	–	–	(277,083)	(277,083)
At 30 June 2007 (unaudited)	12,000	768,946	286,032	245,967	101,113	612,317	2,026,375
At 1 January 2008 (audited)	12,000	768,901	286,032	245,967	191,146	948,486	2,452,532
Exchange differences arising on translation of foreign operations and total income recognised directly in equity	–	–	–	–	126,832	–	126,832
Profit for the period	–	–	–	–	–	300,039	300,039
Total recognised income for the period	–	–	–	–	126,832	300,039	426,871
Distributions	–	–	–	–	–	(204,000)	(204,000)
At 30 June 2008 (unaudited)	12,000	768,901	286,032	245,967	317,978	1,044,525	2,675,403

Capital reserve represents the People's Republic of China (the "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 Group'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 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 considerations paid for purchase of additional interests in subsidiaries.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008



	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Operating activities:		
Profit before taxation	367,975	209,431
Depreciation of property, plant and equipment	123,093	96,834
Finance costs	51,687	35,577
Other non-cash items	814	5,715
	543,569	347,557
Increase in inventories	(241,159)	(55,651)
(Increase) decrease in trade and bills receivables, deposits and prepayments	(339,578)	91,844
Increase (decrease) in trade and bills payables and accrued charges	286,356	(59,015)
Cash generated from operations	249,188	324,735
Tax paid	(16,765)	(31,889)
Interest paid	(51,687)	(35,577)
Net cash from operating activities	180,736	257,269
Investing activities:		
Payments for purchases of property, plant and equipment	(587,346)	(252,972)
(Increase) decrease in pledged bank deposits	(174,895)	34,393
Repayment of advance to a director	-	187,785
Advance to a director	-	(114,104)
Increase in prepaid lease payments	(17,764)	-
Other investing activities	4,911	4,503
Net cash used in investing activities	(775,094)	(140,395)
Financing activities:		
Dividend paid	(204,000)	-
New borrowings raised	997,900	662,848
Repayment of borrowings	(330,477)	(799,734)
Proceeds from issue of new shares	-	825,000
Expenses relating to issue of new shares	-	(44,444)
Increase (decrease) in trust receipt loans	200	(26)
Net cash from financing activities	463,623	643,644
Net (decrease) increase in cash and cash equivalents	(130,735)	760,518
Cash and cash equivalents at 1 January	401,211	93,270
Effect of foreign exchange rate changes	4,763	653
	275,239	854,441
Cash and cash equivalents at 30 June, represented by		
Bank balances and cash	285,910	859,213
Bank overdraft, secured	(10,671)	(4,772)
	275,239	854,441

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



1. BASIS OF PRESENTATION

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 (the “HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The 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 Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2008.

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 Interaction

The adoption of these interpretations 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 standards, amendments or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 13	Customer Loyalty Programmes ³

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

² Effective for annual periods beginning on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 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.

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Sales of goods	1,971,720	1,215,989

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 (“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 2008

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Elimination HK\$'000	Combined HK\$'000
TURNOVER					
External sales	419,040	909,916	642,764	–	1,971,720
Inter-segment sales	408,540	120,947	–	(529,487)	–
	827,580	1,030,863	642,764	(529,487)	1,971,720

Inter-segment sales is charged at prevailing market rates.

RESULT

Segment result	113,382	152,706	156,696		422,784
Unallocated other income					5,555
Unallocated corporate expenses					(8,677)
Finance costs					(51,687)
Profit before taxation					367,975
Taxation					(67,936)
Profit attributable to equity holders of the Company					300,039

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



3. TURNOVER AND SEGMENT INFORMATION (Continued)

Business segments (Continued)

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)	–
	<u>386,238</u>	<u>783,775</u>	<u>450,300</u>	<u>(404,324)</u>	<u>1,215,989</u>
Inter-segment sales is charged at prevailing market rates.					
RESULT					
Segment result	<u>45,987</u>	<u>128,496</u>	<u>102,001</u>		<u>276,484</u>
Unallocated other income					3,257
Unallocated corporate expenses					(29,924)
Finance costs					(40,386)
Profit before taxation					<u>209,431</u>
Taxation					(35,137)
Profit attributable to equity holders of the Company					<u><u>174,294</u></u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



4. OTHER INCOME

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Bank interest income	4,911	1,680
Interest income from share subscription (note)	–	1,548
Sales of raw materials	6,910	5,052
Subsidy income	3,783	1,542
Sundry income	644	389
	16,248	10,211

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	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	51,687	35,577
Interest on loan from a director	–	4,809
	51,687	40,386

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



6. TAXATION

	Six months ended 30 June	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	4,884	5,757
PRC enterprise income tax	53,211	29,961
	58,095	35,718
Deferred tax		
Attributable to a change in tax rate	(813)	–
Current year	10,654	(581)
	67,936	35,137

Hong Kong Profits Tax is calculated at 16.5% (2007: 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 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 will be effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate will increase from 15% 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 a tax 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



6. TAXATION (Continued)

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 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\$16,380,000 on the undistributed earnings has been charged to the condensed consolidated income statement for the six months ended 30 June 2008.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period has been arrived at after charging:		
Allowance for inventories	-	2,773
Allowance for doubtful debts	2,613	793
Listing expenses (included in other expenses)	-	27,652
Depreciation and amortisation		
Property, plant and equipment	123,093	96,834
Intangible assets (included in administrative expenses)	1,150	1,220
Prepaid lease payments on land use rights	1,371	921
	125,614	98,975

8. 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 totalling HK\$204,000,000 (year ended 31 December 2006: nil) was paid to shareholders.

The directors do not recommend payment of an interim dividend for the six months ended 30 June 2008.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



9. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to the equity holders of the Company and the weighted average number of 1,200,000,000 (for the six months ended 30 June 2007: 926,519,337) shares.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately HK\$227,943,000 on construction of factory premises and HK\$190,175,000 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 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Trade receivables		
0 to 30 days	309,471	257,875
31 to 60 days	113,801	109,685
61 to 90 days	37,743	40,532
91 to 120 days	13,956	17,234
121 to 180 days	5,519	7,890
Over 180 days	6,991	3,598
	487,481	436,814
Bills receivables		
0 to 30 days	67,805	59,770
31 to 60 days	128,105	64,210
61 to 90 days	127,007	47,362
91 to 120 days	166,840	67,208
121 to 180 days	209,380	135,026
Over 180 days	9,020	3,272
	708,157	376,848
Deposits and prepayments	108,794	91,799
	1,304,432	905,461

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



12. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Trade payables		
0 to 90 days	559,919	293,970
91 to 180 days	113,240	54,348
Over 180 days	30,988	20,334
	704,147	368,652
Bills payables		
0 to 90 days	94,538	116,782
91 to 180 days	122,207	123,886
	216,745	240,668
Other payables and accruals (note)	258,550	281,592
	1,179,442	890,912

Note: Include in other payables and accruals was an amount of HK\$58,081,000 (31 December 2007: HK\$121,326,000) payable for acquisition of property, plant and equipment.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



13. BORROWINGS

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Bank loans	1,384,097	1,015,615
Discounted bills with recourse	757,556	360,829
	2,141,653	1,376,444
Analysed as:		
Secured	947,298	610,037
Unsecured	1,194,355	766,407
	2,141,653	1,376,444
The borrowings are repayment as follows:		
On demand or within one year	1,511,656	833,334
More than one year, but not exceeding two years	369,004	370,303
More than two years, but not exceeding five years	260,993	172,807
	2,141,653	1,376,444
Less : Amount due within one year classified as current liabilities	(1,511,656)	(833,334)
Amount due after one year	629,997	543,110

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

At 31 December 2007	5.52% – 7.47%
At 30 June 2008	3.77% – 8.96%

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



14. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
<i>Ordinary shares of HK\$0.01 each</i>			
Authorised:			
At 1 January 2007		38,000,000	380
Increase on 25 May 2007	(a)	3,762,000,000	37,620
At 31 December 2007 and 30 June 2008		3,800,000,000	38,000
Issued and fully paid:			
At 1 January 2007		1	–
Issue of shares upon the group reorganisation	(b)	999	–
Capitalisation issue	(c)	899,999,000	9,000
Issue of new shares	(d)	300,000,000	3,000
At 31 December 2007 and 30 June 2008		1,200,000,000	12,000

Notes:

- (a) On 25 May 2007, the authorised share capital of the Company was 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.
- (b) 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 United Laboratories (Hong Kong) Holding Limited and the nominal value of the shares issued by the Company has been credited to share premium.
- (c) 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.
- (d) 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008



15. CAPITAL COMMITMENTS

At the balance sheet date, the Group had commitments for capital expenditure of HK\$512,470,000 (31 December 2007: HK\$459,970,000) 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:

	30 June 2008 (Unaudited) HK\$'000	31 December 2007 (Audited) HK\$'000
Property, plant and equipment	815,433	557,284
Prepaid lease payments	105,467	72,025
Trade and bills receivables	290,684	150,754
Pledged bank deposits	544,918	354,211
	1,756,502	1,134,274



BUSINESS REVIEW FOR THE FIRST HALF OF 2008

For the six months ended 30 June 2008, the Group achieved a remarkable results with its turnover increased by 62.1% to HK\$1,972 million, as compared with the same period in the preceding year. The Group's profit attributable to shareholders was approximately HK\$300 million, representing an increase of 72.1%, as compared with the same period in the preceding year. The great increase in the Group's result was mainly due to increase in sales of the intermediate products and finished products. Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products were increased by 114.3%, 31.5% and 42.7% respectively for the six months ended 30 June 2008, as compared with the same period in preceding year. Segmental results of intermediate products, bulk medicine and finished products increased by 146.6%, 18.8% and 53.6% respectively.

The results of the Group in the first half of 2008 maintain strong growth, which is mainly due to the following factors:

1. China's pharmaceutical industry is in a rapid development period

The pharmaceutical market in the PRC is rapidly developing. With the ageing population and increasing healthcare awareness of people in the PRC, there is huge demand for quality pharmaceutical products. With the acceleration of medical reforms in the PRC, medical insurance under the current basic medical insurance system for rural and urban citizens will raise the affordability of patients and thus increase the demand for medicines. The Group seizes the opportunity actively by enlarging its market presence and coverage in the urban and rural areas of the PRC during the first half of 2008, which further expanded its market share and fuel the growth in sales of intermediate products and finished products.

2. Further expansion of the production capacity of bulk medicine and intermediate products to satisfy market demand

During the first half of 2008, the demand for bulk medicine within the PRC pharmaceutical market remains strong. Market supply is extremely tight as certain bulk medicine manufacturers in the PRC were forced to cease production or close down due to environmental protection issues. The Group seizes the opportunity to expand its production scale, which further increase the sales in the first half of the year.

The Group demonstrates outstanding production efficiency of vertical integration, which helps to maintain the competitiveness of its products. Following the commencement of full production of the first phase of the Group's production plant in Inner Mongolia, the production of intermediate products in the first half of 2008 increased significantly with lower production costs, which assists the Group to expand its sales in the PRC and overseas during the first half of 2008.

Meanwhile, the production capacity of Amoxicillin bulk, a bulk medicine of the Group, has also increase, which relieves the tight market supply situation and contributed to the stable growth in sales of bulk medicine in the first half of the year comparing with the same period last year.

3. Export business remains strong, strengthening the development of high-end overseas market

The turnover of overseas exports business in the first half of 2008 was remarkable and resulted that the sales of bulk medicine products were hugely increased. Upon the granting of the amoxicillin bulk medicine COS from the EDQM of the European Union, the Group has successfully opened up its market in Europe, and has become the only Chinese manufacturer who obtained both the amoxicillin bulk medicine COS and the GMP certificate issued by the European Union. This has strengthened the Group's competitiveness in the overseas market.

Management Discussion and Analysis



BUSINESS REVIEW FOR THE FIRST HALF OF 2008 *(Continued)*

In the first half of 2008, a huge earthquake occurred in Sichuan Province of the PRC. The production plant of the Group in Sichuan has no severe damage, therefore our production and operation has not been affected. After the earthquake, the Group actively participated in the organization of supplies for areas affected by the disaster to ensure adequate supplies for areas with high demand, so that the majority of the Chinese citizens could receive adequate medicine support.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group had bank deposits, cash and bank balances amounted to HK\$831 million (31 December 2007: HK\$755 million).

As at 30 June 2008, the Group had interest-bearing bank borrowings of approximately HK\$2,142 million (31 December 2007: HK\$1,376 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK\$863 million are fixed rate loans while the remaining balance of approximate HK\$1,279 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 2008, the Group had pledged the following assets to banks as securities against the banking facilities granted to the Group:

	At 30 June 2008 (Unaudited) HK\$'000	At 31 December 2007 (Audited) HK\$'000
Property, plant and equipment	815,433	557,284
Prepaid lease payments	105,467	72,025
Trade and bills receivables	290,684	150,754
Pledged bank deposits	544,918	354,211
	1,756,502	1,134,274

As at 30 June 2008, current assets of the Group amounted to approximately HK\$2,967 million (31 December 2007: HK\$2,213 million). The Group's current ratio was approximately 1.07 as at 30 June 2008 as compared with 1.27 as at 31 December 2007. As at 30 June 2008, the Group had total assets of approximately HK\$6,096 million (31 December 2007: HK\$4,750 million) and total liabilities of approximately HK\$3,420 million (31 December 2007: HK\$2,298 million), representing a gearing ratio (measured as bank and other borrowings to total assets) of 35.4% as at 30 June 2008 as compared with 29.0% as at 31 December 2007.

Management Discussion and Analysis



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 through international placing and public offer, the net proceeds after deducting professional fees and all related expenses were approximately HK\$780,500,000. Up to 30 June 2008, the Company had applied part of the net proceeds as follow:

- approximately HK\$197,600,000 for expanding and upgrading the Group's production facilities;
- approximately HK\$64,000,000 for market development and expanding the Group's sales and marketing network;
- approximately HK\$14,200,000 for strengthening the Group's research and development capabilities by setting up additional research and development facilities;
- approximately HK\$209,200,000 for partially re-paying two of the Group's outstanding loan facilities, one of which was due in September 2007 and bearing an interest rate of 5.76% per annum and the other was due in December 2007 and bearing an interest rate of 6.12% per annum; and
- approximately HK\$21,000,000 for the general working capital of the Group.

As at 30 June 2008, approximately HK\$274,500,000 of the net proceeds has been deposited into banks and qualified financial institutions, and will be applied in accordance with the plans disclosed in the Company's Prospectus.

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's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange 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

At 30 June 2008 and 31 December 2007, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2008

The Group controls its production costs effectively through a vertically-integrated product structure. With the commencement of full production at the Inner Mongolia production plant, it will help to increase production and reduce production costs, enhance our competitiveness and maximize production efficiency. The management expects the Group will maintain the first half year's robust growth in the second half year and generate remarkable results once again.

The Group will strive to maintain its leading position in the industry. While bringing better returns for its shareholders, the Group will strive to safeguard healthcare benefits of the Chinese citizens, and guarantee stable supply for the earthquake-stricken area.



OUTLOOK FOR SECOND HALF OF 2008 *(Continued)*

The prospect of the pharmaceutical market

With the acceleration of medical reform in the PRC, more capital is being injected into medical insurance. It is expected that the new rural cooperative medical insurance system and the basic medical insurance for urban citizens will generate approximately RMB 40 billion and RMB 60 billion respectively per year for the new pharmaceutical market. With the government's subsidies for grassroots level hospitals and the implementation of the basic medicine system, it is believed that the pharmaceutical manufacturers will benefit from it.

As for environmental protection measures, the Discharge Standard of Water Pollutants for Chemosynthesis Pharmaceutical Industry (化學合成類製藥工業水污染物排放標準) was implemented from 1 August 2008. It has raised the entry barrier for the pharmaceutical industry and accelerated the consolidation of the pharmaceutical market. Many enterprises with obsolete equipments and substandard management were eliminated, which helps to enhance the profitability of the entire industry and improve the profit margins of products.

The Group will expand the production capacity of intermediate products, bulk medicine and finished products according to its predetermined plan. With the increase affordability for healthcare services, the demand for medicines will continue to grow. Antibiotics, which is the most commonly used basic medicine in the PRC, will be the main profit generator in the upcoming medical reform. With the growing overseas demand for Semi-synthetic penicillin and Cephalosporins, the management expects that the sales of intermediate products, bulk medicine and finished products of the Group will continue to maintain rapid growth in the second half of 2008.

Growth momentum

During the second half of 2008, the Group will continue to develop overseas mid to high-end markets, expand the sales of intermediate products to countries like India, increase the international market share of the Group's core intermediate products and to strengthen the Group's competitiveness. In addition, the management anticipates that two new products will obtain approval in the second half of the year, namely Imipenem Cilastatin Sodium, which is for injection treatment of various types of infection, and Isophane Protamine Human Insulin Injection for treatment of type I and type II diabetes. At present, 25 types of new products and generic products are under development by the Group, which mainly focuses on antibiotics, medicines for diabetes, cardiovascular, hepatitis B and nutrition products. In the second half of the year, the Group will continue its research and development for more than five new products, including the research and development of two insulin analogues, which will complement our insulin products and optimize the Group's product structure.

Expansion of production plant

The second phase of expansion for the Group's production plant in Inner Mongolia is well underway, which occupies an area of approximately 1.3 million square metres. The fund of the project will be financed by internal generated resources. The second phase of the Inner Mongolia production plant will be mainly used for expanding the production capacity of intermediate products and bulk medicine, which is expected to be completed in mid-2009.



EMPLOYEES AND REMUNERATION

As at 30 June 2008, the Group had approximately 6,900 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 2008, 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	859,600,000	(1)	Founder of a trust and personal interest	71.63%
Mr. Choy Kam Lok	Gesell Holdings Limited	855,000,000	(2)	Founder of a trust	71.25%
Mr. Choy Kam Lok	Heren Far East Limited	855,000,000	(3)	Founder of a trust	71.25%
Ms. Peng Wei	Company	580,000		Personal interest	0.05%
Mr. Song Ming	Company	100,000		Personal interest	0.01%

Notes:

- (1) 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. Mr. Choy is therefore deemed and taken to be interested in the 855,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 4,600,000 shares of the Company.
- (2) 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.
- (3) 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.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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 SEHK pursuant to the Model Code.

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

At no time during the period covered by this interim report 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 2008, no share option has been offered and/or granted to any participants under the share option scheme.



SUBSTANTIAL SHAREHOLDERS

As at 30 June 2008, 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 owner	855,000,000	71.25%
Gesell	(1)	Interest in a controlled corporation	855,000,000	71.25%
DBS Trustee H.K. (Jersey) Limited	(2)	Trustee	855,000,000	71.25%
Cheah Capital Management Limited ("CCML")	(3)	Interest in a controlled corporation	66,736,000	5.56%
Cheah Company Limited ("CCL")	(3)	Interest in a controlled corporation	66,736,000	5.56%
Hang Seng Bank Trustee International Limited ("HSBT")	(3)	Trustee	66,736,000	5.56%
Value Partners Group Limited ("VPGL")	(3)	Interest in a controlled corporation	66,736,000	5.56%
Value Partners Limited ("VPL")	(3)	Interest in a controlled corporation	66,736,000	5.56%
To Hau Yin	(3)	Interest in a controlled corporation	66,736,000	5.56%
Cheah Cheng Hye	(3)	Interest in a controlled corporation	66,736,000	5.56%
Capital Research and Management Company		Beneficiary owner	60,184,000	5.02%

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.
- (3) The interest of CCML, CCL, HSBT, VPGL, VPL, To Hau Yin and Cheah Cheng Hye in the 66,736,000 shares of the Company represent one single shareholding and includes deemed interests by way of interests in controlled corporations, trustee's interest and deemed interest by way of being a child under 18 or spouse of a substantial shareholder.

Save as disclosed above, no other person other than the directors of the Company being recorded in the register required to be kept by the Company 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 2008.



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 six months ended 30 June 2008.

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 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 period covered by this interim report.

AUDIT COMMITTEE REVIEW

The Audit Committee consists of three 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 interim report for the six months ended 30 June 2008.

On behalf of the Board

CHOY KAM LOK

Chairman

Hong Kong, 15 August 2008