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 2011

Contents

Financial Highlights

	Six months ended 30 June		
	2011	2010	Increase/
	HK$'000	*HK$'000*	(Decrease)
Revenue	**3,373,885**	3,079,118	9.6%
EBITDA	**659,319**	820,521	(19.6%)
Profit before taxation	**369,877**	573,846	(35.5%)
Profit attributable to owners of the Company	**307,682**	483,868	(36.4%)
Basic earnings per share	**HK23.6 cents**	HK39.8 cents	(40.7%)

BOARD OF DIRECTORS

Executive directors

Mr. Choy Kam Lok *(Chairman)*
Ms. Peng Wei *(Vice-Chairman and General Manager)*
Mr. Leung Wing Hon
Mr. Tsoi Hoi Shan
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping

Non-executive director

Ms. Choy Siu Chit

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Mr. Song Ming

COMPANY SECRETARY

Mr. Leung Wing Hon *(CPA)*

AUTHORISED REPRESENTATIVES

Mr. Choy Kam Lok
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Mr. Song Ming

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Mr. Song Ming

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
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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 Jia Yuan Sub-branch
HSBC Bank (China) Company Limited,
Guangzhou Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Shenzhen Development Bank Co., Ltd.,
Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch
Bank of China Limited, Zhuhai Branch

Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
Wing Lung Bank Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

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 5 to 21, which comprises the condensed consolidated statement of financial position of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries as of 30 June 2011 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company 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 inquiries, 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
31 August 2011

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**3,373,885**	3,079,118
Cost of sales		**(2,174,388)**	(1,829,795)
Gross profit		**1,199,497**	1,249,323
Other income	*4*	**39,230**	22,135
Other gains or losses		**16,402**	740
Selling and distribution costs		**(555,475)**	(482,131)
Administrative expenses		**(237,391)**	(151,115)
Other expenses		**(37,083)**	(15,772)
Finance costs	*5*	**(55,303)**	(49,334)
Profit before taxation		**369,877**	573,846
Taxation	*6*	**(62,195)**	(89,978)
Profit for the period attributable to owners of the Company	*7*	**307,682**	483,868
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**101,846**	45,511
Total comprehensive income for the period attributable to the owners of the Company		**409,528**	529,379
Basic earnings per share *(HK cents)*	*9*	**23.6**	39.8

Condensed Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	10	**5,121,961**	4,651,121
Prepaid lease payments		**108,528**	108,523
Goodwill		**3,648**	3,588
Intangible assets		**2,114**	3,270
Deposit for leasehold land		**3,612**	3,551
Deposits for acquisition of property, plant and machinery		**105,084**	136,185
Available-for-sale investment	11	**–**	–
Deferred tax asset		**27,000**	35,659
		5,371,947	4,941,897
Current assets			
Inventories		**1,554,776**	1,248,199
Trade and bills receivables, deposits and prepayments	12	**2,708,980**	2,567,263
Derivative financial instruments		**1,450**	2,268
Prepaid lease payments		**2,632**	2,588
Pledged bank deposits		**436,294**	381,624
Bank balances and cash		**687,440**	464,055
		5,391,572	4,665,997
Current liabilities			
Trade and bills payables and accrued charges	13	**2,260,896**	1,968,439
Tax payables		**33,587**	83,704
Borrowings	14	**3,083,668**	2,350,074
		5,378,151	4,402,217
Net current assets		**13,421**	263,780
Total assets less current liabilities		**5,385,368**	5,205,677
Non-current liability			
Deferred tax liabilities		**100,168**	95,735
		5,285,200	5,109,942
Capital and reserves			
Share capital	15	**13,015**	13,015
Reserves		**5,272,185**	5,096,927
Equity attributable to owners of the Company		**5,285,200**	5,109,942

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company						
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Capital reserve HK$'000	Foreign exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2010 (audited)	12,000	768,901	286,032	267,092	344,029	1,514,973	3,193,027
Changes in equity during the period:							
– Exchange differences arising on translation to presentation currency	–	–	–	–	45,511	–	45,511
– Profit for the period	–	–	–	–	–	483,868	483,868
Total comprehensive income for the period	–	–	–	–	45,511	483,868	529,379
Shares issued	500	424,500	–	–	–	–	425,000
Transactions costs attributable to issue of shares	–	(8,963)	–	–	–	–	(8,963)
Appropriations	–	–	–	78,046	–	(78,046)	–
Dividends	–	–	–	–	–	(237,500)	(237,500)
At 30 June 2010 (unaudited)	12,500	1,184,438	286,032	345,138	389,540	1,683,295	3,900,943
At 1 January 2011(audited)	13,015	1,959,061	286,032	364,259	483,112	2,004,463	5,109,942
Changes in equity during the period:							
– Exchange differences arising on translation to presentation currency	–	–	–	–	101,846	–	101,846
– Profit for the period	–	–	–	–	–	307,682	307,682
Total comprehensive income for the period	–	–	–	–	101,846	307,682	409,528
Appropriations	–	–	–	49,572	–	(49,572)	–
Dividends	–	–	–	–	–	(234,270)	(234,270)
At 30 June 2011 (unaudited)	**13,015**	**1,959,061**	**286,032**	**413,831**	**584,958**	**2,028,303**	**5,285,200**

The capital reserve represents the People's Republic of China (the "PRC") statutory reserves provided before declaring dividends to the 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 beneficial owners of the Company. The remaining amount of HK$77,240,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of consideration paid for purchase of additional interests in subsidiaries.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Operating activities:		
Profit before taxation	**369,877**	573,846
Depreciation of property, plant and equipment	**230,986**	194,684
Finance costs	**55,303**	49,334
Reversal of allowance for doubtful debts	**(14,656)**	(308)
(Reversal of) provision of allowance for inventories	**(8,052)**	1,136
Other non-cash items	**(2,665)**	(2,325)
	630,793	816,367
Increase in inventories	**(274,763)**	(177,560)
Increase in trade and bills receivables, deposits and prepayments	**(82,594)**	(356,889)
Increase in trade and bills payables and accrued charges	**69,519**	122,116
Other operating activities	**9,168**	–
Cash generated from operations	**352,123**	404,034
Tax paid	**(99,670)**	(79,462)
Net cash from operating activities	**252,453**	324,572
Investing activities:		
Payments for purchase of property, plant and equipment	**(383,144)**	(479,019)
Increase in pledged bank deposits	**(47,714)**	(199,949)
Interest received	**6,879**	5,975
Other investing activities	**3,153**	(3,127)
Net cash used in investing activities	**(420,826)**	(676,120)
Financing activities:		
Dividend paid	**(234,270)**	(237,500)
Interest paid	**(77,195)**	(55,554)
New borrowings other than trust receipt loans raised	**2,005,941**	1,573,391
Repayment of borrowings other than trust receipt loans	**(1,418,070)**	(1,149,761)
Decrease in trust receipt loans, net	**(9,280)**	(1,108)
Increase in bank overdraft, secured	**119,305**	–
Shares issued	**–**	425,000
Expenses relating to shares issued	**–**	(8,963)
Net cash from financing activities	**386,431**	545,505
Net increase in cash and cash equivalents	**218,058**	193,957
Cash and cash equivalents at beginning of the period	**464,055**	192,489
Effect of foreign exchange rate changes	**5,327**	2,338
Cash and cash equivalents at end of the period	**687,440**	388,784
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**687,440**	388,784

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with 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, except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new and revised standards and amendments have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of the new and revised standards will not have material impact on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue 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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sales of goods	**3,373,885**	3,079,118

The Group is currently organised into three revenue streams – (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together as "Finished products"). These three revenue streams are the operating and reportable segments of the group.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's revenue and result by operating segment for the period under review:

For the six months ended 30 June 2011

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Combined HK$'000
TURNOVER						
External sales	919,736	1,459,833	994,316	3,373,885	–	3,373,885
Inter-segment sales	735,350	117,635	–	852,985	(852,985)	–
	1,655,086	1,577,468	994,316	4,226,870	(852,985)	3,373,885
Segment profit	194,793	51,197	162,363			408,353
Net adjustments on profits for inter-segment sales *(Note)*	43,427	3,860	9,239			56,526
	238,220	55,057	171,602			464,879
Unallocated other income						7,973
Other gains and losses						16,402
Unallocated corporate expenses						(64,074)
Finance costs						(55,303)
Profit before taxation						369,877

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2010

	Intermediate products HK$'000	Bulk medicine HK$'000	Finished products HK$'000	Segment total HK$'000	Elimination HK$'000	Combined HK$'000
TURNOVER						
External sales	745,697	1,429,956	903,465	3,079,118	–	3,079,118
Inter-segment sales	643,456	121,898	–	765,354	(765,354)	–
	1,389,153	1,551,854	903,465	3,844,472	(765,354)	3,079,118
Segment profit	279,020	161,944	196,473			637,437
Net adjustments on profits for inter- segment sales *(Note)*	(7,781)	(499)	–			(8,280)
	271,239	161,445	196,473			629,157
Unallocated other income						7,557
Other gains and losses						740
Unallocated corporate expenses						(14,274)
Finance costs						(49,334)
Profit before taxation						573,846

Note: The amount represents the net effect on elimination of unrealised profits as at 30 June 2011 and the realisation of the profits for the six months ended 30 June 2011 upon disposal to external customers.

The accounting policies of the operating segments are the same as the Group's accounting policies in the preparation of the Group's financial statements. The performance assessment of the Group is measured based on segment profit that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

The turnover and profit or loss of the Group are allocated based on the operations of the segments.

Inter-segment sales is charged at prevailing market rates.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, sundry income of head office, other gains and losses, corporate expenses and staff costs, and finance costs.

4. OTHER INCOME

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**6,879**	5,975
Sales of raw materials	**17,177**	865
Subsidy income	**14,080**	13,713
Sundry income	**1,094**	1,582
	39,230	22,135

5. FINANCE COSTS

The finance costs represent the interest on bank borrowings wholly repayable within five years.

Borrowing costs of approximately HK$22,000,000 (six months ended 30 June 2010: HK$6,200,000) were capitalised as part of the cost of a manufacturing plant in the current period.

6. TAXATION

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**3,281**	8,346
People's Republic of China (the "PRC") enterprise income tax	**41,988**	73,110
PRC withholding tax	**4,204**	–
Overprovision of PRC enterprise income tax in respect of prior years	**(855)**	(3,524)
	48,618	77,932
Deferred tax	**13,577**	12,046
	62,195	89,978

Hong Kong Profits Tax is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 16.5% for the period under review. Taxation arising in the PRC is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used is 25% for the six months ended 30 June 2011 (six months ended 30 June 2010: 25%).

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
(Reversal of) provision of allowance for inventories (included in cost of sales)	**(8,052)**	1,136
Reversal of allowance of doubtful debts (included in other gains and losses)	**(14,656)**	(308)
Research and development expenditures (included in other expenses)	**36,639**	6,774
Depreciation and amortisation		
Depreciation of property, plant and equipment	**230,986**	194,684
Amortisation:		
– intangible assets	**1,200**	1,353
– prepaid lease payments	**1,953**	1,304
	234,139	197,341

8. DIVIDEND

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend paid in respect of the year ended 31 December 2010 of 18 HK cents (year ended 31 December 2009: 19 HK cents) per ordinary share	**234,270**	237,500

The directors of the Company declare the payment of an interim dividend of HK3 cents per share for the six months ended 30 June 2011 (six months ended 30 June 2010: HK12 cents).

9. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2011 is based on the profit attributable to the owners of the Company and the weighted average number of approximately 1,301,500,000 (for the six months ended 30 June 2010: 1,215,193,000) shares.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group spent HK$624,691,000 (for the six months ended 30 June 2010: HK$410,619,000) on property, plant and equipment during the six months ended 30 June 2011.

11. AVAILABLE-FOR-SALE INVESTMENT

The investment represents an investment in unlisted equity securities issued by a private entity incorporated in the United States. It is measured at cost less impairment at the end of the reporting period. Impairment loss of HK$23,417,000 was recognised in previous years.

12. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2011 (Unaudited) ***HK$'000***	31 December 2010 (Audited) *HK$'000*
Trade and bills receivables	**2,304,818**	2,287,506
Less: allowance for doubtful receivables	**(7,777)**	(24,981)
	2,297,041	2,262,525
Deposits and prepayments	**411,939**	304,738
	2,708,980	2,567,263

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

12. TRADE AND BILLS RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The following is an analysis of trade and bills receivables by age, presented based on the invoice date at the end of the reporting periods:

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Trade receivables		
0 to 30 days	**587,374**	638,200
31 to 60 days	**322,584**	345,011
61 to 90 days	**131,282**	69,956
91 to 120 days	**58,854**	9,113
121 to 180 days	**18,487**	7
Over 180 days	**26,332**	1,581
	1,144,913	1,063,868
Bills receivables		
0 to 30 days	**128,236**	119,024
31 to 60 days	**170,335**	208,601
61 to 90 days	**170,523**	179,965
91 to 120 days	**201,425**	250,037
121 to 180 days	**481,609**	440,427
Over 180 days	**–**	603
	1,152,128	1,198,657

At 30 June 2011, the Group had HK$365,887,000 (31 December 2010: HK$878,420,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$22,892,000 (31 December 2010: HK$22,520,000) bills receivables were issued by the Group's debtors, and the remaining were issued by certain subsidiaries of the Company. Accordingly, the Group has recognised the cash received on such discount as discounted bills with recourse (see note 14). In addition, as at 30 June 2011, HK$530,485,000 (31 December 2010: HK$529,865,000) of bills receivables had been endorsed to the Group's creditors (see note 13).

13. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of 0 day to 120 days from its suppliers. The followings is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting periods:

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Trade payables		
0 to 90 days	**730,836**	750,506
91 to 180 days	**556,305**	242,167
Over 180 days	**162,218**	4,436
	1,449,359	997,109
Bills payables		
0 to 90 days	**141,821**	301,815
91 to 180 days	**83,014**	235,360
	224,835	537,175
Other payables and accruals	**586,702**	434,155
	2,260,896	1,968,439

14. BORROWINGS

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Bank loans	**2,597,390**	1,462,374
Discounted bills with recourse	**365,887**	878,420
Bank overdrafts, secured	**120,391**	–
Trust receipt bills	**–**	9,280
	3,083,668	2,350,074
Analysed as:		
Secured	**1,282,788**	1,504,605
Unsecured	**1,800,880**	845,469
	3,083,668	2,350,074
The borrowings are repayable as follows:		
Carrying amount repayable within one year	**700,919**	878,420
Carrying amount of bank loans that contain a repayment on demand clause		
– repayable within one year from the end of the reporting period	**1,190,222**	891,003
– not repayable within one year from the end of the reporting period but shown under current liabilities	**1,192,527**	580,651
	3,083,668	2,350,074

During the period, the Group obtained new bank loans and discounted bills with recourse amounting to HK$2,005,941,000 (six months ended 30 June 2010: HK$1,573,391,000), and the Group repaid these borrowings of HK$1,418,070,000 (six months ended 30 June 2010: HK$1,149,761,000). These borrowings carry interest at effective interest rates ranging from 1.80% to 8.35% (31 December 2010: 1.83% to 8.09%) per annum.

The trust receipt loans are secured by the Group's leasehold land and buildings and bank deposits.

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
At 1 January 2010	1,200,000,000	12,000
Issue of shares	50,000,000	500
At 30 June 2010	1,250,000,000	12,500
Issue of shares	51,500,000	515
At 31 December 2010 and 30 June 2011	**1,301,500,000**	**13,015**

Pursuant to the Placing and Subscription Agreements entered into between the Company, its parent company and the placing agent dated 29 April 2010 and 15 September 2010, the parent company of the Company agreed to sell 100,000,000 shares and 51,500,000 shares respectively in the Company by placing to independent place. At the same time, the parent company of the Company agreed to subscribe 50,000,000 new ordinary shares of HK$0.01 each in the Company at HK$8.50 and 51,500,000 new ordinary shares of HK$0.01 each in the Company at HK$15.22 respectively. The net proceeds to be received by the Company from the subscriptions amounting to approximately HK$416 million and HK$775 million respectively will be applied for the expansion of the Group's existing production facilities and other capital expenditures. Details of the placings and subscriptions are set out in the Company's announcements dated 29 April 2010 and 15 September 2010 respectively.

16. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of HK$239,101,000 (31 December 2010: HK$333,584,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

17. PLEDGE OF ASSETS

Other than set out in note 12, at the end of the reporting period, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	30 June 2011 (Unaudited) *HK$'000*	31 December 2010 (Audited) *HK$'000*
Property, plant and equipment	**1,695,448**	1,373,311
Prepaid lease payments	**111,161**	111,111
Bills receivables	**201,605**	230,576
Pledged bank deposits	**436,294**	381,624
	2,444,508	2,096,622

18. RELATED PARTY TRANSACTION

The Group's key management personnel are all directors and the remuneration of the directors of the Company during the period is as follows:

	Six months ended 30 June	
	2011 (Unaudited) *HK$'000*	2010 (Unaudited) *HK$'000*
Fees	**840**	840
Salaries and other benefits	**11,069**	6,740
Retirement benefits scheme contribution	**59**	18
	11,968	7,598

BUSINESS REVIEW FOR THE FIRST HALF OF 2011

For the six months ended 30 June 2011, the Group's revenue was increased by 9.6% to HK$3,373.9 million as compared with the same period in the preceding year of HK$3,079.1 million. The Group's profit for the period attributable to shareholders was approximately HK$307.7 million (2010: HK$483.9 million), representing a decrease of 36.4%, 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 19.1%, 1.7% and 10.1% respectively for the six months ended 30 June 2011, as compared with the same period in preceding year. Segmental profit of intermediate products, bulk medicine and finished products decreased by 12.2%, 65.9% and 12.7% respectively.

During the first half of 2011, China's pharmaceutical industry faced a challenging environment affected by a number of unfavourable factors including the nation's further strengthening regulations on the industry, rising raw materials prices driven by inflation, uncertainties in the financial market and influence of the nation's macro control policies. By leveraging on its vertically integrated product portfolio and production model, its economies of scale as well as its brand advantages, the Group, being a leading enterprise of the industry, endeavoured to control costs and explore business opportunities in new markets to maintain its position as market leader, and the Group successfully accomplished a higher turnover. However, affected by various adverse factors, its performance in the first half of 2011 decreased as compared with the corresponding period of the previous year. The business review of the Group for the first half of the year is as follows:

Decrease in prices of intermediate products

The turnover of the Group's intermediate products mainly derives from the sales of two major products, namely, 7-ACA products and 6-APA products. During the period, the relevant regulatory authorities of China's pharmaceutical industry promulgated a number of measures to reinforce regulations on the pharmaceutical industry, including reduction in prices of medicines and restricted uses of antibiotics medicines in medical institutions at all levels, which had significant influence on manufacturers of antibiotics products. Among these measures, the restriction of use of antibiotics had much influence on high-end preparation products of antibiotics. The market demand for 7-ACA products, a main raw materials of high-end antibiotics products, temporarily decreased, and thus caused a sharp decline in selling price of 7-ACA products at the beginning of this year. As revenue from the sales of 7-ACA products accounted for one fourth of the overall turnover of the Group's intermediate products, the sharp decline in selling price of 7-ACA products did not have material impact on the overall performance of intermediate products. The price of the Group's 6-APA products maintained relatively stable during the period. In such case, the results of intermediate products during the period only decreased by 12.2% as compared with the corresponding period of the previous year. During the period, the turnover of intermediate products of the Group increased by 19.1% as compared with the corresponding period of the previous year, mainly due to the increase in the sales of 6-APA products.

Overall decrease in the prices of bulk medicine products

During the period, China introduced the price reduction policy on medicines and restricted uses of antibiotics medicines in medical institutions at all levels which created a wait-and-see atmosphere in the market and indirectly influenced the demands of bulk medicine products. Having advantages of vertically integrated production model that can reduce production costs and improve production efficiency, the Group strictly controlled the costs through cooperation and complement between its main production bases and ensured the competitive strengths in the quality and prices of its medicine products in the industry. Although the results of the Group's bulk medicine products decreased by 65.9% as compared with the corresponding period of the previous year, the turnover of these products increased by 1.7% for the period as compared with the corresponding period of the previous year. As a leading enterprise in the industry, the Group proactively carried out the research and development of new production technologies. During the period, the Group became the second pharmaceutical enterprise in the world that commanded the production of amoxicillin bulk medicine by enzyme process and successfully launched its new product to the market, which assisted the Group to further reduce production costs and improve production effectiveness, enabling the Group more flexible and competitive on product pricing. This production technology is an advanced technology in the industry, which will not generate wastewater or impurities in the production process and consumes less energy. The production technology not only reduces cost and improves efficiency, but also conforms to China's increasingly stringent environment policies. The new production capacity also commenced production based on the new production technologies, which will effectively support the expansion of the export and domestic market.

Reduction in prices of finished products as result of relevant state policies

The Group continued to record a stable growth in sales for the first quarter of 2011. However, as some of our individual pricing medicines such as Amoxicillin capsule and Ampicillin capsule were affected by the price-cut policy promulgated on 28 March, our sales growth began to slow down since the second quarter of the year. In addition, the Government announced in April that it will impose limitation on the types of antibacterial agents for use by medical institutions as various levels. As the relevant provisions remained unknown, medical institutions at various levels took the "wait-and-see" attitude and postponed the purchase of finished antibacterial agents since the publication of such measures, thereby further decelerating the sales of our finished products in the second quarter of the year. As the relevant national regulatory authority only announced a moderate reduction in prices of relevant finished products of the Group, there was no significant impact on the performance of the finished products of the Group.

Launch of recombinant human insulin products

The Group's recombinant human insulin products were formally launched in the market in the first half of 2011. As such products have equal efficacy with imported insulin products and are priced competitively, the Group successfully secure purchase orders and market share in the first half of the year. Bidding work targeted at local hospitals in various provinces proceeded smoothly during the period and expanded gradually in scale.

Establishment of overseas offices

During the period under review, the Group focused on exploring international markets, and successfully established offices in Brazil, India, Dubai, Indonesia and Hamburg in Germany, with a view to develop our export sales markets.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group had bank deposits, cash and bank balances amounted to HK$1,123.7 million (31 December 2010: HK$845.7 million).

As at 30 June 2011, the Group had interest-bearing bank borrowings of approximately HK$3,083.7 million (31 December 2010: HK$2,350.1 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK$1,263.2 million are fixed rate loans while the remaining balance of approximately HK$1,820.5 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 2011, current assets of the Group amounted to approximately HK$5,391.6 million (31 December 2010: HK$4,666.0 million). The Group's current ratio was approximately 1.00 as at 30 June 2011 as compared with 1.06 as at 31 December 2010. As at 30 June 2011, the Group had total assets of approximately HK$10,763.5 million (31 December 2010: HK$9,607.9 million) and total liabilities of approximately HK$5,478.3 million (31 December 2010: HK$4,498.0 million), representing a net gearing ratio (calculated as total borrowings less cash and bank balances and pledged bank deposits to total equity) of 37.1% as at 30 June 2011, as compared with 29.4% as at 31 December 2010.

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 currency exchange rates.

CONTINGENT LIABILITIES

At 30 June 2011 and 31 December 2010, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2011

Looking into the second half of 2011, we are cautiously optimistic for the outlook. The Group expects that the global financial market will continue to be volatile, which have a negative impact on the consumer confidence in Mainland China. However, we believe that crisis and opportunities always exist side by side, therefore, we will continue to expand our business.

Although relevant government authority introduced the limitation on the use of antibiotics medicine in the first half of the year, approximately 60% of the antibiotics medicine finished products manufactured by the Group are classified as non-restricted categories. Therefore, we believe that the sales of our finished products will gradually pick up in the second half of the year with the clarification of such restrictive measures. However, the Group's production cost continues to increase due to the rising cost of raw materials, together with the impact of the implementation of the price-cut policy, the overall gross margin of the Group will be curbed in the second half of the year.

The Group successfully launched recombinant human insulin products in the first half of the year. Some data show that the number of current diabetics in China is over 100 million and continues to increase. The market for recombinant human insulin worths RMB5 billion with a rapid annual growth rate of approximately 20-30%. As such, this product will become a major driving force for the Group's future growth.

The Group's Zhuhai plant took the lead to obtain the nation's GMP certification (new edition) in July this year. Certain of our plants already obtained their respective ISO9001 and ISO14001 certification last year, and some of their main products have obtained or are being processed for grant of various certifications including certifications from FDA of the United States, COS of Europe and GMP of Japan, which help the Group establish its leading position in the Industry. Looking ahead, the Group will further increase its efforts in the research and development of new medicines, brand building and expansion of international markets. The Group is in the process of developing 30 new products, among which 3 new products are seeking patent registration. The Group currently has approximately 2,700 experienced sales persons with good command of network skills and expertise. Apart from continuously penetrating rural and community markets, they will also attend the training programs on recombinant human insulin products, with a view to facilitate the Group to expand into the huge human insulin market. With the improvement of its sales networks and outlets, the Group will continue to expand its overseas market, which will serve as a driving force to the Group's future performance.

Owing to the tight control of bank borrowings with higher interest costs in the PRC, the Group will continue to diversify and optimize our loan profile, both in terms of loan tenor and loan split between Hong Kong and the PRC to control the overall interest costs.

The Group will capitalize on its product vertical integration model, economies of scale and the Group's brand to proactively seize the domestic and overseas opportunities with a view to achieve a stable and faster growth of the Group's business. The Group believes that, with its solid foundation, the recognition and support of its business partners and investors, coupled with the vision and efforts from the management and all employees, we will continue to yield remarkable results to reward our shareholders for their support.

EMPLOYEES AND REMUNERATION

As at 30 June 2011, the Group had approximately 11,000 (31 December 2010: 11,000) members of 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 Board 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 2011, 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	845,746,000	*(1)*	Founder of a trust	64.98%
Mr. Choy Kam Lok	Gesell Holdings Limited	805,000,000	*(2)*	Founder of a trust	61.85%
Mr. Choy Kam Lok	Heren Far East Limited	805,000,000	*(3)*	Founder of a trust	61.85%
Ms. Peng Wei	Company	1,548,000		Personal interest	0.12%
Mr. Leung Wing Hon	Company	450,000		Personal interest	0.03%
Mr. Tsoi Hoi Shan	Company	100,000		Personal interest	0.01%
Ms. Zou Xian Hong	Company	810,000		Personal interest	0.06%
Ms. Zhu Su Yan	Company	440,000		Personal interest	0.03%
Mr. Fang Yu Ping	Company	178,000		Personal interest	0.01%
Ms. Choy Siu Chit	Company	600,000		Personal interest	0.05%

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 directors of the Company, Mr. Tsoi Hoi Shan and Ms. Choy Siu Chit, and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose 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 805,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 40,566,000 shares of the Company and 180,000 shares of the Company held by the spouse of Mr. Choy, which is deemed interests of Mr. Choy.

(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.

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 six moths ended 30 June 2011 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 2011, no share option has been offered and/or granted to any participants under the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, 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	805,000,000	61.85%
Gesell	*(1)*	Interest in a controlled corporation	805,000,000	61.85%
DBS Trustee H.K. (Jersey) Limited	*(2)*	Trustee	805,000,000	61.85%

Notes:

(1) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 805,000,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

(2) DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 805,000,000 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 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 2011.

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 2011.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board declares an interim dividend of HK3 cents per share (for the six months ended 30 June 2010: HK12 cents) to be payable to the shareholders whose names appear in the register of members of the Company on 23 September 2011. The register of members will be closed from 21 September 2011 to 23 September 2011 (both days inclusive), during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 September 2011.

The dividend warrants are expected to be dispatched to the shareholders on about 29 September 2011.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 30 June 2011.

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 its 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

The Audit Committee consists of three independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming. The Audit Committee and the Company's external auditor have reviewed and discussed matters relating to internal control and financial statements, including review of the unaudited financial statements for the six months ended 30 June 2011.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Choy Kam Lok (Chairman), Ms. Peng Wei (Vice-Chairman and General Manager), Mr. Leung Wing Hon, Mr. Tsoi Hoi Shan, Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping as executive directors; Ms. Choy Siu Chit as non-executive director; and Mr. Chong Peng Oon, Mr. Huang Bao Guang and Mr. Song Ming as independent non-executive directors.

On behalf of the Board
CHOY KAM LOK
Chairman

Hong Kong, 31 August 2011