



**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 2010

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## Financial Highlights

|  | Six months ended 30 June |                         |          |
|--|--------------------------|-------------------------|----------|
|  | 2010<br><i>HK\$'000</i>  | 2009<br><i>HK\$'000</i> | Increase |
| Revenue  | <b>3,079,118</b>         | 2,076,173               | 48.3%    |
| EBITDA   | <b>820,521</b>           | 419,661                 | 95.5%    |
| Profit before taxation   | <b>573,846</b>           | 200,800                 | 185.8%   |
| Profit attributable to owners of the Company                   | <b>483,868</b>           | 134,445                 | 259.9%   |
| Basic earnings per share attributable to owners of the Company | <b>HK39.8 cents</b>      | HK11.2 cents            | 255.4%   |

## Corporate Information

### BOARD OF DIRECTORS

#### Executive directors

Mr. Choy Kam Lok (*Chairman*)  
Ms. Peng Wei (*General manager*)  
Mr. Leung Wing Hon  
Mr. Tsoi Hoi Shan

#### 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 REPRESENTATIVE

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

#### Hong Kong

The Hongkong and Shanghai Banking Corporation Limited  
Wing Lung 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](http://www.tul.com.cn)  
[www.irasia.com/listco/hk/unitedlab](http://www.irasia.com/listco/hk/unitedlab)

# Report on Review of Interim Financial Information



## **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 (collectively referred to as the "Group") as of 30 June 2010 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

5 August 2010

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

|  | Notes | Six months ended 30 June        |                                 |
|--|-------|---------------------------------|---------------------------------|
|  |       | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Revenue  | 3     | 3,079,118                       | 2,076,173                       |
| Cost of sales  |       | (1,829,795)                     | (1,334,096)                     |
| Gross profit   |       | 1,249,323                       | 742,077                         |
| Other income   | 4     | 22,419                          | 13,200                          |
| Selling and distribution costs   |       | (482,131)                       | (349,909)                       |
| Administrative expenses  |       | (151,115)                       | (126,844)                       |
| Other expenses   |       | (15,316)                        | (27,652)                        |
| Finance costs  | 5     | (49,334)                        | (50,072)                        |
| Profit before taxation   |       | 573,846                         | 200,800                         |
| Taxation   | 6     | (89,978)                        | (66,355)                        |
| <b>Profit for the period attributable to owners of the Company</b>                         | 7     | <b>483,868</b>                  | <b>134,445</b>                  |
| <b>Other comprehensive income</b>  |       |                                 |                                 |
| Exchange differences arising on translation to presentation currency                       |       | 45,511                          | 13,135                          |
| <b>Total comprehensive income for the period attributable to the owners of the Company</b> |       | <b>529,379</b>                  | <b>147,580</b>                  |
| Earnings per share – Basic   | 9     | <b>HK39.8 cents</b>             | HK11.2 cents                    |

# Condensed Consolidated Statement of Financial Position

As at 30 June 2010

|  | Notes | 30 June<br>2010<br>(Unaudited)<br>HK\$'000 | 31 December<br>2009<br>(Audited and<br>restated)<br>HK\$'000 |
|--|-------|--|--|
| <b>Non-current assets</b>                                    |       |  |  |
| Property, plant and equipment                                | 10    | 4,272,801                                  | 4,009,768  |
| Prepaid lease payments                                       |       | 106,662                                    | 106,687  |
| Goodwill   |       | 3,486                                      | 3,437  |
| Intangible assets  |       | 7,240                                      | 5,450  |
| Deposits for leasehold land                                  |       | 3,450                                      | 3,409  |
| Deposits for acquisition of<br>property, plant and machinery |       | 85,904                                     | 92,541   |
| Available-for-sale investment                                |       | –  | –  |
| Deferred tax assets  |       | 31,029                                     | 18,580   |
|  |       | <b>4,510,572</b>                           | <b>4,239,872</b>   |
| <b>Current assets</b>  |       |  |  |
| Inventories  |       | 1,074,143                                  | 884,723  |
| Trade and bills receivables,<br>deposits and prepayments     | 11    | 2,234,583                                  | 1,851,785  |
| Derivative financial instrument                              |       | 284  | –  |
| Prepaid lease payments                                       |       | 2,511                                      | 2,482  |
| Pledged bank deposits  |       | 492,100                                    | 288,645  |
| Bank balances and cash                                       |       | 388,784                                    | 192,489  |
|  |       | <b>4,192,405</b>                           | <b>3,220,124</b>   |
| <b>Current liabilities</b>                                   |       |  |  |
| Trade and bills payables and accrued charges                 | 12    | 1,987,183                                  | 1,924,104  |
| Tax payables   |       | 67,660                                     | 68,697   |
| Borrowings   | 13    | 2,080,303                                  | 1,347,365  |
|  |       | <b>4,135,146</b>                           | <b>3,340,166</b>   |
| <b>Net current assets (liabilities)</b>                      |       | <b>57,259</b>                              | <b>(120,042)</b>   |
| <b>Total assets less current liabilities</b>                 |       | <b>4,567,831</b>                           | <b>4,119,830</b>   |
| <b>Non-current liabilities</b>                               |       |  |  |
| Borrowings   | 13    | 573,519                                    | 857,919  |
| Deferred tax liabilities                                     |       | 93,369                                     | 68,884   |
|  |       | <b>666,888</b>                             | <b>926,803</b>   |
|  |       | <b>3,900,943</b>                           | <b>3,193,027</b>   |
| <b>Capital and reserves</b>                                  |       |  |  |
| Share capital  | 14    | 12,500                                     | 12,000   |
| Reserves   |       | 3,888,443                                  | 3,181,027  |
| <b>Equity attributable to owners of the Company</b>          |       | <b>3,900,943</b>                           | <b>3,193,027</b>   |

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

|  | Attributable to owners of the Company |                         |                       |                       |                                |                         |                         |
|--|---------------------------------------|-------------------------|-----------------------|-----------------------|--------------------------------|-------------------------|-------------------------|
|  | Share<br>capital                      | Share<br>premium        | Special<br>reserve    | Capital<br>reserve    | Foreign<br>exchange<br>reserve | Retained<br>profits     | Total                   |
|  | HK\$'000                              | HK\$'000                | HK\$'000              | HK\$'000              | HK\$'000                       | HK\$'000                | HK\$'000                |
| At 1 January 2009 (audited)  | 12,000                                | 768,901                 | 286,032               | 267,092               | 328,940                        | 1,153,530               | 2,816,495               |
| Changes in equity during the period:                                   |                                       |                         |                       |                       |                                |                         |                         |
| – Exchange differences arising on translation to presentation currency | –                                     | –                       | –                     | –                     | 13,135                         | –                       | 13,135                  |
| – Profit for the period  | –                                     | –                       | –                     | –                     | –                              | 134,445                 | 134,445                 |
| Total comprehensive income for the period                              | –                                     | –                       | –                     | –                     | 13,135                         | 134,445                 | 147,580                 |
| Dividend   | –                                     | –                       | –                     | –                     | –                              | (180,000)               | (180,000)               |
| At 30 June 2009 (unaudited)  | <u>12,000</u>                         | <u>768,901</u>          | <u>286,032</u>        | <u>267,092</u>        | <u>342,075</u>                 | <u>1,107,975</u>        | <u>2,784,075</u>        |
| At 1 January 2010 (audited)  | 12,000                                | 768,901                 | 286,032               | 267,092               | 344,029                        | 1,514,973               | 3,193,027               |
| Change 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)                | –                       |
| Dividend   | –                                     | –                       | –                     | –                     | –                              | (237,500)               | (237,500)               |
| <b>At 30 June 2010 (unaudited)</b>                                     | <b><u>12,500</u></b>                  | <b><u>1,184,438</u></b> | <b><u>286,032</u></b> | <b><u>345,138</u></b> | <b><u>389,540</u></b>          | <b><u>1,683,295</u></b> | <b><u>3,900,943</u></b> |

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 Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective 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 consideration paid for purchase of additional interests in subsidiaries.

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

|   | Six months ended 30 June        |                                 |
|---|---------------------------------|---------------------------------|
|   | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Operating activities:   |                                 |                                 |
| Profit before taxation  | 573,846                         | 200,800                         |
| Depreciation of property, plant and equipment                       | 194,684                         | 166,389                         |
| Finance costs   | 49,334                          | 50,072                          |
| Other non-cash items  | (1,497)                         | (400)                           |
|   | <u>816,367</u>                  | 416,861                         |
| (Increase) decrease in inventories                                  | (177,560)                       | 146,929                         |
| Increase in trade and bills receivables, deposits and prepayments   | (356,889)                       | (137,036)                       |
| Increase (decrease) in trade and bills payables and accrued charges | 122,116                         | (72,868)                        |
|   | <u>404,034</u>                  | 353,886                         |
| Cash generated from operations                                      | 404,034                         | 353,886                         |
| Tax paid  | (79,462)                        | (57,290)                        |
|   | <u>324,572</u>                  | 296,596                         |
| Net cash from operating activities                                  | 324,572                         | 296,596                         |
| Investing activities:   |                                 |                                 |
| Payments for purchases of property, plant and equipment             | (479,019)                       | (428,505)                       |
| Increase in pledged bank deposits                                   | (199,949)                       | (129,888)                       |
| Decrease in prepaid lease payments                                  | –                               | 5,245                           |
| Other investing activities  | 2,848                           | 3,361                           |
|   | <u>(676,120)</u>                | (549,787)                       |
| Net cash used in investing activities                               | (676,120)                       | (549,787)                       |
| Financing activities:   |                                 |                                 |
| Dividend paid   | (237,500)                       | (180,000)                       |
| Interest paid   | (55,554)                        | (50,072)                        |
| Shares issued   | 425,000                         | –                               |
| Expenses relating to shares issued                                  | (8,963)                         | –                               |
| New borrowings raised   | 1,573,391                       | 1,196,387                       |
| Repayment of borrowings   | (1,150,869)                     | (636,269)                       |
|   | <u>545,505</u>                  | 330,046                         |
| Net cash from financing activities                                  | 545,505                         | 330,046                         |
| Net increase in cash and cash equivalents                           | 193,957                         | 76,855                          |
| Cash and cash equivalents at beginning of the period                | 192,489                         | 162,512                         |
| Effect of foreign exchange rate changes                             | 2,338                           | 744                             |
|   | <u>388,784</u>                  | 240,111                         |
| Cash and cash equivalents at end of the period                      | 388,784                         | 240,111                         |
| Analysis of the balances of cash and cash equivalents               |                                 |                                 |
| Bank balances and cash  | <u>388,784</u>                  | 240,111                         |

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

## 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, except for certain financial instruments, which are measured at fair value.

The accounting policies used 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 2009, except as described below.

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

|                     |  |
|---------------------|--|
| HKFRSs (Amendments) | Amendment to HKFRS 5 included in Improvements to HKFRSs 2008 |
| HKFRSs (Amendments) | Improvements to HKFRSs 2009                                  |
| HKAS 27 (Revised)   | Consolidated and Separate Financial Statements               |
| HKAS 39 (Amendment) | Eligible Hedged Items  |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters                |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions          |
| HKFRS 3 (Revised)   | Business Combinations  |
| HK (IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners                   |

The Group applies HKFRS 3 (Revised) “Business Combinations” prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

As part of Improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, lessees were required to classify leasehold land as operating leases and presented them as prepaid lease payments in the condensed consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee.

In accordance with the transitional provision of HKAS17, the Group reassessed the classification of land elements of unexpired leases at 1 January 2010 based on information which existed at the inception of these leases. Leasehold lands which met finance lease classification have been reclassified from prepaid lease payment to property, plant and equipment retrospectively. This resulted in a reclassification of prepaid lease payment with a previous carrying amount of HK\$21,724,000 as at 1 January 2010 as property, plant and equipment that are measured at cost model. The adoption of the Improvements to HKAS 17 has no impact on the results for the current or prior accounting periods.

The effect of adoption of Improvements to HKAS 17 on the financial position of the Group is as follows:

|                                      | <b>As at<br/>31.12.2009<br/>(Original stated)</b><br><i>HK\$'000</i> | <b>Adjustments</b><br><i>HK\$'000</i> | <b>As at<br/>31.12.2009<br/>(Restated)</b><br><i>HK\$'000</i> |
|--------------------------------------|--|---------------------------------------|---|
| Property, plant and equipment        | 3,988,044  | 21,724                                | 4,009,768   |
| Prepaid lease payments – non-current | 127,833  | (21,146)                              | 106,687   |
| Prepaid lease payments – current     | <u>3,060</u>   | <u>(578)</u>                          | <u>2,482</u>  |
|                                      | <b>As at<br/>1.1.2009<br/>(Original stated)</b><br><i>HK\$'000</i>   | <b>Adjustments</b><br><i>HK\$'000</i> | <b>As at<br/>1.1.2009<br/>(Restated)</b><br><i>HK\$'000</i>   |
| Property, plant and equipment        | 3,466,393  | 22,588                                | 3,488,981   |
| Prepaid lease payments – non-current | 131,921  | (22,010)                              | 109,911   |
| Prepaid lease payments – current     | <u>3,073</u>   | <u>(578)</u>                          | <u>2,495</u>  |

The adoption of the other new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

|                                 |  |
|---------------------------------|--|
| HKFRSs (Amendments)             | Improvements to HKFRSs 2010 <sup>1</sup>   |
| HKAS 24 (Revised)               | Related Party Disclosures <sup>4</sup>   |
| HKAS 32 (Amendment)             | Classification of Rights Issues <sup>2</sup>   |
| HKFRS 1 (Amendment)             | Limited Exemption from Comparative HKFRS 7<br>Disclosures for First-time Adopters <sup>3</sup> |
| HKFRS 9                         | Financial Instruments <sup>5</sup>   |
| HK (IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement <sup>4</sup>                                      |
| HK (IFRIC) – Int 19             | Extinguishing Financial Liabilities with Equity<br>Instruments <sup>3</sup>                    |

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after 1 February 2010.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2010.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2011.

<sup>5</sup> 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, amendments or interpretations will not have material impact on the condensed consolidated financial statements 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               |  |
|----------------|--|--|
|                | 2010<br>(Unaudited)<br><i>HK\$'000</i> | 2009<br>(Unaudited)<br><i>HK\$'000</i> |
| Sales of goods | <b>3,079,118</b>                       | 2,076,173                              |

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 revenue streams are the basis on which the Group reports its primary segment information.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 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 2010**

|                                   | Intermediate<br>products<br><i>HK\$'000</i> | Bulk<br>medicine<br><i>HK\$'000</i> | Finished<br>products<br><i>HK\$'000</i> | Segment<br>total<br><i>HK\$'000</i> | Elimination<br><i>HK\$'000</i> | Combined<br><i>HK\$'000</i> |
|-----------------------------------|---|-------------------------------------|---|-------------------------------------|--------------------------------|-----------------------------|
| SEGMENT REVENUE                   |   |                                     |   |                                     |                                |                             |
| 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)                      | –                           |
|                                   | <u>1,389,153</u>                            | <u>1,551,854</u>                    | <u>903,465</u>                          | <u>3,844,472</u>                    | <u>(765,354)</u>               | <u>3,079,118</u>            |
| Segment profit                    | 279,020                                     | 161,944                             | 196,473                                 |                                     |                                | 637,437                     |
| Unrealised profit<br>elimination  | (7,781)                                     | (499)                               | –                                       |                                     |                                | (8,280)                     |
|                                   | <u>271,239</u>                              | <u>161,445</u>                      | <u>196,473</u>                          |                                     |                                | 629,157                     |
| Unallocated<br>other income       |   |                                     |   |                                     |                                | 7,841                       |
| Unallocated<br>corporate expenses |   |                                     |   |                                     |                                | (13,818)                    |
| Finance costs                     |   |                                     |   |                                     |                                | (49,334)                    |
| Profit before taxation            |   |                                     |   |                                     |                                | <u>573,846</u>              |

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2009

|                                   | Intermediate<br>products<br>HK\$'000 | Bulk<br>medicine<br>HK\$'000 | Finished<br>products<br>HK\$'000 | Segment<br>total<br>HK\$'000 | Elimination<br>HK\$'000 | Combined<br>HK\$'000 |
|-----------------------------------|--------------------------------------|------------------------------|----------------------------------|------------------------------|-------------------------|----------------------|
| <b>SEGMENT REVENUE</b>            |                                      |                              |                                  |                              |                         |                      |
| External sales                    | 340,713                              | 992,027                      | 743,433                          | 2,076,173                    | –                       | 2,076,173            |
| Inter-segment sales               | 556,675                              | 90,670                       | –                                | 647,345                      | (647,345)               | –                    |
|                                   | <u>897,388</u>                       | <u>1,082,697</u>             | <u>743,433</u>                   | <u>2,723,518</u>             | <u>(647,345)</u>        | <u>2,076,173</u>     |
| Segment profit                    | 40,817                               | 64,327                       | 183,362                          |                              |                         | 288,506              |
| Unrealised profit<br>elimination  | (10,777)                             | 2,060                        | –                                |                              |                         | (8,717)              |
|                                   | <u>30,040</u>                        | <u>66,387</u>                | <u>183,362</u>                   |                              |                         | 279,789              |
| Unallocated<br>other income       |                                      |                              |                                  |                              |                         | 2,297                |
| Unallocated<br>corporate expenses |                                      |                              |                                  |                              |                         | (31,214)             |
| Finance costs                     |                                      |                              |                                  |                              |                         | (50,072)             |
| Profit before taxation            |                                      |                              |                                  |                              |                         | <u>200,800</u>       |

The accounting policies of the operating segments are the same as the Group's accounting policies in the preparation of the Group's annual 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 revenue and profit or loss of the Group are allocated based on the operations of the segments.

Inter-segment sales are charged at prevailing market rates.

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

## 4. OTHER INCOME

|                        | Six months ended 30 June        |                                 |
|------------------------|---------------------------------|---------------------------------|
|                        | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Bank interest income   | 5,975                           | 1,177                           |
| Sales of raw materials | 865                             | 8,004                           |
| Subsidy income         | 13,713                          | 2,899                           |
| Sundry income          | 1,866                           | 1,120                           |
|                        | <b>22,419</b>                   | <b>13,200</b>                   |

## 5. FINANCE COSTS

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

Borrowing costs of approximately HK\$6,200,000 (six months ended 30 June 2009: nil) were capitalised as part of the cost of a manufacturing plant in current period.

## 6. TAXATION

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| The charge comprises:  |                                 |                                 |
| Current tax  |                                 |                                 |
| Hong Kong Profits Tax  | 8,346                           | 7,268                           |
| The People's Republic of China (the "PRC")<br>enterprise income tax    | 73,110                          | 44,531                          |
| Overprovision of PRC enterprise income tax in<br>respect of prior year | (3,524)                         | (3,284)                         |
| Change of applicable tax rate of a subsidiary ( <i>Note</i> )          | –                               | 15,327                          |
|  | <b>77,932</b>                   | <b>63,842</b>                   |
| Deferred tax   | <b>12,046</b>                   | <b>2,513</b>                    |
|  | <b>89,978</b>                   | <b>66,355</b>                   |

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 6. TAXATION (Continued)

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 periods 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 2010 (six months ended 30 June 2009: 25%).

Note: The Company's subsidiary, 珠海市萬邦藥業有限公司("萬邦藥業"), has previously applied the concessionary tax of 18% according to the circular on the Implementation of Transitional Preferential Policies for Enterprise Income Tax by Guo Shui Fa [2007] No. 39. 萬邦藥業 received a tax notification from the State of Administration of Taxation ("SAT") for withdrawing 萬邦藥業 from applying the concessionary tax rate and required to apply the standard rate of 25% with effect from 1 January 2008. The tax expense undercharged for prior year of HK\$15,327,000 was charged to profit or loss for the six months ended 30 June 2009.

### 7. PROFIT FOR THE PERIOD

|   | <b>Six months ended 30 June</b>                      |                                 |
|---|--|---------------------------------|
|   | <b>2010</b><br><b>(Unaudited)</b><br><b>HK\$'000</b> | 2009<br>(Unaudited)<br>HK\$'000 |
| Profit for the period has been arrived at after charging (crediting): |  |                                 |
| Provision of (reversal of) allowance for inventories                  | <b>1,136</b>   | (7,665)                         |
| (Reversal of) allowance for bad and doubtful debts                    | <b>(308)</b>   | 1,606                           |
| Depreciation and amortisation   |  |                                 |
| Depreciation of property, plant and equipment                         | <b>194,684</b>                                       | 166,389                         |
| Amortisation:   |  |                                 |
| – intangible assets   | <b>1,353</b>   | 1,025                           |
| – prepaid lease payments  | <b>1,304</b>   | 1,375                           |
|   | <b>197,341</b>                                       | 168,789                         |

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 8. DIVIDEND

|  | Six months ended 30 June        |                                 |
|--|---------------------------------|---------------------------------|
|  | 2010<br>(Unaudited)<br>HK\$'000 | 2009<br>(Unaudited)<br>HK\$'000 |
| Final dividend paid in respect of the year ended 31 December 2009 of 19 HK cents (year ended 31 December 2008: 15 HK cents) per ordinary share | <b>237,500</b>                  | 180,000                         |

The Board declares the payment of an interim dividend of HK12 cents per share for the six months ended 30 June 2010 (six months ended 30 June 2009: nil).

### 9. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to the owners of the Company and the weighted average number of approximately 1,215,193,000 (six months ended 30 June 2009: 1,200,000,000) shares.

### 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group incurred HK\$410,619,000 (six months ended 30 June 2009: HK\$503,996,000) on property, plant and equipment during the six months ended 30 June 2010.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 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 bills receivables have average maturity period of 90 days to 180 days.

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:

|                          | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|--------------------------|--|--|
| Trade receivables        |  |  |
| 0 to 30 days             | <b>530,764</b>                                       | 420,350                                      |
| 31 to 60 days            | <b>220,986</b>                                       | 261,758                                      |
| 61 to 90 days            | <b>53,271</b>  | 17,054                                       |
| 91 to 120 days           | <b>17,200</b>  | 439  |
| 121 to 180 days          | <b>547</b>   | 1,219  |
| Over 180 days            | <b>379</b>   | 470  |
|                          | <b>823,147</b>                                       | 701,290                                      |
| Bills receivables        |  |  |
| 0 to 30 days             | <b>245,112</b>                                       | 101,866                                      |
| 31 to 60 days            | <b>162,161</b>                                       | 114,198                                      |
| 61 to 90 days            | <b>245,446</b>                                       | 145,990                                      |
| 91 to 120 days           | <b>182,857</b>                                       | 266,189                                      |
| 121 to 180 days          | <b>151,101</b>                                       | 335,154                                      |
| Over 180 days            | <b>1,380</b>   | 4,096  |
|                          | <b>988,057</b>                                       | 967,493                                      |
| Deposits and prepayments | <b>423,379</b>                                       | 183,002                                      |
|                          | <b>2,234,583</b>                                     | 1,851,785                                    |

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 12. 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:

|                             | <b>30 June<br/>2010<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|-----------------------------|--|--|
| Trade payables              |  |  |
| 0 to 90 days                | <b>840,943</b>                                       | 824,096                                      |
| 91 to 180 days              | <b>332,858</b>                                       | 328,748                                      |
| Over 180 days               | <b>68,073</b>  | 40,101                                       |
|                             | <b>1,241,874</b>                                     | 1,192,945                                    |
| Bills payables              |  |  |
| 0 to 90 days                | <b>82,978</b>  | 41,656                                       |
| 91 to 180 days              | <b>190,134</b>                                       | 184,305                                      |
|                             | <b>273,112</b>                                       | 225,961                                      |
| Other payables and accruals | <b>472,197</b>                                       | 505,198                                      |
|                             | <b>1,987,183</b>                                     | 1,924,104                                    |

Included in trade payables and other payables above are HK\$372,362,000 and HK\$11,152,000 respectively (31 December 2009: HK\$710,089,000 and HK\$102,719,000) that has been paid by endorsed bills for which the maturity date has not yet due as at the end of the reporting period.

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 13. BORROWINGS

|  | 30 June<br>2010<br>(Unaudited)<br>HK\$'000 | 31 December<br>2009<br>(Audited)<br>HK\$'000 |
|--|--|--|
| Bank loans   | 1,637,329                                  | 1,505,740                                    |
| Discounted bills with recourse                                   | 1,016,493                                  | 698,436                                      |
| Trust receipt bills  | –  | 1,108  |
|  | <u>2,653,822</u>                           | <u>2,205,284</u>                             |
| Analysed as:   |  |  |
| Secured  | 873,706                                    | 900,622                                      |
| Unsecured  | 1,780,116                                  | 1,304,662                                    |
|  | <u>2,653,822</u>                           | <u>2,205,284</u>                             |
| The borrowings are repayable as follows:                         |  |  |
| On demand or within one year                                     | 2,080,303                                  | 1,347,365                                    |
| More than one year, but not exceeding two years                  | 509,833                                    | 647,731                                      |
| More than two years, but not exceeding five years                | 63,686                                     | 210,188                                      |
|  | <u>2,653,822</u>                           | <u>2,205,284</u>                             |
| Less: Amount due within one year shown under current liabilities | <u>(2,080,303)</u>                         | <u>(1,347,365)</u>                           |
| Amount due after one year  | <u>573,519</u>                             | <u>857,919</u>                               |

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

# Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

## 14. SHARE CAPITAL

|  | Number of<br>shares         | Amount<br><i>HK\$'000</i> |
|--|-----------------------------|---------------------------|
| Ordinary shares of HK\$0.01 each       |                             |                           |
| At 1 January 2009 and 31 December 2009 | 1,200,000,000               | 12,000                    |
| Issue of shares                        | <u>50,000,000</u>           | <u>500</u>                |
| <b>At 30 June 2010</b>                 | <b><u>1,250,000,000</u></b> | <b><u>12,500</u></b>      |

Pursuant to the Placing and Subscription Agreement entered into among the Company, its parent company and the placing agent dated 29 April 2010, the parent company of the Company agreed to sell 100,000,000 shares in the Company by placing to independent placees. 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. The net proceeds to be received by the Company from the subscription amounting to approximately HK\$416 million will be applied for the expansion of the Group's existing production facilities and other capital expenditure. Details of the placing and subscription are set out in the Company's announcement dated 29 April 2010.

## 15. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of HK\$169,895,000 (31 December 2009: HK\$122,222,000) 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 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<br>2010<br><br>(Unaudited)<br><i>HK\$'000</i> | 31 December<br>2009<br>(Audited and<br>restated)<br><i>HK\$'000</i> |
|-------------------------------|---|---|
| Property, plant and equipment | 1,500,940   | 1,384,294   |
| Prepaid lease payments        | 108,434   | 109,169   |
| Bills receivables             | 95,605  | 58,371  |
| Pledged bank deposits         | <u>492,100</u>  | <u>288,645</u>  |
|                               | <b><u>2,197,079</u></b>                               | <b><u>1,840,479</u></b>   |

## Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

### 17. 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               |  |
|---|--|--|
|   | 2010<br>(Unaudited)<br><i>HK\$'000</i> | 2009<br>(Unaudited)<br><i>HK\$'000</i> |
| Fees                                    | 840                                    | 735                                    |
| Salaries and other benefits             | 6,740                                  | 2,790                                  |
| Retirement benefits scheme contribution | 18                                     | 34                                     |
|   | <b>7,598</b>                           | 3,559                                  |

# Management Discussion and Analysis

## BUSINESS REVIEW FOR THE FIRST HALF OF 2010

For the six months ended 30 June 2010, the Group's revenue was increased by 48.3% to HK\$3,079.1 million as compared with the same period in the preceding year of HK\$2,076.2 million. The Group's profit for the period attributable to shareholders was approximately HK\$483.9 million (2009: HK\$134.4 million), representing an increase of 259.9%, 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 54.8%, 43.3% and 21.5% respectively for the six months ended 30 June 2010, as compared with the same period in preceding year. Segmental profit of intermediate products, bulk medicine and finished products increased by 802.9%, 143.2% and 7.2% respectively.

Review to the first half year of 2010, the Group still maintained fast growth despite the slowdown in the PRC economy. Our operating performance of the interim period showed a better result than the second half year of 2009, breaking its historical records. Benefited from the strong demand for premium medicines attributable to the implementation of the medical reform by the government and the increase in the people's living standards in the PRC, the Group achieved satisfactory results during the first half year of 2010, with the following factors contributing to the growth:

### **Increasing demand for intermediate products and bulk medicine products**

With the growth momentum of the second half year of 2009 stayed strong in the first half year of 2010, the turnover of intermediate products and bulk medicine products marked new highs due to the stabilized prices and increased market demands for the Group's intermediate products and bulk medicine products. On-going expansion

of medicine market size in the PRC led to increasing demand for medicines. As a major manufacturer of intermediate products 6-APA and amoxicillin bulk products in the PRC and around the world, coupled with increasing demand for medicines from various finished products plants and manufacturers in the market, the Group reaped the benefits with a strong growth in terms of its sales of intermediate products and bulk medicine products.

### **Drop in cost of intermediate products due to the upgrade of the production capacity of Inner Mongolia plant**

Gross profit margin of intermediate products was improved significantly thanks to the operation of Inner Mongolia plant at full capacity. In current period, intermediate products contributed more profits to the Group as compared to last year. We continued to fully leverage the synergy arising from the comprehensive vertically integrated production model among five large production bases. With the expansion of the finished products plant in Hong Kong, the finished products plant in Zhongshan and the bulk medicine plant in Zhuhai, the comprehensive integrated intermediate products plant in Inner Mongolia further upgraded its production capacity, along with a higher profit at lower cost due to the strengthened cooperation with the intermediate products plant in Chengdu. During the period under review, the leading position of the Group in the industry was consolidated by virtue of the vertically integrated production model, which will continue to support us considerably to grow further and stronger. All plants were granted with GMP of the PRC, and some of them have additionally got ISO9001 and ISO14001 certifications. Certain main products even have received certifications or acceptance of FDA from the US, COS from Europe and GMP from Japan, thus making the client base more international and establishing our leading position.

## Management Discussion and Analysis

### Strengthening the sales team of finished products

During the period, rural markets remained as the Group's priority for sales of its finished products. With our successful sales strategies, the Group's turnover and profits of finished products recorded new highs. Our sales personnel of finished products increases to over 3,000 members of employees, and several of our main products captured additional market share and enhanced coverage.

### Industry consolidation with survival of the fittest

The industry underwent mergers and acquisitions during the financial tsunami, leading to the survival of the fittest, which benefited the Group to a large extent. In addition, the management's leadership and ability to respond to the crisis during the financial tsunami became more mature by taking decisive and efficient measures to cut cost, increase efficiency and capture market, which contributed to our reinforced solid foundation and improved profitability and results as compared to last year.

All these factors conduced to the outstanding results of the Group for the period.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2010, the Group had pledged bank deposits, cash and bank balances amounted to HK\$880.9 million (31 December 2009: HK\$481.1 million).

As at 30 June 2010, the Group had interest-bearing bank borrowings of approximately HK\$2,653.8 million (31 December 2009: HK\$2,205.3 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK\$403.1 million are fixed rate loans while the remaining balance of approximately HK\$2,250.7 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 2010, current assets of the Group amounted to approximately HK\$4,192.4 million (31 December 2009: HK\$3,220.1 million). The Group's current ratio was approximately 1.01 as at 30 June 2010 as compared with 0.96 as at 31 December 2009. As at 30 June 2010, the Group had total assets of approximately HK\$8,703.0 million (31 December 2009: HK\$7,460.0 million) and total liabilities of approximately HK\$4,802.0 million (31 December 2009: HK\$4,267.0 million), representing a net gearing ratio (calculated as total borrowings less cash and bank balances and pledged bank deposits to total equity) of 45.4% as at 30 June 2010, as compared with 54.0% as at 31 December 2009.

### USE OF PROCEEDS FROM ISSUE OF NEW SHARES

Pursuant to the Placing and Subscription Agreement entered into among the Company, its parent company and the placing agent dated 29 April 2010, the parent company of the Company agreed to sell 100,000,000 shares in the Company by placing to independent placees. 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. The net proceeds to be received by the Company from the subscription amounting to approximately HK\$416 million will be applied for the expansion of the Group's existing production facilities and other capital expenditure.

As at 30 June 2010, net proceeds of approximately HK\$241,000,000 has been applied for the expansion of the Group's existing production facilities and other capital expenditure and the remaining of the net proceeds has been deposited into banks and will be applied in accordance with the plans disclosed in the Company's announcement dated 29 April 2010.

## Management Discussion and Analysis

### 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 2010 and 31 December 2009, the Group had no material contingent liabilities.

### OUTLOOK FOR SECOND HALF OF 2010

Looking forward to the second half of 2010, we feel optimistic. As the PRC enforced the pharmaceutical reform, and imposed policies to bolster rural market, it is believed that demand for pharmaceutical sector will be stimulated. In fact, there is a relatively huge distance between the medical expenditure per capita in China and the ones in developed countries, by virtue of which the Group foresees the room for market growth is ample. Being a major industry player, the Group will, on the basis of economic scale, further reduce the costs, leverage its efficiency, and expand its sales network and team. We believe these efforts will bring about new brilliants.

Alongside the further implementation of favorable policies in the PRC, and the natural selection in all sectors, the Group expects the market demands for intermediate products and bulk medicines will increase after their respective supply integration. As a result, their average selling prices will experience a stable upturn, which reveals that a new growth cycle may approach. Furthermore, after recognitions accredited by European and American institutions towards the Group's several major products, overseas pharmaceutical enterprises started to purchase more our products, so the export sales,

which commands relatively high gross profit margin, are seen to improve with constant pace, and will certainly help to drive the overall gross profit margin. At the same time, the five principal production bases within the Group are expanding, integrating and supporting each other, so that our cost of production is likely to decline again and the production efficiency will go up accordingly.

The management estimates the sales of our finished products will achieve promising growth, and our revenue will scale new heights. The sales team has over 3,000 members, who are dispatched all over China. As anticipated in our last annual report, sales for our finished products will step into a harvest period in this year, and this long waited prosperity shall persist. In reliance upon our powerful sales network and the close relationship with our distributors and medical institutions, we project that our market expansion will accelerate, and hence our sales will escalate. After exploring rural markets and communities with little competition but high growth rate in the past years, the Group has now secured its position as a pioneer in the market, and embraced momentum for its future growth.

In the second half, the Group will stay focused on recombinant human insulin finished products, and will speed up their promotion and tendering in every province and every city. The Group will also strengthen the approval of every type of insulin finished products, so as to diversify its products and improve their competitiveness. Meanwhile, it will invest RMB300 million to expand related production lines as scheduled, so it is expected that the Group will gain an ideal market share in the coming years. Apart from that, as the Group's related products has equivalent effect to the imported insulin products, considering about their competitive price, currently the market feedback towards our products is positive. There are more

## Management Discussion and Analysis

than 100 million diabetes patients in China, which is increasing over time. So the recombinant insulin has a market with RMB4 billion, and will embark a high growth rate from 20% to 30% annually. In addition, the Group will continue to invest in its research and development capacity, in a bid to launch competitive and profitable finished products as soon as possible.

Looking ahead, the Group will stride towards our objective to become a matchless pharmaceutical enterprise in the world. We will further enhance our brand awareness and exploration capacity, so that the Group can enjoy the great opportunities brought about by preferential policy treatments, market growth and new products' contribution. The Group believes that, with our solid foundation, analysts and investors will endorse the long-term growth strategy that we pursue, and they will therefore grant a higher valuation upon us. We are looking forward to see growth both in our results and the returns to our shareholders, because by that time a good stead for our future growth will be laid.

### EMPLOYEES AND REMUNERATION

As at 30 June 2010, the Group had approximately 10,500 (31 December 2009: 9,100) 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.

## Other Information

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

As at 30 June 2010, 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                                | 815,000,000      | (1)   | Founder of a trust | 65.20%                  |
| Mr. Choy Kam Lok   | Gesell Holdings Limited                | 805,000,000      | (2)   | Founder of a trust | 64.40%                  |
| Mr. Choy Kam Lok   | Heren Far East Limited                 | 805,000,000      | (3)   | Founder of a trust | 64.40%                  |
| Ms. Peng Wei       | Company                                | 1,544,000        |       | Personal interest  | 0.12%                   |
| Mr. Leung Wing Hon | Company                                | 282,000          |       | Personal interest  | 0.02%                   |
| Ms. Choy Siu Chit  | 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 805,000,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 10,000,000 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.

## Other Information

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 months ended 30 June 2010 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 2010, no share option has been offered and/or granted to any participants under the share option scheme.

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2010, 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           | 64.40%                 |
| Gesell  | (1)   | Interest in a controlled corporation | 805,000,000           | 64.40%                 |
| DBS Trustee H.K. (Jersey) Limited                     | (2)   | Trustee                              | 805,000,000           | 64.40%                 |
| Cheah Capital Management Limited ("CCML")             | (3)   | Interest in a controlled corporation | 100,104,000           | 8.00%                  |
| Cheah Company Limited ("CCL")                         | (3)   | Interest in a controlled corporation | 100,104,000           | 8.00%                  |
| Hang Seng Bank Trustee International Limited ("HSBT") | (3)   | Trustee                              | 100,104,000           | 8.00%                  |
| Value Partners Group Limited ("VPGL")                 | (3)   | Interest in a controlled corporation | 100,104,000           | 8.00%                  |
| Value Partners Limited ("VPL")                        | (3)   | Interest in a controlled corporation | 100,104,000           | 8.00%                  |
| To Hau Yin  | (3)   | Interest in a controlled corporation | 100,104,000           | 8.00%                  |
| Cheah Cheng Hye                                       | (3)   | Interest in a controlled corporation | 100,104,000           | 8.00%                  |

## Other Information

### 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 ("DBS Trustee") 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.
- (3) The interest of CCML, CCL, HSBT, VPGL, VPL, To Hau Yin and Cheah Cheng Hye in the 100,104,000 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 2010.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Save for issue of 50,000,000 new shares at HK\$8.5 per share as set out in note 14 above, 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 2010.

### DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board declares an interim dividend of HK12 cents per share (for the six months ended 30 June 2009:Nil) to be payable to the shareholders whose names appear in the register of members of the Company on 27 August 2010. The register of members will be closed from 25 August 2010 to 27 August 2010 (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 24 August 2010.

The dividend warrants are expected to be dispatched to the shareholders on about 3 September 2010.

### 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 2010.

### 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 results announcement.

### 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 2010.

### BOARD OF DIRECTORS

As at the date of this report, the Board comprises (1) Mr. Choy Kam Lok (Chairman), Ms. Peng Wei, Mr. Leung Wing Hon and Mr. Tsoi Hoi Shan as executive directors; (2) Ms. Choy Siu Chit as non-executive director; and (3) 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, 5 August 2010