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 2013

Contents

Financial Highlights

	Six months ended 30 June		
	2013	2012	Increase/
	HK$'000	*HK$'000*	(Decrease)
Revenue	**3,745,899**	3,646,477	2.7%
EBITDA	**514,234**	590,449	(12.9%)
Adjusted EBITDA *(Note)*	**654,322**	590,449	10.8%
Profit before taxation	**84,290**	228,847	(63.2%)
Profit attributable to owners of the Company	**42,992**	169,116	(74.6%)
Earnings per share			
– Basic	**HK 2.64 cents**	HK 11.43 cents	(76.9%)
– Diluted	**HK 2.62 cents**	HK 6.98 cents	(62.5%)

Note: *The adjusted EBITDA is arrived at based on earnings before finance costs, taxation, depreciation and amortization, adjusted for written down of property, plant and equipment and other expenses incurred directly attributable to the relocation of the production lines of the Group during the period.*

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Zou Xian Hong
Ms. Zhu Su Yan
Mr. Fang Yu Ping
Ms. Choy Siu Chit

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Mr. Huang Bao Guang
Ms. Fu Xiao Nan

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
China Construction Bank of China Limited,
Zhuhai Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of China Limited, Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch

Hong Kong

China Development Bank Corporation,
Hong Kong Branch
The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Taipei Fubon Commercial Bank Co., Limited,
Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(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 Condensed Consolidated Financial Statements

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 condensed consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 26, which comprise the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other 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 these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements 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 these condensed consolidated financial statements 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 condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
20 August 2013

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2013

	NOTES	Six months ended 30 June **2013** ***HK$'000*** **(Unaudited)**	 2012 *HK$'000* (Unaudited)
Revenue	3	**3,745,899**	3,646,477
Cost of sales		**(2,599,139)**	(2,576,255)
Gross profit		**1,146,760**	1,070,222
Other income	4	**51,591**	39,514
Other gains and losses	5	**(92,352)**	(1,745)
Selling and distribution costs		**(608,173)**	(547,950)
Administrative expenses		**(262,794)**	(274,520)
Research and development expenditures		**(52,987)**	(47,226)
Other expenses	8	**(49,178)**	(2,091)
Gain on fair value change of derivative components of convertible bonds		**54,486**	102,849
Finance costs	6	**(103,063)**	(110,206)
Profit before taxation		**84,290**	228,847
Taxation	7	**(41,298)**	(59,731)
Profit for the period attributable to owners of the Company	8	**42,992**	169,116
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**111,864**	(56,465)
Total comprehensive income for the period attributable to the owners of the Company		**154,856**	112,651
Earnings per share (HK cents)	9		
– Basic		**2.64**	11.43
– Diluted		**2.62**	6.98

Condensed Consolidated Statement of Financial Position

At 30 June 2013

	NOTES	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	**9,781,382**	8,379,224
Prepaid lease payments		**144,233**	144,488
Goodwill		**3,812**	3,770
Intangible assets		**516**	2,774
Deposit for acquisition of leasehold land		**157,943**	164,532
Deposits for acquisition of property, plant and machinery		**476,010**	803,810
Pledged bank deposits		**37,731**	–
Deferred tax asset		**45,674**	32,211
		10,647,301	9,530,809
Current assets			
Inventories		**1,510,328**	1,813,609
Trade and bills receivables, other receivables, deposits and prepayments	11	**2,970,895**	2,896,789
Derivative financial instruments		**3,200**	4,426
Prepaid lease payments		**3,582**	3,542
Pledged bank deposits		**1,263,429**	1,246,403
Bank balances and cash		**1,191,474**	646,125
		6,942,908	6,610,894
Current liabilities			
Trade and bills payables and accrued charges	12	**3,243,617**	3,416,616
Derivative financial instruments		**6,751**	4,669
Convertible bonds	13	**920,398**	943,431
Obligations under sales and lease back arrangement – due within one year		**367,620**	238,950
Tax payables		**32,733**	33,026
Borrowings – due within one year	14	**5,181,496**	4,322,486
		9,752,615	8,959,178
Net current liabilities		**(2,809,707)**	(2,348,284)
Total assets less current liabilities		**7,837,594**	7,182,525

	NOTES	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**67,209**	64,899
Obligations under sales and lease back arrangement			
– due after one year		**559,059**	421,950
Borrowings – due after one year	14	**961,781**	600,987
		1,588,049	1,087,836
		6,249,545	6,094,689
Capital and reserves			
Share capital	15	**16,269**	16,269
Reserves		**6,233,276**	6,078,420
Equity attributable to owners of the Company		**6,249,545**	6,094,689

The condensed consolidated financial statements on pages 5 to 26 were approved and authorised for issue by the Board of Directors on 20 August 2013 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2013

	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 2012 (audited)	13,015	1,959,061	286,032	464,450	718,833	1,735,230	5,176,621
Profit for the period	–	–	–	–	–	169,116	169,116
Exchange differences arising on translation to presentation currency	–	–	–	–	(56,465)	–	(56,465)
Total comprehensive income for the period	13,015	1,959,061	286,032	464,450	662,368	1,904,346	5,289,272
Issue of new shares upon rights issue	3,254	715,825	–	–	–	–	719,079
Expenses incurred in connection with rights issue	–	(17,033)	–	–	–	–	(17,033)
Appropriations	–	–	–	(57,185)	–	57,185	–
At 30 June 2012 (unaudited)	16,269	2,657,853	286,032	407,265	662,368	1,961,531	5,991,318
At 1 January 2013 (audited)	16,269	2,656,294	286,032	531,213	774,437	1,830,444	6,094,689
Profit for the period	–	–	–	–	–	42,992	42,992
Exchange differences arising on translation to presentation currency	–	–	–	–	111,864	–	111,864
Total comprehensive income for the period	–	–	–	–	111,864	42,992	154,856
At 30 June 2013 (unaudited)	**16,269**	**2,656,294**	**286,032**	**531,213**	**886,301**	**1,873,436**	**6,249,545**

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 until the fund reaches 50% of the registered capital of respective subsidiaries.

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Operating activities		
Profit before taxation	**84,290**	228,847
Depreciation of property, plant and equipment	**324,657**	249,348
Finance costs	**103,063**	110,206
Provision (reversal) of allowance for doubtful debts	**5,119**	(5,785)
Provision of allowance for inventories	**16,300**	–
Fair value change of derivative components of convertible bonds	**(54,486)**	(102,849)
Bank interest income	**(24,196)**	(4,465)
Impairment on property, plant and equipment	**93,833**	–
Impairment on intangible assets	**1,912**	–
Other non-cash items	**6,338**	3,223
	556,830	478,525
Decrease in inventories	**306,463**	37,443
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(84,229)**	(250,248)
(Decrease) increase in trade and bills payables and accrued charges	**(162,379)**	83,576
Cash generated from operations	**616,685**	349,296
Tax paid	**(52,464)**	(55,126)
Net cash from operating activities	**564,221**	294,170
Investing activities		
Payments for purchase of property, plant and equipment	**(1,289,801)**	(1,436,651)
Increase in pledged bank deposits	**–**	(230,217)
Interest received	**24,196**	4,465
Addition of deposits for acquisition of leasehold lands	**–**	(27,757)
Refund of deposits for acquisition of leasehold lands	**8,382**	–
Net cash used in investing activities	**(1,257,223)**	(1,690,160)
Financing activities		
Interest paid	**(159,227)**	(140,755)
Proceeds on sales and lease back arrangement	**375,330**	–
Repayment of obligations under finance lease	**(118,332)**	–
New borrowings raised	**3,660,451**	2,559,127
Repayment of borrowings	**(2,508,829)**	(2,071,904)
(Decrease) increase in bank overdraft, secured	**(17,730)**	36,707
Proceeds from issue of shares	**–**	719,079
Expenses on issue of shares	**–**	(17,033)
Net cash from financing activities	**1,231,663**	1,085,221
Net increase (decrease) in cash and cash equivalents	**538,661**	(310,769)
Cash and cash equivalents at beginning of the period	**646,125**	948,604
Effect of foreign exchange rate changes	**6,688**	1,961
Cash and cash equivalents at end of the period, represented by	**1,191,474**	639,796
Bank balances and cash	**1,191,474**	639,796

1. BASIS OF PRESENTATION

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

As at 30 June 2013, the Group had net current liabilities of approximately HK$2,809,707,000. The directors of the Company are of the opinion that, taking into account the available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements that is for at least the next twelve months commencing from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in Note 19.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Amendments to HKAS 34 Interim Financial Reporting

(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 Interim Financial Reporting as part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (the "CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

The Group's reportable and operating segments are based on different revenue streams. During the six months ended 30 June 2013, other than segment revenue and segment profit analysis presented by revenue streams were provided to the CODM (i.e. executive directors of the Company) for performance assessment and resources allocation, information about assets and liabilities was no longer regularly provided to the CODM. The basis is aligned to be consistent with the Group's long term business strategy. Following the change, the Group has not included asset and liabilities information as part of segment information set out in Note 3.

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

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	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sales of goods	**3,745,899**	3,646,477

As detailed in Note 2 above, 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 segments for the periods under review:

For the six months ended 30 June 2013 (unaudited)

	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	807,902	1,728,245	1,209,752	3,745,899	–	3,745,899
Inter-segment sales	665,427	151,188	–	816,615	(816,615)	–
	1,473,329	1,879,433	1,209,752	4,562,514	(816,615)	3,745,899
Segment profit	2,156	67,744	224,495			294,395
Unrealised (loss) profit elimination	(1,577)	1,172	–			(405)
	579	68,916	224,495			293,990
Unallocated other income						27,434
Other gains and losses						(92,352)
Unallocated expenses						(96,205)
Gain on fair value change of derivative components of convertible bonds						54,486
Finance costs						(103,063)
Profit before taxation						84,290

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2012 (unaudited)

	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	815,344	1,766,095	1,065,038	3,646,477	–	3,646,477
Inter-segment sales	753,356	82,387	–	835,743	(835,743)	–
	1,568,700	1,848,482	1,065,038	4,482,220	(835,743)	3,646,477
Segment profit	48,589	23,666	211,647			283,902
Unrealised profit (loss) elimination	9,166	(5,613)	–			3,553
	57,755	18,053	211,647			287,455
Unallocated other income						7,331
Other gains and losses						(1,745)
Unallocated expenses						(56,837)
Gain on fair value change of derivative components of convertible bonds						102,849
Finance costs						(110,206)
Profit before taxation						228,847

The performance of the Group is measured based on segment profit that is used by the CODM for the purposes of resource allocation and assessment of segment performance.

Inter-segment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, gain on fair value change of derivative components of convertible bonds, sundry income, certain other expenses relating to relocation, certain other gains and losses, corporate expenses and staff costs, and finance costs.

Total assets and liabilities for reportable segments are not presented in the condensed consolidated financial statement, as the information are not regularly provided to the CODM. Accordingly, the Group has not included total assets or liabilities information as part of segment information.

4. OTHER INCOME

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Bank interest income	**24,196**	4,465
Sales of raw materials	**13,584**	17,774
Subsidy income (note)	**10,573**	14,409
Sundry income	**3,238**	2,866
	51,591	39,514

Note: Included in the amount mainly consists of (i) approximately HK$500,000 (six months ended 30 June 2012: HK$5,400,000) representing recognition of government grants for the purpose of financing certain expenditures on new products development, (ii) approximately HK$501,000 (six months ended 30 June 2012: nil) representing release of asset-related government grants, and (iii) approximately HK$9,572,000 (six months ended 30 June 2012: HK$9,009,000) representing incentives received by a group entity for the development of environmental friendly manufacturing, pollution prevention and advanced technology which is accounted for as immediate financial support with no future related costs expected to be incurred nor related to any assets.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Exchange gains (loss), net	**2,905**	(546)
Written down of property, plant and equipment	**(93,833)**	(240)
Fair value change on derivative financial instruments	**(3,308)**	(935)
Others	**1,884**	(24)
	(92,352)	(1,745)

6. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on borrowings wholly repayable within five years	**142,718**	104,405
Interest on convertible bonds wholly repayable within five years	**58,064**	47,576
Interest on finance leases wholly repayable within five years	**20,260**	–
	221,042	151,981
Less: amounts capitalised in property, plant and equipment	**(117,979)**	(41,775)
	103,063	110,206

7. TAXATION

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**2,781**	4,372
People's Republic of China (the "PRC") enterprise income tax ("EIT")	**53,135**	44,561
Overprovision of PRC enterprise income tax in respect of prior years	**(3,927)**	(1,641)
	51,989	47,292
Deferred tax	**(10,691)**	12,439
	41,298	59,731

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2012: 16.5%) of the estimated assessable profit for the period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation of Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Besides, with effect from 1 January 2008, one subsidiary is qualified as high-technology company (under the new PRC Enterprise Income Tax Law) and is eligible to a reduced PRC EIT rate of 15% through to August 2014.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation		
Depreciation of property, plant and equipment	**324,657**	249,348
Amortisation		
– intangible assets	**365**	705
– prepaid lease payments	**1,859**	1,343
	326,881	251,396
Impairment loss in respect of written down of intangible assets	**1,912**	–
Provision (reversal) of allowance of doubtful debts	**5,119**	(5,785)
Provision of allowance for inventories	**16,300**	–
Amounts included in other expenses (note)		
– Staff redundancy costs	**10,988**	–
– Other direct costs relating to relocation	**35,267**	–

Note: During the period ended 30 June 2013, the Group decided to relocate the production of 6-APA in Chengdu site to Inner Mongolia ("Relocation"). The depreciation charges of machineries, consumables and other costs incurred directly attributable to the Relocation since the cessation of 6-APA's production to the end of period are recognised as other expenses.

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings attributable to owners of the Company for the purpose of calculation of basic earnings per share	**42,992**	169,116
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**58,064**	47,576
Gain on fair value change of derivative components of convertible bonds	**(54,486)**	(102,849)
Earnings for the purpose of calculation of diluted earnings per share	**46,570**	113,843

	Six months ended 30 June	
	2013	2012
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,626,875**	1,479,963
Effect of dilutive potential ordinary shares:		
Convertible bonds	**151,705**	151,705
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,778,580**	1,631,668

The weighted average number of ordinary shares outstanding during the prior period has been adjusted for the bonus effect of rights issue of shares in May 2012.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately HK$1,722,823,000 (six months ended 30 June 2012: HK$1,107,853,000) on property, plant and equipment to expand and upgrade certain production plants primarily in Inner Mongolia, PRC, during the six months ended 30 June 2013.

During the six months ended 30 June 2013, the Group recognised an impairment loss of approximately HK$93,833,000 (2012: nil) in respect of written down of certain idle buildings, plant and machineries subject to Relocation with insignificant resale value according to the Group's relocation plan in order to streamline its production during the period.

11. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade and bills receivables	**2,252,741**	2,183,560
Other receivables, deposits and prepayments	**736,558**	726,339
Less: allowance for doubtful receivables	**(18,404)**	(13,110)
	2,970,895	2,896,789

The Group normally allows a credit period of 30 days to 120 days to its trade customers, and the credit period 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.

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

The following is an analysis of trade and bills receivables by age, presented based on the invoice date (which approximated the date of revenue recognition), and net of allowance for doubtful receivables at the end of the reporting period:

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
0 to 30 days	**509,316**	545,606
31 to 60 days	**408,468**	379,839
61 to 90 days	**193,826**	161,392
91 to 120 days	**75,526**	59,461
121 to 180 days	**21,971**	24,570
Over 180 days	**16,165**	21,530
	1,225,272	1,192,398
Bills receivables		
0 to 30 days	**127,175**	78,869
31 to 60 days	**144,057**	146,205
61 to 90 days	**208,320**	126,045
91 to 120 days	**182,129**	212,707
121 to 180 days	**364,471**	425,651
Over 180 days	**1,317**	618
	1,027,469	990,095

At 30 June 2013, the Group had HK$1,719,611,000 (31 December 2012: HK$1,087,216,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$153,883,000 (31 December 2012: HK$61,216,000) bills receivables were issued by the Group's debtors, and the remaining were issued by certain subsidiaries of the Company for the purposes of settlement or prepayment of inter-group purchase. Accordingly, the Group continues to recognise the full carrying amount of Group's receivables and has recognised the cash received on such discounted receivables as a secured borrowing of HK$1,719,611,000 (31 December 2012: HK$1,087,216,000) (see Note 14). In addition, as at 30 June 2013, the Group continues to recognise an amount of HK$451,453,000 (31 December 2012: HK$444,914,000) representing bills receivables issued by the Group's debtors which had been endorsed to the Group's creditors for settlement (see Note 12).

12. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms up to 180 days from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	30 June 2013 *HK$'000* **(Unaudited)**	31 December 2012 *HK$'000* (Audited)
Trade payables		
0 to 90 days	**922,773**	692,371
91 to 180 days	**400,412**	547,085
Over 180 days	**39,533**	29,865
	1,362,718	1,269,321
Bills payables		
0 to 90 days	**149,325**	277,191
91 to 180 days	**144,720**	262,033
	294,045	539,224
Other payables and accruals	**369,042**	346,357
Deferred income in respect of government grants	**141,056**	137,595
Payables in respect of the acquisition of property, plant and equipment	**1,076,756**	1,124,119
	3,243,617	3,416,616

Included in the trade payables and other payables above are HK$256,248,000 and HK$195,205,000 (31 December 2012: HK$351,792,000 and HK$93,122,000 with an aggregate of HK$444,914,000), respectively with an aggregate of HK$451,453,000 that have been paid by endorsed bills for which the maturity date has not yet fallen due as at the end of the reporting period (see Note 11).

13. CONVERTIBLE BONDS

On 14 November 2011, the Company issued RMB denominated US$ settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK$7.2 (subject to adjustments) per share at a fixed exchange rate of HK$1.00 to RMB0.8137 (the "Bonds"). An adjustment has been made to the conversion price from HK$7.2 to HK$6.4 as a result of the rights share issued during the year ended 31 December 2012. The Bonds will be settled in a fixed amount of their RMB principal amount and paid in US$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest. The Bonds are listed in the Singapore Exchange Securities Trading Limited.

The Bonds contain liability component, conversion option derivative and early redemption option derivatives. The conversion option is classified as derivative as it gives the Company the choice over how it is settled. The Company's and the holder's early redemption option derivatives are not closely related to the host contract as the early redemption amount is not close to the amortised cost of the liability on each exercise date. The conversion option derivative, the Company's and the holder's early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

Details of the Bonds are set out in the Group's annual financial statements for the year ended 31 December 2012.

The fair value of the Bonds with embedded derivatives were determined by the directors with reference to a valuation report carried out by an independent and internationally recognised business valuer on each end of reporting period. The movement of the liability component and embedded derivative component of the Bonds for the six months ended 30 June 2013 are set out below:

	HK$'000
At 1 January 2012 (audited)	954,017
Interest charged	47,576
Gain arising on changes in fair value recognised in profit or loss	(102,849)
Interest paid	(36,350)
Exchange realignment	(9,601)
At 30 June 2012 (unaudited)	852,793
At 1 January 2013 (audited)	943,431
Interest charged	58,064
Gain arising on changes in fair value recognised in profit or loss	(54,486)
Interest paid	(36,972)
Exchange realignment	10,361
At 30 June 2013 (unaudited)	920,398

14. BORROWINGS

	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Bank loans	**3,528,102**	2,955,823
Discounted bills with recourse (Note 11)	**1,719,611**	1,087,216
Bank overdrafts, secured	**107,656**	124,095
Short term bond	**787,908**	756,339
	6,143,277	4,923,473

	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Analysed as:		
Secured		
– by guarantees from group entities	**873,989**	–
– by assets (Note 17)	**904,062**	1,354,928
– discounted bills (Note 11)	**1,719,611**	1,087,216
	3,497,662	2,442,144
Unsecured	**2,645,615**	2,481,329
	6,143,277	4,923,473

14. BORROWINGS *(Continued)*

The borrowings are repayable as follows:

	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Carrying amount repayable within one year	2,974,461	2,067,786
Carrying amount repayable more than one year, but not exceeding two years	183,339	411,987
Carrying amount repayable more than two years, but not exceeding five years	778,442	189,000
Carrying amount of bank loans that contain a repayment on demand clause		
– repayable within one year from the end of the reporting period	1,644,654	1,673,024
– not repayable within one year from the end of the reporting period but shown under current liabilities	562,381	581,676
	6,143,277	4,923,473
Less: Amounts due within one year shown under current liabilities	(5,181,496)	(4,322,486)
Amount shown under non-current liabilities	961,781	600,987

During the period, the Group obtained new bank loans and discounted bills with recourse amounting to HK$3,660,451 (six months ended 30 June 2012: HK$2,559,127,000), and the Group repaid borrowings of HK$2,508,829,000 (six months ended 30 June 2012: HK$2,071,904,000). These borrowings carry interest at effective interest rates ranging from 2.08% to 8.53% (31 December 2012: 2.10% to 9.85%) per annum.

15. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
At 1 January 2012,	1,301,500,000	13,015
Issue of shares	325,375,000	3,254
At 30 June 2012, 31 December 2012 and 30 June 2013	**1,626,875,000**	**16,269**

During the period ended 30 June 2012, the Company issued 325,375,000 rights shares at the issue price of HK$2.21 on the basis of one new share for every four ordinary shares held by the respective shareholder. The new shares rank pari passu with the existing shares in all respects.

16. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of HK$2,066,681,100 (31 December 2012: HK$1,557,680,000) 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

a. Other than those bills discounted to banks for loans disclosed in Note 11, at the end of the reporting period, the Group had pledged the following assets to banks as securities against banking facilities, including loans and bills payables, granted to the Group:

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**954,195**	1,708,939
Leasehold lands	**97,501**	97,677
Bills receivables	**237,092**	213,281
Pledged bank deposits	**1,263,429**	1,246,403
	2,552,217	3,266,300

17. PLEDGE OF ASSETS *(Continued)*

b. At 30 June 2013, included in the carrying amounts of machineries and pledged bank deposits is HK$1,126,832,000 (31 December 2012: HK$742,795,000) and HK$37,732,000 (31 December 2012: Nil) in respect of assets held under finance leases and security against sales and lease back arrangement, respectively.

18. RELATED PARTY TRANSACTION

The Group's key management personnel are all directors, also included chief executives, and the remuneration to the directors of the Company during the period is as follows:

	Six months ended 30 June	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Fees	**1,007**	840
Salaries and other benefits	**9,725**	11,638
Retirement benefits scheme contribution	**48**	74
	10,780	12,552

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

Financial assets/ financial (liabilities)	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2013 *HK$'000*	31 December 2012 *HK$'000*				
Foreign currency forward contracts classified as financial instruments accounted for as fair value through profit or loss ("FVTPL") in the statement of financial position	**Assets – HK$3,200 and Liabilities – HK$6,751**	Assets – HK$4,426 and Liabilities – HK$4,669	Level 2	**Discounted cash flow** Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Embedded derivative components of the Bond classified as financial instruments accounted for as FVTPL in the statement of financial position	**HK$153,835**	HK$206,311	Level 3	**Binomial Pricing Model** Binomial Pricing Model is employed in deriving the fair value of the Bond. The value of the embedded derivatives component is the difference between the value of the Bond and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – company specific discounted rate (the "Rate")	– the higher the dividend yield, the lower the fair value – the higher the Rate, the higher the fair value

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

There is no transfer between the different levels of the fair value hierarchy for the period.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Company determines the fair value by reference to the valuation carried out as of the valuation day by banks and financial institutions for foreign currency forward contracts whereas for the embedded derivative component of the Bond, a third party qualified valuer was engaged by the Group to perform the valuation. The Finance Department works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the external valuers' findings to the Board of Directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

BUSINESS REVIEW FOR THE FIRST HALF OF 2013

For the six months ended 30 June 2013, the Group's revenue was slightly increased by 2.7% to HK$3,745.9 million as compared with the same period in the preceding year of HK$3,646.5 million. The Group's profit for the period attributable to shareholders was approximately HK$43.0 million (2012: HK$169.1 million), representing a decrease of 74.6%, as compared with the same period in the preceding year. Segmental turnover (including inter-segment sales) of bulk medicine and finished products were increased by 1.7% and 13.6% respectively, and segmental turnover of intermediate products was decreased by 6.1% for the six months ended 30 June 2013, as compared with the same period in preceding year. Segmental profit of bulk medicine and finished products increased by 281.7% and 6.1% respectively and segmental profit of intermediate products decreased by 99.0% during the period.

On 15 April 2013, founder and former Chairman of the Group Mr. Choy Kam Lok passed away. All of our management and our staff were very sorry and regretful. Mr. Choy Kam Lok dedicated his life and founded the Group, growing it from a small-scale pharmaceutical enterprise in Hong Kong to a pharmaceutical giant with currently six production bases and approximately 12,000 employees, manufacturing and distributing over a thousand pharmaceutical products locally and abroad. The success of the Group's development is attributable to Mr. Choy Kam Lok's unique vision and insights on market development to keep abreast of the times. Under the leadership of Mr. Choy Kam Lok, the Group has established a comprehensive management system. His death does not have a material impact on the operations of the Group.

On 16 April 2013, Mr. Tsoi Hoi Shan, the son of Mr. Choy Kam Lok and an executive director of the Company, took over the position of Chairman of the Group. Mr. Tsoi Hoi Shan had been assisting Mr. Choy Kam Lok in the formulation of operating strategies of the Group in the past and is very familiar with the pharmaceutical market. His succession of the position of Chairman of the Group is beneficial to the operation and future development of the Group. Mr. Tsoi Hoi Shan will continue to pursue the operating strategies and management principles adopted by former Chairman Mr. Choy Kam Lok, and will endeavour to expand the business of the Group and maximise returns for its shareholders.

In the first half of 2013, there were various uncertainties in the global financial market, such as the global stock market volatilities due to tightening US QE measures, the re-emerging European debt crisis and the slowing economic growth in China, thus casting more uncertainties over the complicated global environment. Nevertheless, in view of the steady development of national medical policies, overall decrease in inventory among the PRC pharmaceutical manufacturers and gradual increase in demand for pharmaceutical products from various hospitals and clinics, coupled with the suspension of production of certain small-to medium-scale pharmaceutical manufacturers, market demand and supply were gradually stabilised and the overall operating environment of the Group continued to improve. During the period under review, leverage on its leading industry strengths, the Group endeavoured to enhance its core competitiveness and explored opportunities in the fast changing market environment, thus achieving steady business growth.

Steady pricing of intermediate products and bulk medicine products

The selling price of the Group's major intermediate product, 6-APA, bottomed out from the end of 2012 and increased. The pricing for the first half of 2013 substantially remained steady. The selling price of another major intermediate project of the Group, 7-ACA, also improved slightly. The decline in the price of corn, a major raw material of the intermediate products, during the period effectively alleviated the pressure on the production costs of intermediate products. In addition, the Group actively carried out research and development on new production processes and strengthened vertical integration where its plant in Inner Mongolia successfully produced Amoxicillin using the enzyme method. The new production lines also commenced production utilising the new production process which effectively coped with the increasing exports and domestic market expansion.

Increasing sales of finished products

Since the launch of the Group's new product, recombinant human insulin, in May 2011, the Group has secured orders from private hospitals, clinics and pharmacies. The biddings at provincial and regional hospitals were carried out as scheduled and achieved periodic development. Driven by the sales volume of the Group's recombinant human insulin products, sales of the Group's finished products grew by 13.6% over the same period of last year. Recombinant human insulin injection and Amoxicillin were included in the National Essential Medicine Catalogue at the beginning of the year, which facilitated the Group's marketing and bidding towards various medical institutions nationwide to secure more market share.

Satisfactory growth in overseas sales

The Group endeavoured to step up its export sales efforts. Business expansion in overseas markets progressed smoothly. Starting from 2013, all pharmaceutical products imported into EU must be produced at plants that are granted with EU or GMP certifications. During the period, the Group fully obtained the EU-CEP certification, US FDA certification, Japan GMP certification and Mexico certification respectively. Capitalising on the internationally recognised production processes, coupled with the product offerings at highly competitive prices, the Group is confident that the export sales will continue to contribute to the future growth of the Group.

Consolidation of production lines

During the period, the Group re-examined its production lines to enhance production and reduce the cost of production and increase the competitiveness of the Group's products. Following the completion and commencement of operation of the Group's Inner Mongolia plant, its low cost of production generated tremendous benefits to the Group. Accordingly, the Group decided to gradually relocate the production line for its intermediate product, 6-APA in Chengdu plant and consolidate with the production in Inner Mongolia plant to reduce the cost of production and enhance efficiency. During the period, certain plant facilities and intangible assets written off in Chengdu plant due to the relocation proposal to streamline production amounted to approximately HK$93.5 million. It is one of the main reasons for the decrease in profit for the period as compared with that in the same period of last year. Such write off did not have any impact on the cash flow of the Group.

Expansion of financing channels

During the period, the Group effectively captured the market opportunities and successfully optimised the financial structure to increase working capital. The Group and China Development Bank Corporation, Hong Kong Branch entered into a loan agreement pursuant to which the Group is granted with a three-year loan in the sum of approximately HK$800 million with the net proceeds mainly used for business expansion and repayment of bank loans. During the period, the fair value gain of the embedded derivative component of convertible bonds of the Group decreased to approximately HK$54.5 million from approximately HK$102.8 million in the same period of last year. It is also one of the main reasons for the decrease in profit for the period as compared with that in the same period of last year. Such decrease in fair value gain did not have any impact on the cash flow of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group had pledged bank deposits, cash and bank balances amounted to HK$2,492.6 million (31 December 2012: HK$1,892.5 million).

As at 30 June 2013, the Group had interest-bearing bank borrowings of approximately HK$6,143.3 million (31 December 2012: HK$4,923.5 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK$2,966.7 million are fixed rate loans while the remaining balance of approximately HK$3,176.6 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 2013, current assets of the Group amounted to approximately HK$6,942.9 million (31 December 2012: HK$6,610.9 million). The Group's current ratio was approximately 0.71 as at 30 June 2013 as compared with 0.74 as at 31 December 2012. As at 30 June 2013, the Group had total assets of approximately HK$17,590.2 million (31 December 2012: HK$16,141.7 million) and total liabilities of approximately HK$11,340.7 million (31 December 2012: HK$10,047.0 million), representing a net gearing ratio (calculated as total borrowings, obligations under sales and lease back arrangement and convertible bonds less cash and bank balances and pledged bank deposits to total equity) of 88.0% as at 30 June 2013, as compared with 76.1% as at 31 December 2012.

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 2013 and 31 December 2012, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2013

Looking forward to the second half of the year, the medical reforms in China will continue to evolve. The PRC government has announced that it will continue to allocate resources to support the pharmaceutical sector, especially the domestic industry leaders. The Group is confident that, with such policies, it will take a more favourable position in the market, driving its business to the next level. The number of drugs covered in the latest National Essential Medicine Catalogue has increased to 520 drugs, of which 317 drugs are chemical/biological drugs. The Catalogue also includes the insulin and Amoxicillin products of the Group. The Catalogue took effect on 1 May 2013. The Group was able to capitalise on the opportunities early on and penetrated into the rural market and primary medical institutions. It is expected that the introduction of new catalogue will increase the sales volume of the relevant products, thus driving continuous business growth.

The prescription drug market in China is fast growing. According to the report published by the Ministry of Health of China in September 2012, a total of RMB400 billion will be invested in seven key healthcare projects by 2020 with an average annual investment amount of RMB50 billion. As a result of the acceleration of aging population in China, coupled with the progress of urbanisation, the probability of occurrence of chronic diseases is increasing. With increasing standard of living and expanding healthcare coverage, market demand for quality healthcare services increases significantly. The healthcare related expenses will definitely increase in the future. Besides, due to the increasing government regulations on pharmaceutical industry, industry barrier becomes higher. As enterprises face more pressure in operation, industry integration is resulted. As one of the few players that meet the strictest standards in the industry and one of the enterprises that is able to maintain steady production and increase productivity, the Group is benefited from the integration of the pharmaceutical industry.

As to new product development, the Group has completed the clinical test for the third generation insulin earlier and is under the approval process now. According to the plan, the production of such drug will be increased considerably in coming two years and will become a growth driver of the Group by then. In addition, following the grant of approval for drug registration by China Food and Drug Administration on 16 July 2013 with respect to the raw materials, oral solutions and tablets of Memantine hydrochloride, a new drug developing by the Group for the treatment of Alzheimer's disease, the Group has become the first manufacturer in China that is granted approval for Memantine hydrochloride series products, which will help further expand the business of finished products of the Group. The Group continues to promote the research and development of new products. Currently there are 47 new products under development. As at the date hereof, 10 patent registrations have been approved, while 5 others are under the approval process.

As to new production capacity, the construction of power station in Inner Mongolia plant invested by the Group has been completed and trial tests and fine tuning are being carried out for phase IV of Inner Mongolia plant. It is expected that mass production will commence officially in the second half of the year. Phase V of Inner Mongolia plant will complete construction by the end of the year. It is expected that it will generate new production capacity of 6-APA and T-octylammonium clavulanate to the Group by the end of the year. The expansion of Inner Mongolia plant further reduce the cost of production and enhance production efficiency, which can effectively cope with the increasing exports sales and domestic market expansion.

In the second half of 2013, the Group will continue to implement effective business growth strategies. The Group will endeavour to expand sales network, increase its penetration into the rural and community markets in China and devote efforts to expand overseas sales, while actively explore new markets with growth potentials. The Group strives to develop high gross profit margin and high demand products capitalising on its research and development strengths. At the same time, the Group will continue to focus on recombinant human insulin as its key product and allocate abundant resources to acquire larger market share. The quality and production technology of recombinant human insulin are internationally recognised. Looking ahead, the Group will study the feasibility to market such product overseas. The Group will strengthen the marketing efforts of the large-size new packing Amoxicillin and Ampicillin, promoting such sales to be the new point of growth for the sales of finished products.

Through enhancing its overall competitiveness, the Group is confident that it can benefit from economies of scale and capture the market opportunities to maintain the momentum of sustainable development of the Group, thus maximising the value for its shareholders, customers and stakeholders.

EMPLOYEES AND REMUNERATION

As at 30 June 2013, the Group had approximately 12,000 (31 December 2012: 12,000) 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.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (2012: Nil).

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

As at 30 June 2013, 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 position in the ordinary shares of the Company:

Name of director	Number of shares	Capacity	Percentage of interests
Mr. Tsoi Hoi Shan	175,000	Personal interest	0.01%
Mr. Leung Wing Hon	637,500	Personal interest	0.04%
Ms. Zou Xian Hong	1,150,000	Personal interest	0.07%
Ms. Zhu Su Yan	978,179	Personal interest	0.06%
Mr. Fang Yu Ping	460,000	Personal interest	0.03%
Ms. Choy Siu Chit	628,000	Personal interest	0.04%

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

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

At no time during the six moths ended 30 June 2012 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 2013, no share option has been offered and/or granted to any participants under the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2013, 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 or underlying shares of the Company:

Long/short positions in the ordinary shares of the Company:

Name	*Notes*	**Number of shares held**	**Percentage of Interest**
Mr. Choy Kam Lok, deceased ("Mr. Choy")	*(1)*	1,193,127,500 (L)	73.34%
	(2)	118,750,000 (S)	7.30%
Ms. Ning Kwai Chun ("Ms. Ning")	*(3)*	1,193,127,500 (L)	73.34%
		119,075,000 (L)	7.31%
		118,750,000 (S)	7.30%
Heren Far East Limited ("Heren")		1,006,250,000 (L)	61.85%
Gesell Holdings Limited ("Gesell")	*(4)*	1,006,250,000 (L)	61.85%
DBS Trustee H.K. (Jersey) Limited	*(5)*	1,006,250,000 (L)	61.85%
HSBC Holdings plc		106,796,738 (L)	6.56%
		100,554,312 (S)	6.18%

L/S: Long position/short position

Note:

(1) 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 and Heren which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 67,902,500 shares of the Company and 325,000 shares of the Company held by the spouse of Mr. Choy, Ms. Ning which is deemed interests of Mr. Choy. Heren lent 118,750,000 shares to Mr. Choy and Ms. Ning. Hence, Mr. Choy had a long position in the 1,193,127,500 shares.

(2) Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

(3) Ms. Ning is the spouse of Mr. Choy and is accordingly deemed to have interest in 1,193,127,500 shares of the Company that Mr. Choy has interest in and Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..

(4) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.

(5) DBS Trustee H.K. (Jersey) Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 1,006,250,000 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 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 2013.

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 2013.

CORPORATE GOVERNANCE

The Company is committed to ensure high standards of corporate governance in the interest of its shareholders.

The Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarized below:

– *Code Provision A.1.8*

Code provision A.1.8 of the CG Code stipulates that, an issuer should arrange appropriate insurance cover in respect of legal action against its directors. With regular and timely communications among the directors and the management of the Group, the Board believes that all potential claims and legal actions against the directors can be handled effectively, and the possibility of actual litigation against the directors is very low. The Company arranged appropriate insurance cover in respect of legal action against its directors with effective from 16 July 2013.

– *Code Provision A.2.1*

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the six months ended 30 June 2013, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– *Code Provision A.6.7*

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director was unable to attend the annual general meeting of the Company held on 29 May 2013 due to other important engagement.

– *Code Provision B.1.3*

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.2 of the CG Code except that the Remuneration Committee should review and make recommendations to the Board on the remuneration packages of executive directors only and not senior management (as opposed to directors and senior management under the code provision).

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Board. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2013.

CHANGE OF DIRECTOR'S INFORMATION

Prof. Song Ming, an independent non-executive director of the Company, was appointed as an independent non-executive director of Wuzhou International Holdings Limited (Stock Code: 1369), a company listed on the main board of the Stock Exchange, on 18 May 2013.

AUDIT COMMITTEE

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xian Nan. The Audit Committee has reviewed the unaudited condensed consolidated financial statement for the six months ended 30 June 2013. The Audit Committee has relied on a review conducted by the Company's external auditor in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and representations from the management.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Ms. Zou Xian Hong, Ms. Zhu Su Yan, Mr. Fang Yu Ping and Ms. Choy Siu Chit as executive directors; and Mr. Chong Peng Oon, Mr. Huang Bao Guang and Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board

TSOI HOI SHAN
Chairman

Hong Kong, 20 August 2013