

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



The United Laboratories International Holdings Limited

聯邦制藥國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

Interim Results Announcement

For the six months ended 30 June 2009

FINANCIAL HIGHLIGHT

	Six months ended 30 June		Increase/ (decrease)
	2009 HK\$'000	2008 HK\$'000	
Revenue	2,076,173	1,971,720	5.3%
EBITDA	419,661	545,276	(23.0%)
Profit before taxation	200,800	367,975	(45.4%)
Profit attributable to owners of the Company	134,445	300,039	(55.2%)
Earnings per share attributable to owners of the Company	HK11.2 cents	HK25.0 cents	(55.2%)

The Board of Directors (the “Board”) of The United Laboratories International Holdings Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2009 and the comparative figures for the corresponding period in 2008 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 June	
		2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Revenue	4	2,076,173	1,971,720
Cost of sales		<u>(1,334,096)</u>	<u>(1,182,808)</u>
Gross profit		742,077	788,912
Other income	5	13,200	16,248
Selling and distribution costs		(349,909)	(270,603)
Administrative expenses		(126,844)	(105,980)
Other expenses		(27,652)	(8,915)
Finance costs	6	<u>(50,072)</u>	<u>(51,687)</u>
Profit before taxation		200,800	367,975
Taxation	7	<u>(66,355)</u>	<u>(67,936)</u>
Profit for the period attributable to owners of the Company	8	<u><u>134,445</u></u>	<u><u>300,039</u></u>
Other comprehensive income			
Exchange differences arising on translation to presentation currency		<u>13,135</u>	<u>126,832</u>
Total comprehensive income for the period attributable to the owners of the Company		<u><u>147,580</u></u>	<u><u>426,871</u></u>
Earnings per share – Basic	10	<u><u>HK11.2 cents</u></u>	<u><u>HK25.0 cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2009 (Unaudited) HK\$'000	31 December 2008 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	11	3,816,682	3,466,393
Prepaid lease payments		125,323	131,921
Goodwill		3,441	3,428
Intangible assets		3,620	3,935
Deposits for acquisition of property, plant and machinery		71,566	128,319
Available-for-sale investment		-	-
Deferred tax assets		13,182	6,249
		<u>4,033,814</u>	<u>3,740,245</u>
Current assets			
Inventories		637,965	773,991
Trade and bills receivables, deposits and prepayments	12	1,339,091	1,198,190
Derivative financial instrument		-	3,240
Prepaid lease payments		2,979	3,073
Pledged bank deposits		417,249	286,045
Bank balances and cash		240,111	165,474
		<u>2,637,395</u>	<u>2,430,013</u>
Current liabilities			
Trade and bills payables and accrued charges	13	1,463,935	1,509,928
Tax payables		39,407	32,836
Borrowings	14	1,539,212	1,350,850
		<u>3,042,554</u>	<u>2,893,614</u>
Net current liabilities		<u>(405,159)</u>	<u>(463,601)</u>
Total assets less current liabilities		<u>3,628,655</u>	<u>3,276,644</u>
Non-current liabilities			
Borrowings	14	799,677	424,692
Deferred tax liabilities		44,903	35,457
		<u>844,580</u>	<u>460,149</u>
		<u>2,784,075</u>	<u>2,816,495</u>
Capital and reserves			
Share capital		12,000	12,000
Reserves		2,772,075	2,804,495
Equity attributable to owners of the Company		<u>2,784,075</u>	<u>2,816,495</u>

NOTES:

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. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at 30 June 2009, the Group has net current liabilities of HK\$405,159,000 which included borrowings of HK\$1,539,212,000. The directors of the Company believe the revolving bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on renewal date. Taking into account of the financial resources available to the Group, including internally generated funds, the directors of the Company are of the view that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies 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 2008.

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, which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKFRS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

HKAS 1 (Revised 2007) “Presentation of Financial Statements”

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure.

HKFRS 8 “Operating Segments”

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The application of HKFRS 8 has not resulted in a redesignation of the Group’s reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 “Segment Reporting” (see note 4).

HKAS 23 (Revised 2007) “Borrowing Costs”

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option available under the previous version of the standard to recognise all borrowing costs as expenses immediately and requires all such borrowing costs to be capitalised as part of the cost of the qualifying asset. The Group has applied the transitional requirements in HKAS 23 (Revised 2007) and applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. As the revised accounting policy has been applied prospectively since 1 January 2009, the change has had no impact on amounts reported in prior accounting periods. In current period, no borrowing costs were capitalised.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised 2008)	Business Combinations ¹
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) – Int 18	Transfer of Assets from Customers ⁴

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

² Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for transfer on or after 1 July 2009.

The adoption of HKFRS 3 (Revised 2008) may affect the accounting for business combinations for which the acquisition dates are on or after 1 January 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control of a subsidiary will be accounted for as equity transactions. The directors of the Company anticipate that the application of other new or revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

4. 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.

	<u>Six months ended 30 June</u>	
	2009 (Unaudited) <i>HK\$'000</i>	2008 (Unaudited) <i>HK\$'000</i>
Sales of goods	2,076,173	1,971,720

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.

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (executive directors of the Company) in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard, HKAS 14 "Segment Reporting", required an entity to identify two sets of segments (Business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14, nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

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 2009

	<u>Intermediate products</u> <i>HK\$'000</i>	<u>Bulk medicine</u> <i>HK\$'000</i>	<u>Finished products</u> <i>HK\$'000</i>	<u>Elimination</u> <i>HK\$'000</i>	<u>Combined</u> <i>HK\$'000</i>
TURNOVER					
External sales	340,713	992,027	743,433	-	2,076,173
Inter-segment sales	556,675	90,670	-	(647,345)	-
	<u>897,388</u>	<u>1,082,697</u>	<u>743,433</u>	<u>(647,345)</u>	<u>2,076,173</u>
Segment profit	<u>30,040</u>	<u>66,387</u>	<u>183,362</u>	-	279,789
Unallocated other income					2,297
Unallocated corporate expenses					(31,214)
Finance costs					<u>(50,072)</u>
Profit before taxation					<u>200,800</u>

For the six months ended 30 June 2008

	<u>Intermediate products</u> <i>HK\$'000</i>	<u>Bulk medicine</u> <i>HK\$'000</i>	<u>Finished products</u> <i>HK\$'000</i>	<u>Elimination</u> <i>HK\$'000</i>	<u>Combined</u> <i>HK\$'000</i>
TURNOVER					
External sales	419,040	909,916	642,764	-	1,971,720
Inter-segment sales	408,540	120,947	-	(529,487)	-
	<u>827,580</u>	<u>1,030,863</u>	<u>642,764</u>	<u>(529,487)</u>	<u>1,971,720</u>
Segment profit	<u>101,147</u>	<u>164,941</u>	<u>156,696</u>	-	422,784
Unallocated other income					5,555
Unallocated corporate expenses					(8,677)
Finance costs					<u>(51,687)</u>
Profit before taxation					<u>367,975</u>

Segment profit represents the profit earned by each segment without allocation of unallocated other income, central administration costs and staff costs, and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and performance assessment.

5. OTHER INCOME

	<u>Six months ended 30 June</u>	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Bank interest income	1,177	4,911
Sales of raw materials	8,004	6,910
Subsidy income	2,899	3,783
Sundry income	1,120	644
	<u>13,200</u>	<u>16,248</u>

6. FINANCE COSTS

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

7. TAXATION

	<u>Six months ended 30 June</u>	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	7,268	4,884
The People's Republic of China (the "PRC") enterprise income tax	44,531	53,211
Overprovision of PRC enterprise income tax in respect of prior year	(3,284)	-
Change of applicable tax rate of a subsidiary (Note)	15,327	-
	<u>63,842</u>	<u>58,095</u>
Deferred tax		
Attributable to a change in tax rate	-	(813)
Current year	2,513	10,654
	<u>66,355</u>	<u>67,936</u>

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 2009 (2008: 18%).

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 in current period.

8. PROFIT FOR THE PERIOD

	<u>Six months ended 30 June</u>	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Profit for the period has been arrived at after charging (crediting):		
Reversal of allowance for inventories	(7,665)	-
Allowance for doubtful debts	1,606	2,613
Depreciation and amortisation		
Depreciation of property, plant and equipment	166,389	123,093
Amortisation:		
- intangible assets	1,025	1,150
- prepaid lease payments	1,375	1,371
	168,789	125,614

9. DIVIDEND

	<u>Six months ended 30 June</u>	
	2009 (Unaudited) HK\$'000	2008 (Unaudited) HK\$'000
Final dividend paid in respect of the year ended 31 December 2008 of 15 HK cents (year ended 31 December 2007: 17 HK cents) per ordinary share	180,000	204,000

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: nil).

10. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to the owners of the Company and the weighted average number of 1,200,000,000 (for the six months ended 30 June 2008: 1,200,000,000) shares.

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group spent HK\$105,853,000 (for the six months ended 30 June 2008: HK\$227,943,000) on construction of factory premises and HK\$394,366,000 (for the six months ended 30 June 2008: HK\$190,175,000) on additions to manufacturing plant in the PRC respectively, in order to upgrade its manufacturing capabilities.

12. 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:

	30 June <u>2009</u> (Unaudited) <i>HK\$'000</i>	31 December <u>2008</u> (Audited) <i>HK\$'000</i>
Trade receivables		
0 to 30 days	355,694	217,571
31 to 60 days	196,155	162,033
61 to 90 days	5,359	59,459
91 to 120 days	838	3,440
121 to 180 days	72	3,246
Over 180 days	419	1,288
	<u>558,537</u>	<u>447,037</u>
Bills receivables		
0 to 30 days	71,373	93,362
31 to 60 days	134,275	75,233
61 to 90 days	116,396	125,347
91 to 120 days	138,782	122,536
121 to 180 days	211,316	225,019
Over 180 days	29,098	2,658
	<u>701,240</u>	<u>644,155</u>
Deposits and prepayments	79,314	106,998
	<u>1,339,091</u>	<u>1,198,190</u>

13. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	30 June <u>2009</u> (Unaudited) <i>HK\$'000</i>	31 December <u>2008</u> (Audited) <i>HK\$'000</i>
Trade payables		
0 to 90 days	563,403	475,476
91 to 180 days	168,541	256,842
Over 180 days	75,802	17,210
	<u>807,746</u>	<u>749,528</u>
Bills payables		
0 to 90 days	99,590	145,466
91 to 180 days	124,458	159,551
	<u>224,048</u>	<u>305,017</u>
Other payables and accruals	432,141	455,383
	<u>1,463,935</u>	<u>1,509,928</u>

14. BORROWINGS

	30 June <u>2009</u> (Unaudited) <i>HK\$'000</i>	31 December <u>2008</u> (Audited) <i>HK\$'000</i>
Bank loans	1,693,257	1,342,134
Discounted bills with recourse	640,727	428,969
Trust receipt bills	4,905	1,477
Bank overdraft, secured	-	2,962
	<u>2,338,889</u>	<u>1,775,542</u>
Analysed as:		
Secured	782,118	886,251
Unsecured	1,556,771	889,291
	<u>2,338,889</u>	<u>1,775,542</u>
The borrowings are repayable as follows:		
On demand or within one year	1,539,212	1,350,850
More than one year, but not exceeding two years	406,981	136,645
More than two years, but not exceeding five years	392,696	288,047
	<u>2,338,889</u>	<u>1,775,542</u>
Less: Amount due within one year shown under current liabilities	<u>(1,539,212)</u>	<u>(1,350,850)</u>
Amount due after one year	<u>799,677</u>	<u>424,692</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.

15. CAPITAL COMMITMENTS

As at 30 June 2009, the Group had commitments for capital expenditure of HK\$241,468,000 (31 December 2008: HK\$471,189,000) 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

As at 30 June 2009, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group:

	30 June <u>2009</u> (Unaudited) <i>HK\$'000</i>	31 December <u>2008</u> (Audited) <i>HK\$'000</i>
Property, plant and equipment	937,309	897,499
Prepaid lease payments	126,754	120,942
Bills receivables	66,402	122,249
Pledged bank deposits	417,249	286,045
	<u>1,547,714</u>	<u>1,426,735</u>

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 HK\$3,559,000 (for the six months ended 30 June 2008: HK\$3,326,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review for the first half of 2009

For the six months ended 30 June 2009, the Group's revenue was increased by 5.3% to HK\$2,076.2 million as compared with the same period in the preceding year of HK\$1,971.7 million. The Group's profit for the period attributable to shareholders was approximately HK\$134.4 million (2008: HK\$300.0 million), representing a decrease of 55.2%, 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 8.4%, 5.0% and 15.7% respectively for the six months ended 30 June 2009, as compared with the same period in preceding year. Segmental profit of intermediate products and bulk medicine decreased by 70.3% and 59.8% respectively and segmental profit of finished products increased by 17.0%.

In the first half of 2009, despite persistent challenges to the global economy, China has swiftly adapted itself with its economy stabilizing and on track to recovery. During the period, the Group further strengthened employee morale by adhering to the policy of "no production stoppage, no layoff, no pay cut" so as to provide a strong support for the long term development of the Group. The Group has closely monitored the changes in the market and adopted every decisive measure to take advantage of the state policy so as to establish a leading position in the industry as well as to fuel future growth.

For the six months ended 30 June 2009, the Group achieved satisfactory breakthrough and recorded the highest ever sales. As a result of the global financial tsunami, all commodity prices were negatively affected, the price of intermediate products and bulk medicines substantially dropped as compared with the second half of last year which in turn affected our results for the period. The sales volume of our three main products, namely intermediate products, bulk medicines and finished products saw continuous growth, in particular finished products, thanks to our expanded sales force of approximately 2,400 persons, which substantially increased the market coverage of our finished products and led to significant increase in turnover. Meanwhile, turnover of intermediate and bulk medicines also recorded growth.

By the end of the first half of 2009, the Group has a total of five major production bases, namely the finished products plant in Hong Kong, the finished products plant in Zhongshan, the bulk medicine plant in Zhuhai, the intermediate products plant in Chengdu, and the comprehensive integrated production plant in Inner Mongolia. The five production bases are complementary to each other by fully leveraged on an integrated vertically production model, thus reducing cost and enhancing productivity and reinforced the Group's leading position in the industry. In addition, we have increased our sales force from approximately 800 persons in 2007 to 2,400 persons in the first half of 2009 and largely increased the points of sales, thus achieving overall sales growth in both the urban and rural areas.

Liquidity and Financial Resources

As at 30 June 2009, the Group had bank deposits, cash and bank balances amounted to HK\$657.4 million (31 December 2008: HK\$451.5 million).

As at 30 June 2009, the Group had interest-bearing bank borrowings of approximately HK\$2,338.9 million (31 December 2008: HK\$1,775.5 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK\$451.4 million are fixed rate loans while the remaining balance of approximately HK\$1,887.5 million is at floating rate. The directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2009, current assets of the Group amounted to approximately HK\$2,637.4 million (31 December 2008: HK\$2,430.0 million). The Group's current ratio was approximately 0.87 as at 30 June 2009 as compared with 0.84 as at 31 December 2008. As at 30 June 2009, the Group had total assets of approximately HK\$6,671.2 million (31 December 2008: HK\$6,170.3 million) and total liabilities of approximately HK\$3,887.1 million (31 December 2008: HK\$3,353.8 million), representing a net gearing ratio (calculated as total borrowings less cash and bank balances and pledged bank deposits to total equity) of 60.4% as at 30 June 2009, as compared with 47.0% as at 31 December 2008.

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 2009 and 31 December 2008, the Group had no material contingent liabilities.

Outlook for second half of 2009

Looking ahead to the second half of 2009, it is generally believed that the impact of the financial tsunami on the global economy will gradually diminish and positive economic signs will show up which is likely to stimulate the pharmaceutical sector. With the State Council's RMB850 billion investments in medical reform gradually in place, medical and pharmaceutical demand in the PRC will increase significantly. The Group, being a dominant player in the PRC market with a strong sales network and sales team, is expected to secure a bigger market share. Moreover, the Group's three main products streams, intermediate products, bulk medicines and finished products are being admitted to The Catalogue of National Essential Drugs (for the Fundamental Medical and Health Institutions), which is expected to have a positive impact on our sales. Meanwhile, it is believed the medical reform as well as the launch of The Catalogue of National Essential Drugs will accelerate consolidation of the medical and pharmaceutical sector. Being a major industry player, the Group will seize every opportunity to expand its market share.

In view of such rare opportunities, the Group will continue to stay abreast of the market changes and adopt timely and effective measures to fuel our long term growth momentum. The Group will adopt the following measures to reinforce our strength and increase shareholders' return:

1. Strengthen staff training and increase efficiency

Our staff is the most valuable asset of the Group. Therefore, the Group will strengthen staff training. Staff at the production bases is required to be familiarized with the workflow and quality control and acquired certain management skills to optimize our production efficiency. On the other hand, more resources will be allocated to strengthen the product knowledge, sales and marketing skills as well as customer relationship management of our sales team, with an aim to effectively enhance our brand awareness and increase sales. The Group also put in place a complete staff promotion system and human resource management system to boost staff morale for maximum return of the Group.

2. Exploration and innovation, reduce consumption, reduce costs and increase profitability

All production bases shall strictly control cost and reduce consumption. A series of measures aim at controlling cost and increasing efficiency, optimizing research and development as well as production by means of advanced technology have started to reap positive results. Cost control and efficiency enhancement will be our priority in the second half of 2009. We will strive to increase plants production efficiency and utilization rate, appropriately expand production lines in order to increase the gross profit margin of our products. On the other hand, the Group is fully aware of future market trend and market demand and will therefore continue to invest in research and

development to strengthen our product portfolio. Innovative products with higher profit margin will be developed to gain better return for the shareholders.

3. Strengthen brand building and TV advertisement for OTC drugs

The Group has established goodwill and a strong brand name for its intermediate and bulk medicine products and gained brand awareness for its finished products in major cities. In future, the Group will continue to strengthen the brand name of its medicines and finished products through unparalleled product quality and marketing strategies. We will deploy our resources for sales and marketing activities including product promotion and shop promotion in a strategic manner. Our sales team will deepen strategic cooperation with distributors to build brand awareness and gain excellent brand marketing effect for both medicines and finished products. In the second half of 2009, the Group will place TV advertisement across the country in different stages, which together with shop promotion, aiming at promoting OTC drugs, is expected to greatly enhance the sales of OTC drugs. To coordinate with the TV advertisement, the Group has significantly increased the points of sales nationwide so that our OTC drugs can be reached by all consumers in every market across the country.

4. Continue penetration into the community and rural market by riding on favorable state policy

The aim to assist the public community and rural areas is obviously seen in the state medical reform, while improving the living standard of rural people economically is also a top priority in state policy. In view of this, the Group recruited a large number of front-line sales persons in the second half of last year who had finished training and are making satisfactory progress in city community and rural areas in terms of sales. The management expects those markets will be the next growing point of the Group and thus will invest more resources into those markets to increase our leading edge.

Looking forward, we believe the Group will have abundant opportunities with improved economic environment and the launch of favorable medical reform and agricultural supporting policy. With the support of our excellent management team and staff, highly efficient production equipment and process, strong sales network and shareholders, we will be able to seize every opportunity offered by state policy and comes along with market change and establish long term growth momentum for the Group. We are dedicated to become a first-rated pharmaceutical brand in China and even around the World and generate satisfactory return for our shareholders.

Employees and Remuneration

As at 30 June 2009, the Group had approximately 8,500 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.

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 2009.

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 2009.

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 2009.

BOARD OF DIRECTORS

As at the date of this announcement, 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, 9 September 2009