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 2012

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2012	2011	**Increase/**
	HK$'000	*HK$'000*	**(Decrease)**
Revenue	**3,646,477**	3,373,885	**8.1%**
EBITDA	**590,449**	659,319	**(10.4%)**
Profit before taxation	**228,847**	369,877	**(38.1%)**
Profit attributable to owners of the Company	**169,116**	307,682	**(45.0%)**
Earnings per share			
- Basic	**HK 11.4 cents**	HK 21.7 cents	**(47.5%)**
- Diluted	**HK 7.0 cents**	HK 21.7 cents	**(67.7%)**

The Board of Directors (the "Board") of The United Laboratories International Holdings Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2012 together with the comparative figures for the corresponding period in 2011 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Notes	**Six months ended 30 June 2012 (Unaudited)** ***HK$'000***	2011 (Unaudited) *HK$'000*
Revenue	3	**3,646,477**	3,373,885
Cost of sales		**(2,576,255)**	(2,174,388)
Gross profit		**1,070,222**	1,199,497
Other income	4	**39,514**	39,230
Other gains or losses		**(1,745)**	16,402
Selling and distribution costs		**(547,950)**	(555,475)
Administrative expenses		**(274,520)**	(237,391)
Other expenses		**(49,317)**	(37,083)
Gain on fair value change of derivative components of convertible bonds		**102,849**	-
Finance costs	5	**(110,206)**	(55,303)
Profit before taxation		**228,847**	369,877
Taxation	6	**(59,731)**	(62,195)
Profit for the period attributable to owners of the Company	7	**169,116**	307,682
Other comprehensive income			
Exchange differences arising on translation to presentation currency		**(56,465)**	101,846
Total comprehensive income for the period attributable to the owners of the Company		**112,651**	409,528

	Notes	**Six months ended 30 June 2012 (Unaudited)** ***HK cents***	2011 (Unaudited) *HK cents* (Restated)
Earnings per share	9		
- Basic		**11.4**	21.7
- Diluted		**7.0**	21.7

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2012

	Notes	**30 June 2012 (Unaudited)** *HK$'000*	31 December 2011 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	10	**6,435,542**	5,638,860
Prepaid lease payments		**107,992**	110,493
Goodwill		**3,700**	3,740
Intangible assets		**1,577**	2,303
Deposit for leasehold land		**78,554**	51,474
Deposits for acquisition of property, plant and machinery		**1,103,657**	449,153
Available-for-sale investment	11	**-**	-
Deferred tax asset		**22,548**	24,323
		7,753,570	6,280,346
Current assets			
Inventories		**1,484,371**	1,537,955
Trade and bills receivables, other receivables, deposits and prepayments	12	**2,734,354**	2,505,853
Prepaid lease payments		**2,672**	2,701
Pledged bank deposits		**813,966**	589,446
Bank balances and cash		**639,796**	948,604
		5,675,159	5,584,559
Current liabilities			
Trade and bills payables and accrued charges	13	**2,636,378**	2,286,763
Derivative financial instruments		**2,452**	1,517
Tax payables		**25,843**	33,837
Borrowings – due within one year		**2,944,414**	3,086,309
		5,609,087	5,408,426
Net current assets		**66,072**	176,133
Total assets less current liabilities		**7,819,642**	6,456,479
Non-current liabilities			
Deferred tax liabilities		**86,795**	75,841
Convertible bonds	14	**696,967**	693,097
Embedded derivative components of convertible bonds	14	**155,826**	260,920
Borrowings – due after one year		**888,736**	250,000
		1,828,324	1,279,858
		5,991,318	5,176,621
Capital and reserves			
Share capital	15	**16,269**	13,015
Reserves		**5,975,049**	5,163,606
Equity attributable to owners of the Company		**5,991,318**	5,176,621

NOTES:

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("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 (“Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

Amendments to HKAS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax - Recovery of Underlying Assets

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

The directors of the Company consider that the application of amendments to HKFRS 7 may increase the disclosure requirements for transactions involving transfers of financial assets in its 2012 annual financial statements. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 - 2011 Cycle[2]
Amendments to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[1]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[2]
HKFRS 9	Financial Instruments[1]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[3]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 January 2015.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2014.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold by the Group to outside customers, less discounts and sales related taxes.

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sales of goods	**3,646,477**	3,373,885

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.

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 2012 (unaudited)

	Intermediate products	**Bulk medicine**	**Finished products**	**Segment Total**	**Elimination**	**Combined**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'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 elimination	**9,166**	**(5,613)**	**3,417**			**6,970**
	57,755	**18,053**	**215,064**			**290,872**
Unallocated other income						**7,331**
Other gains and losses						**(1,745)**
Unallocated corporate expenses						**(60,254)**
Gain on fair value change of derivative components of convertible bonds						**102,849**
Finance costs						**(110,206)**
Profit before taxation						**228,847**

For the six months ended 30 June 2011 (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	919,736	1,459,833	994,316	3,373,885	-	3,373,885
Inter-segment sales	735,350	117,635	-	852,985	(852,985)	-
	1,655,086	1,577,468	994,316	4,226,870	(852,985)	3,373,885
Segment profit	194,793	51,197	162,363			408,353
Unrealised profit elimination	43,427	3,860	9,239			56,526
	238,220	55,057	171,602			464,879
Unallocated other income						7,973
Other gains and losses						16,402
Unallocated corporate expenses						(64,074)
Finance costs						(55,303)
Profit before taxation						369,877

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

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

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, other gains and losses, corporate expenses and staff costs, and finance costs. Taxation is not allocated to reportable segments.

The following is an analysis of the Group's assets by reportable segments:

	30 June 2012 (Unaudited) ***HK$'000***	31 December 2011 (Audited) *HK$'000*
Intermediate products	7,941,259	6,293,598
Bulk medicine	2,730,757	2,754,091
Finished products	1,280,403	1,254,843
Total segment assets	11,952,419	10,302,532

Reportable segment assets exclude the deferred tax asset, derivative financial instruments, pledged bank deposits, bank balances and cash.

4. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**4,465**	6,879
Sales of raw materials	**17,774**	17,177
Subsidy income	**14,409**	14,080
Sundry income	**2,866**	1,094
	39,514	39,230

5. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on borrowings wholly repayable within five years	104,405	77,195
Interest on convertible bonds wholly repayable within five years	47,576	-
	151,981	77,195
Less: amounts capitalised in property, plant and equipment	(41,775)	(21,892)
	110,206	55,303

6. TAXATION

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**4,372**	3,281
People's Republic of China (the "PRC") enterprise income tax	**44,561**	41,988
PRC withholding tax	**-**	4,204
Overprovision of PRC enterprise income tax in respect of prior years	**(1,641)**	(855)
	47,292	48,618
Deferred tax	**12,439**	13,577
	59,731	62,195

Hong Kong Profit Tax is calculated at 16.5% (six months ended 30 June 2011: 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, some subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law) and entitled a rate of 15% and such qualification has to renew for every three years.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period has been arrived at after charging (crediting):		
Reversal of allowance for inventories (included in cost of sales)	**-**	(8,052)
Reversal of allowance of doubtful debts	**(5,785)**	(14,656)
Research and development expenditures (included in other expenses)	**47,226**	36,639
Depreciation and amortisation		
Depreciation of property, plant and equipment	**249,348**	230,986
Amortisation		
- intangible assets	**705**	1,200
- prepaid lease payments	**1,343**	1,953
	251,396	234,139

8. DIVIDEND

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Final dividend paid in respect of the year ended 31 December 2010 of HK18 cents	**-**	234,270

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012. For the six months ended 30 June 2011, interim dividend of HK3 cents per share was proposed.

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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
<u>Earnings</u>		
Earnings attributable to owners of the Company for the purposes of calculation of basic earnings per share	**169,116**	307,682
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**47,576**	-
Gain on fair value change of derivative components of convertible bonds	**(102,849)**	-
Earnings for the purposes of calculation of dilutive earnings per share	**113,843**	307,682

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	'000	*'000*
		(Restated)
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,479,963**	1,417,984
Effect of dilutive potential ordinary shares:		
Convertible bonds	**151,705**	-
Weighted average number of ordinary shares for the purpose of diluted earning per share	**1,631,668**	1,417,984

The weighted average number of ordinary shares outstanding during the current and prior periods 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 HK$1,107,853,000 (six months ended 30 June 2011: HK$624,961,000) on property, plant and equipment during the six months ended 30 June 2012.

11. AVAILABLE-FOR-SALE INVESTMENT

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

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

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade and bills receivables	**2,233,395**	2,051,064
Other receivables, deposits and prepayments	**512,804**	472,577
Less: allowance for doubtful receivables	**(11,845)**	(17,788)
	2,734,354	2,505,853

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.

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

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**534,168**	527,689
31 to 60 days	**377,138**	247,935
61 to 90 days	**179,137**	90,433
91 to 120 days	**76,538**	122,432
121 to 180 days	**11,837**	76,311
Over 180 days	**1,260**	4,432
	1,180,078	1,069,232
Bills receivables		
0 to 30 days	**101,362**	115,130
31 to 60 days	**96,928**	124,258
61 to 90 days	**211,604**	126,332
91 to 120 days	**203,119**	248,146
121 to 180 days	**437,051**	348,513
Over 180 days	**2,249**	14,960
	1,052,313	977,339

At 30 June 2012, the Group had HK$623,203,000 (31 December 2011: HK$1,004,764,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK$18,717,000 (31 December 2011: HK$17,447,000) bills receivables were issued by the Group's debtors, and the remaining were issued by certain subsidiaries of the Company. Accordingly, the Group continues to recognise the full carrying amount of Group's receivables and has recognised the cash received on such discount as a secured borrowing. In addition, as at 30 June 2012, HK$477,647,000 (31 December 2011: HK$417,782,000) of bills receivables issued by the Group's debtors had been endorsed to the Group's creditors (see note 13).

13. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of 0 day to 180 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 period:

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade payables		
0 to 90 days	**720,939**	813,629
91 to 180 days	**403,001**	467,615
Over 180 days	**78,450**	22,070
	1,202,390	1,303,314
Bills payables		
0 to 90 days	**316,866**	108,261
91 to 180 days	**108,132**	157,859
	424,998	266,120
Other payables and accruals	**297,281**	297,389
Payables in respect of the acquisition of property, plant and equipment	**711,709**	419,940
	2,636,378	2,286,763

Included in the trade payables and other payables above are HK$322,049,000 and HK$155,598,000 (31 December 2011: HK$362,724,000 and HK$55,058,000) respectively that has 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 12).

14. 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$6.4 as a result of the rights share issued during the six months ended 30 June 2012. The Bonds will be settled in a fixed amount of their RMB principal amount and paid in US$ 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 because the conversion will be settled other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of the Company's own equity instruments and that 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 closed to the amortised cost of the liability on each exercise date. The conversion option derivative, the Company 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 2011.

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 30 June 2012. The movement of the liability component and embedded derivative component of the Bonds for the six months ended 30 June 2012 are set out below:

	Liability component	Embedded derivatives
	HK$'000	*HK$'000*
At 1 January 2012 (audited)	693,097	260,920
Interest charged	47,576	-
Gain arising on changes in fair value	-	(102,849)
Interest paid	(36,350)	-
Exchange realignment	(7,356)	(2,245)
At 30 June 2012 (unaudited)	696,967	155,826

15. SHARE CAPITAL

	Number of shares	Amount
	'000	*HK'000*
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2011, 30 June 2011, 31 December 2011 and 30 June 2012	3,800,000	38,000
Issued and fully paid：		
At 1 January 2011, 30 June 2011 and 31 December 2011	1,301,500	13,015
Issue of shares	325,375	3,254
At 30 June 2012	**1,626,875**	**16,269**

During the current period, 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 currently held by the respective shareholder. The new shares rank pasi 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$1,361,921,000 (31 December 2011: HK$1,182,746,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

17. PLEDGE OF ASSETS

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

	30 June 2012	31 December 2011
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Property, plant and equipment	**828,004**	847,099
Prepaid lease payments	**63,720**	65,227
Bills receivables	**86,566**	118,663
Pledged bank deposits	**813,966**	589,446
	1,792,256	1,620,435

18. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Fees	**840**	840
Salaries and other benefits	**11,638**	11,069
Retirement benefits scheme contribution	**74**	59
	12,552	11,968

MANAGEMENT DISCUSSION AND ANALYSIS

Business review for the first half of 2012

For the six months ended 30 June 2012, the Group's revenue was increased by 8.1% to HK$3,646.5 million as compared with the same period in the preceding year of HK$3,373.9 million. The Group's profit for the period attributable to shareholders was approximately HK$169.1 million (2011: HK$307.7 million), representing a decrease of 45.0%, 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 17.2% and 7.1% respectively, and segmental turnover of intermediate products was decreased by 5.2% for the six months ended 30 June 2012, as compared with the same period in preceding year. Segmental profit of intermediate products and bulk medicine decreased by 75.8% and 67.2% respectively and segmental profit of finished products increased by 25.3%.

In the first half of 2012, the uncertainties in the global macro-economy and the intensified European debt crisis dampened consumers' demand on various products, which led to a weakened overall import and export trade in China and a continuous slump in China's manufacturing industry. Nevertheless, the increased market demand for pharmaceutical products driven by the continuous population aging in China, coupling with the central government's mild price reduction policy on pharmaceutical products and the relaxation on bidding conditions in regional tendering, had resulted in an improvement in the operating environment of China's domestic pharmaceutical industry. During the period, in light of the gradually intensified healthcare reform implemented by the central government, the Group continued to adjust its strategies to adapt to market changes and leverage its leadership edge in the industry. It also further enhanced its core competencies, kept abreast with the market pulse, timely adjusted its business development strategy, continuously researched and developed new products and explored new markets, as well as actively sought business opportunities amid the ever-changing market conditions, so as to ensure a steady development of its businesses. However, under the impact of various adverse factors, the Group's performance in the first half of 2012 declined as compared with the same period of last year. The business review of the Group for the first half of the year is as follows:

- Decrease in prices of intermediate and bulk medicine products

The measures restricting the use of antibiotic drugs implemented since 2011 had a greater impact on high-end antibiotic finished products. With lower market demand for high-end antibiotic finished products, the market price of 7-ACA, a main raw material of such products, decreased significantly, and the market price of 6-APA was also affected. As the government policy became clearer, the healthcare institutions at all levels resumed their usual practice in purchasing medical drugs starting from the beginning of 2012, so the market demand for antibiotic products gradually revived and the market price of 7-ACA started to stabilize. Meanwhile, in the first half of 2012, driven by the regained market demand, the market price of 6-APA also gradually recovered from the low level of last year but it was still lower than that in the corresponding period of last year. The overall gross profit margin of the Group reduced as compared with that in the same period of last year, mainly attributable to the decrease in prices of intermediate and bulk medicine products comparing with the same period of last year.

- Increase in sales of bulk medicine and finished products

With the gradual intensification of the healthcare reform launched by the central government, the medical drug market in China gradually restored to normal conditions and stabilized in the first half of 2012, and the market had also adapted to the impact brought about by related policies. As a result, the sales of the Group's bulk medicine and finished products increased as compared with that in the same period of last year, and the sales growth of Amoxicillin Granules products was particularly outstanding, partly offsetting the adverse impact arisen from the decrease in selling prices.

- Growth in export sales

In respect of overseas sales, after establishing offices in areas such as Brazil, India, Dubai, Indonesia and Germany's Hamburg last year, the Group continuously expanded its export sales which led to an increase in export sales of its bulk medicine products in the first half of 2012 as compared with that in the same period of last year. The Group's export sales increased by 35.7% (2011: 8.2%) for the six months ended 30 June 2012 as compared with the same period of last year. During the period, export sales accounted for approximately 35.8% (2011: 28.5%) of total sales for the period.

- Satisfactory sales of finished products

During the period, the Group's expansion in rural markets made good progress and new products were launched successively, therefore the Group's finished products continued to record a satisfactory sales. The continuous expansion of the Group's market share maintained the sales of its finished products in the first half of this year. Adding the increase in the sales of finished products (such as Paracetamol Triprolidine Hydrochloride And Pseudophedrine Hydrochloride Tablets ("聯邦菲迪樂"),Recombinant Human Insulin ("優思靈")、Piperacillin Sodium and Tazobactam Sodium for Injection ("聯邦他唑仙")) with higher gross profit margin, finished products achieved a better performance as compared with the same period of last year.

- The progress of the rollout of new products

Regarding the rollout of new products, the Group continued to focus on the growth potential in the recombinant human insulin market and made substantial investments in the research, development and distribution of related products. Given that our new products had completely the same efficacy as that of the imported insulin with competitive prices, we secured orders from private hospitals, clinics and pharmaceutical shops successively since the launch in May last year, and the bidding at provincial and regional hospitals was gradually expanded. Since it will take around two years to secure the tenders in most provinces in China, it is expected that the business of recombinant human insulin will take two to three years to reach a substantial scale. As the development of the Group's human insulin business is still in an initial stage currently, its performance was satisfactory to the management with the steady sales and the reach of our sales target in the period. Besides, the Group continued to promote the development of new products and had altogether 9 new products awarded the SFDA approval in the period.

- Investment in environmental protection facilities

During the period, product quality and environmental protection issues in pharmaceutical industry had drawn much attention. The Group always attaches great importance to drug safety. In addition to a comprehensive quality assurance system, we have stringent standards in raw material purchasing, production and final testing. The Group regularly reviews its suppliers and examines its internal production procedures, and all production is strictly adhered to the technical specifications approved in the registration process in order to ensure product quality. In such ways, all of the Group's products comply with the safety standards of the state. Besides, the Group always sets great store by environmental protection works. It continues to take in-depth treatment on pollutants such as sewage, waste gases and residue wastes produced in production process. All of the Group's sewage treatment systems were designed by National Center for Pharmaceutical Sewage Treatment and Pharmaceutical Professional Planning and Design Institute. Currently, both the Group's equipment and investment in environmental protection infrastructure systems in every production base lead the industry. Among which, the environmental protection facilities in the Inner Mongolia production base have the largest scale, occupying an area of 190 mu. with a total capacity of 200,000 cubic meter. Established as a large scale sewage treatment center, it can handle biochemical, physicochemical, aerobic and anaerobic sewages simultaneously, and its sewage emission standards are fully compliant with the state's relevant standards. With the government's increasingly stringent regulation on the pharmaceutical manufacturing industry, the entry barrier of the pharmaceutical industry has continuously increased and exerted more pressure on industry players, which will cause an integration of the industry. The Group is one of the few players which can meet the most stringent standards while capable to maintain stable production and increase output, therefore the integration of the industry will bring opportunities to the Group.

- Increase in financing sources

The Group always adheres to a prudent financial strategy. It optimizes its financial structure and strengthens its working capital basis through various funding channels in order to capitalize investment opportunities in a timely manner. The Group raised funds from a rights issue at HK$2.21 per share in May 2012, with the proceeds used to expand the production capacity of the Group's existing products.

- Increase in finance costs

As the borrowing amount including convertible bonds during the period was higher than that in the same period of last year, finance costs for the period were much higher as compared with the same period of last year, which adversely affected the results during the period.

Liquidity and Financial Resources

As at 30 June 2012, the Group had pledged bank deposits, cash and bank balances amounted to HK$1,453.8 million (31 December 2011: HK$1,538.1 million).

As at 30 June 2012, the Group had interest-bearing bank borrowings of approximately HK$3,833.2 million (31 December 2011: HK$3,336.3 million), which were denominated in Hong Kong dollars and Reminbi with maturity within five years. Bank borrowings of approximately HK$1,361.5 million are fixed rate loans while the remaining balance of approximately HK$2,471.7 million is at floating rate. The directors expect that all such bank borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2012, current assets of the Group amounted to approximately HK$5,675.2 million (31 December 2011: HK$5,584.6 million). The Group's current ratio was approximately 1.01 as at 30 June 2012 as compared with 1.03 as at 31 December 2011. As at 30 June 2012, the Group had total assets of approximately HK$13,428.7 million (31 December 2011: HK$11,864.9 million) and total liabilities of approximately HK$7,437.4 million (31 December 2011: HK$6,688.3 million), representing a net gearing ratio (calculated as total borrowings and convertible bonds less cash and bank balances and pledged bank deposits to total equity) of 53.9% as at 30 June 2012, as compared with 53.2% as at 31 December 2011.

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 2012 and 31 December 2011, the Group had no material contingent liabilities.

Outlook for second half of 2012

Looking ahead, China's domestic healthcare reform will continue to unroll and market demand for pharmaceutical products will expand structurally. The "Twelfth Five-years" Plan will also enhance the protection on the pharmaceutical industry and the support to local pharmaceutical businesses. China's Ministry of Health has clearly stated that it will invest more capital to support the pharmaceutical industry in the future.

We are of the opinion that, in the second half of 2012, there will be both opportunities and challenges in China's pharmaceutical industry. In the long term, the enormous room for development in both domestic and overseas markets will ensure the optimistic outlook of the industry. The Group will continue to expand sales networks, domestic and abroad, and strengthen penetration in domestic rural markets and communities, put great efforts to increase overseas sales, and actively explore new markets with growth potentials.

Moreover, the Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. Currently, we have 42 new products being developed, of which 8 products are applying for patent registration and 9 of them were approved for patent registration.

The recombinant human insulin products will remain the key product of the Group and we will seize the momentum of the fast-growing demand for human insulin by investing substantial resources to capture a larger market share. The Group's new insulin products have received relatively high international recognition in terms of quality and production technology, and we will consider promoting the sales of related products to overseas markets. Besides, the Group will focus on driving the sales of the newly-packaged large-sized amoxicillin and ampicillin, with a view to turning them into new growth engines for finished products sales.

By strengthening our own competitiveness continuously, the Group is confident of achieving economies of scale, seizing market opportunities, taking the lead in the steady development of the industry and maintaining the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

Employees and Remuneration

As at 30 June 2012, the Group had approximately 11,000 (31 December 2011: 10,500) 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Except for the Company issued 325,375,000 rights shares at the issue price HK$2.21 on the basis of one new share for every four ordinary shares currently held during the period, 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 2012.

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 ("New CG Code") (previously known as Code on Corporate Governance Practices ("Former CG Code")) contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarized below:

- Code Provision A.6.7

Code provision A.6.7 of the New 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 31 May 2012 (the "2012 AGM) 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 provisions B.1.3 of the Former CG Code and B.1.2 of the New CG Code except that the Remuneration Committee should review (as opposed to determine under the code provision) 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 Provision E.1.2

Code provision E.1.2 of the New CG Code stipulates that the chairman of the board should attend the annual general meeting. The Chairmen of the Board was unable to attend the 2012 AGM due to other important engagement.

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 REVIEW

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 2012.

BOARD OF DIRECTORS

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

On behalf of the Board

CHOY KAM LOK
Chairman

Hong Kong, 22 August 2012