

**THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LTD:
THE FIEFDOM OF CHAIRMAN CHOY KAM LOK**

The total indebtedness of The United Laboratories International Holdings Ltd () (Code: 3933, Main Board, The Stock Exchange of Hongkong Ltd), as at April 30, 2007, stood at the record-breaking level of \$HK1,344,947,000.

Of that figure, the Chairman, Mr Choy Kam Lok (), was owed about \$HK161,889,000 by the Company that he controls.

The total indebtedness of this Company was broken down in the International Placing and Public Offer Prospectus as follows:

Bank Loans	\$HK935,857,000
Discounted Bills	\$HK237,190,000
Other Borrowing	\$HK6,499,000
Bank Overdraft	\$HK2,995,000
Trust Receipt Loans	\$HK517,000
Loan From Mr Choy Kam Lok	<u>\$HK161,889,000</u>

TOTAL :\$HK1,344,947,000

In terms of the Turnover of this manufacturer of, primarily, antibiotics in the People's Republic of China (PRC), for the Financial Year, ended December 31, 2006, the total indebtedness was equivalent to nearly 65 percent.

About 26.80 percent of the net proceeds from the **Initial Public Offering** (IPO) was earmarked to repay some outstanding loan facilities, afforded to this Company, the Prospectus states at Page 231.

In effect, therefore, **TARGET** takes the view that the Chairman had been forced to top up the kitty of the Company with nearly \$HK162 million of his personal funds – because, prima facie, he was getting a little concerned due to the fact that the records show that debt service was becoming increasingly burdensome.

In fact, debt service had risen from the 2004 Financial Year to the 2006 Financial Year by about 357.53 percent and, without the IPO of June 4, 2007, debt service was set to rise even faster.

At the same time, however, **TARGET** () notes that the Chairman had been using this Company as his private little bank.

As a privately held company, this may be quite acceptable, but, definitely, such games are not acceptable as a publicly listed company.

The Business Of The United Laboratories

The United Laboratories International describes its activities at Page 94 of the Prospectus in the following manner:

‘The Group is principally engaged in the manufacture and sale of antibiotics finished products and

the bulk medicine and intermediate products used to produce them. It is one of the major manufacturers of antibiotics in the PRC. The Group also produces and sells smaller amounts of cough syrup, anti-allergy medicine and capsule casings. According to information published by Southern Medical Economic Research Centre (), the Group ranked amongst the top 20 chemical pharmaceutical industry enterprises () in the PRC in 2005 in terms of revenue.

‘Customers of the Group’s finished products include primarily distributors of pharmaceutical products in the PRC such as Shanghai Pharmaceutical Company Limited () and Yunnan Pharmaceutical Industrial Company Limited (). For sales of intermediate products and bulk medicine outside the PRC, its customers include pharmaceutical manufacturers and distributors such as DSM Antiinfectives India Ltd., HELM AG, Daewoong Chemical Co., Ltd. and Indukern Chemie A.G.. The Directors believe that the quality of the Group’s products and their price competitiveness are both key factors in helping the Group to establish its extensive customer base.

‘The Group has a vertically integrated production operation which enables it to undertake the upstream production of intermediate products, the mid-stream processing of intermediate products into bulk medicine as well as the downstream production of antibiotics finished products from bulk medicine. The Directors believe that such vertical integration provides the Group with more flexibility to expand its production as well as better control over product quality and production costs.’

‘The following table sets out a breakdown of the Group’s turnover by major product categories for the three years ended 31 December 2004, 2005 and 2006, respectively:

	<i>Year ended 31 December 2004</i>		<i>Year ended 31 December 2005</i>		<i>Year ended 31 December 2006</i>	
	<i>(% sales (HK\$'000)by value)</i>		<i>(% sale (HK\$'000)by value)</i>		<i>(% sales (HK\$'000)by value)</i>	
<i>Product</i>						
<i>Intermediate products</i>	0	0	53,903	3.1	197,373	9.5
<i>Bulk medicine</i>	639,897	53.3	896,447	52.1	1,077,294	51.8
<i>Finished products and capsule casings</i>	560,207	46.7	770,092	44.8	805,812	38.7
<i>Total</i>	1,200,104	100.0	1,720,442	100.0	2,080,479	100.0

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