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)

2015 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2015	2014	**Increase / (decrease)**
	HK$'000	*HK$'000*	**%**
Turnover	**7,694,563**	8,029,835	**(4.2%)**
EBITDA	**1,406,145**	1,748,700	**(19.6%)**
Profit before taxation	**235,422**	663,546	**(64.5%)**
Profit for the year attributable to owners of the Company	**110,358**	681,076	**(83.8%)**
Earnings per share			
Basic	**HK6.78cents**	HK41.86cents	**(83.8%)**
Diluted	**HK6.78cents**	HK41.86cents	**(83.8%)**

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (collectively the "Group" or "United Laboratories") for the year ended 31 December 2015.

The year 2015 witnessed a slow-down in the global economic growth, with the global trade remaining at a low level since the financial crisis. While the economy of the United States managed with a relatively steady growth, that of Japan and the Euro Zone was struggling to stay above the line, with all the major economic systems in the world facing critical issues such as high unemployment rate and economic restructuring. Notwithstanding the complex international situation and economic down-turn, China's economy continued to sail on against the wind. Heading into 2016, which marks the first year of its "13th Five-Year" Planning, China is expecting both critical strategic opportunities and severe challenges along the course, with countless conflicts and hidden risks. During the "13th Five-Year" Period, the Chinese Government will strive to implement its strategic guideline known as "Building a Vigorous China", which is meant to provide its people with basic medical and health insurance as public welfare and set up a more sophisticated regulatory system covering public health, medical services, medical insurance and drug supply, as well as a better regulatory system and operational mechanism for the medical institutions, so as to satisfy the people's anticipation. Such an initiative is expected to support the long-term and sustained development of the pharmaceutical industry, and ensure the future growth of the Group in an optimized business environment.

Leveraging on its leading position in the industry, United Laboratories has been earnestly improving its core capacity and pursuing opportunities in a volatile market, with an aim to maintain consistent growth. During the year, the Group's turnover amounted to approximately HK$7,694.6 million, representing an decrease of 4.2% over 2014. EBITDA and profit before taxation were approximately HK$1,406.1 million and HK$235.4 million respectively, representing a decrease of 19.6% and 64.5% respectively as compared with last year. Profit attributable to owners of the Company was approximately HK$110.4 million, representing a decrease of 83.8% as compared with last year. Earnings per share amounted to HK6.78 cents. The Board does not recommend payment of final dividend for the year ended 31 December 2015.

Sales of intermediate products and bulk medicine products (including inter-segment sales) were decreased during the year. The decreasing prices of the primary raw materials of our intermediate products, i.e. corn and coal, led to the decrease of selling price of 6-APA, an intermediate product, during the second half of the year. During the year, our 6-APA project in Inner Mongolia Plant successfully passed the FDA certification of the United States, providing a strong quality guarantee to the overseas sales of the product.

As for the finished products, with the policies on new medical reform becoming clear, the Chinese Government is exploring new paths for its medical work. In response to the adjustments to the pharmaceutical procurement practices across China, the Group took active steps to cope with the changes in the bidding policies on and price adjustments to the pharmaceutical products, with the promotion and bidding campaign for its finished products being carried on smoothly. During the year, China started a new round of pharmaceutical products procurement through open bidding, during which the Group won the bids in more than 10 provinces. We had 41, 50 and 39 product specifications winning the bid in Hunan province, Sichuan province and Hubei Province, respectively. Our recombinant human insulin prevailed in Anhui, Sichuan, Hubei and Fujian provinces in all its product specifications in the new round of bidding. Encouraging bidding results has laid a solid foundation for the sales and marketing of our products. We are expecting to prevail in even more provinces in 2016 and further expand our market share, so as to take advantage of the outstanding performance of our sales team in penetrating the bottom-level medical institutions and rendering high-quality services.

During the year, in addition to our success in bidding campaigns, we continued to receive orders for our recombinant human insulin products from the medium-to-large hospitals, basic pharmacy market, OTC market and rural market, and our performance in Shandong, Henan, Anhui, Guangdong and Jilin provinces was particularly satisfactory. The sales revenue of our recombinant human insulin products for the year increased over the last year, topping the sales target for 2015, our insulin products are expected to be the main driving force for the Group's expansion in the coming years, with its profitability rising further.

During the year, the Group was making great efforts to expand the market share of memantine hydrochloride, a drug to treat Alzheimer’s disease, which is currently being sold in 19 provinces and cities nationwide and has won the bids in 11 provinces and cities, such as Shandong, Chongqing and Hubei. In addition, the Group is making continuous efforts to develop new specifications and preparations of the series to further expand its market share as well as increasing its proportion in the total revenue. As for our highly-anticipated antibiotics products, notwithstanding the influence of China's bidding requirements and tightened control over antibiotics, the sale of our Piperacillin Sodium and Tazobactam Sodium for Injection increased over the last year. Moreover, our Biapenem-based high-end antibiotics preparations rendered remarkable performance, achieving a significant growth in sales revenue over the last year. With the onset of the Big Health era as well as introduction of the concept of "Internet Plus", our flagship stores were officially opened on a number of e-commerce platforms such as tmall.com, jd.com and yhd.com, as an effort to better promote our brand as well as our products through the Internet, which witnessed the launch of "Yin Dan" Effervescent Tablets. We plan to gradually develop the Internet sales mode to further expand our market share.

We currently have 52 new products under development. In 2015, we received one approval for production and one for clinical trial of our products. As of now, we had 18 patent registration applications approved, with another 11 applications pending approval. Our finished products reserve is expected to be further expanded. We have a strong sales team consisting of nearly 3,000 professional sales representatives, which has obviously shortened the time of product launch, being a strong driving force for the promotion of the Group’s new products in the market. The Group has been committed to pharmaceutical research and development, and as a proof, our subsidiary The United Laboratories Limited Zhuhai won the 2015 Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China (二零一五年中國醫藥研發產品線最佳工業企業) while ranking 23rd among the Top 100 Pharmaceutical Enterprises in China, receiving high recognition from the industry for its the comprehensive strength.

As for the research and development of biological preparations, the Group has passed the inspection of registered production site for insulin glargine (third generation insulin), and clinical trial for insulin aspart (third generation insulin) has also been completed successfully, which is now in the stage of preparing for application for production approval, and will further complement our insulin product line. Meanwhile, the Group is researching a variety of biological preparations, including the third generation of insulin aspart, insulin Degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future.

For the research and development of chemical pharmaceuticals, levetiracetam, which is classified under class 3.1 of State Class New Medicine and is used for the treatment of epilepsy, was granted the production approval and the new pharmaceutical certificate from China Food and Drug Administration in May 2015. It is expected that the Group will become the fourth licensed manufacturer of the products in China. With good clinic efficacy and high safety, the levetiracetam tablets are suitable for adult and children epileptics above the age of four. We believe that it will contribute considerable economic benefits to the Group after being approved for production and more epileptics are expected to benefit from it.
Doripenem, Class 3.1 of State Class New Medicine developed by the United Laboratories for Injection with specifications of 0.5g/vial, was granted the approval from China Food and Drug Administration for clinical trial. Doripenem is a new type of Carbapenem broad spectrum antibiotics. Originating from Japan, it is sold in U.S. and European countries, but not available in China. The United Laboratories applied for the approval of this drug for clinical trial in November 2011. With good anti-microbial efficacy and low-level of antibacterial resistance, Doripenem can effectively fight against various types of bacteria that

have resistance to Cepharosporins and other types of Carbapenem. It is considered the most promising product in the field of antibacterial drugs.

For overseas sales, leveraging on our internationally approved production capabilities and products possessing significant price advantage, the Group's export business progressed smoothly and recorded steady contribution to its sales. During the year, our overseas sales was HK$2,415.0 million, accounting for 31.4% of the Group's sales. The United Laboratories was granted accolades of "Leading API Exporters in 2014" (二零一四年原料藥出口龍頭企業)by China Chamber of Commerce For Import & Export of Medicines and Health Products(中國醫藥保健品進出口商會), 2015 Top 100 Enterprisers among China Pharmaceutical Industry (2015年中國化學製藥工業企業綜合實力百強) and "Leading API Exporter's Brand among China pharmaceutical Industry in 2015 (2015中國化學製藥行業原料藥出口型優秀企業品牌). The Group has already obtained EU-CEP certification, FDA certification, official certification from Mexico and GMP certification from Japan and certification from Russia and India.

For financial strategy, the Group seized market opportunities and optimised the financial structure during the year through measures such as three-year financing leases to ensure adequate working capital. In January 2015, the Company as borrower entered into two additional facility agreements with China Development Bank Corporation Hong Kong Branch for a HK$300 million guaranteed term-loan facility and a HK$300 million unsecured term-loan facility respectively. Besides, the Group and AYERS Alliance Securities (HK) Limited entered into a placing agreement in January 2015, pursuant to which the Company established a bond issue programme for the issuance from time to time, of bonds with a term of three years in an aggregate principal amount of up to HK$1 billion. The purpose of establishing the bond issue programme is to enhance the Company's flexibility and efficiency for future funding or capital management. From the date of inception of the programme to 2 February 2016, the Group issued bonds at a total principal amount of HK$166.8 million and entered into a new placing agreement (the "Placing Agreement") with Vision Finance (Securities) Limited (the "Placing Agent") for issuance and allotment of bonds under the programme. The Placing Agent shall have the right to allot tranches of bonds in accordance with the prevailing market conditions within one year from the date of the Placing Agreement.

According to the report of Frost & Sullivan, China's pharmaceutical expenditure is expected to further increase from RMB3.9 trillion to RMB 6.3 trillion at a compound annual growth rate of 11.9%. While China's pharmaceutical market is rapidly expanding, China is lagging far behind most of the major countries in terms of the amount of medical expenditure and its percentages to GDP and per capita expenditure. Therefore, there is plenty room for development in the future. In addition, increasing disposable personal income and public health awareness are the drivers of rapidly expanding China's pharmaceutical market in terms of total expenditure and per capital expenditure. It is expected that the market would maintain a double-digit growth for the next few years. The Group believes that it will benefit from increasing pharmaceutical expenses and accelerated industry consolidation as a leading player among the pharmaceutical industry. To enhance industry standards and to ensure safety and efficacy of pharmaceuticals, the State has been putting the assessment on generics in terms of quality and efficacy on its agenda. In March 2016, the State of Council promulgated the *Opinions of the General Office of the State Council on Carrying out Quality and Efficacy Consistency Assessment of Generic Drugs*, pursuant to which all generics approved and sold before the enactment of the new requirements related to registration of chemical pharmaceuticals but not approved on the same principles under the Opinions in relation to assessment of the quality and efficacy consistency are required to undergo consistency assessment. The Group believes that an assessment of generic drugs is a clear trend. The enactment of such requirement will lead to consolidation of pharmaceutical industry and industrial upgrading. The Group will actively promote the related development. Looking forward, the Group will strive to strengthen its overall competitiveness and position in the industry on its vertical integration, which is its competitive edge in the industry.

Looking forward, the Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. With the continuous enrichment of its insulin product line, insulin product will continue to be its key strategic product. The Group will keep an eye on all favourable policies related to pharmaceuticals for critical diseases such as diabetes and invest more resources in the related field so that we can win the tenders in other provinces and expand its market presence. We will consider promoting the sales of related products to overseas markets as the Group's insulin products have reached international standards in terms of quality and production technology. For

R&D of chemical pharmaceuticals, the Group will focus on research and development on new pharmaceuticals such as anti-hepatitis, anti-cancer, high-end anti-infective and neurological drugs. The Inner Mongolia Plant commenced its full operation, and the vertical integration resulted in higher production efficiency. In addition, as production technology of enzymatic bulk amoxicillin became mature, production costs were further reduced.

The Group shall continue to implement its existing business development strategies. We will strengthen penetration in large and medium-sized hospitals, essential drugs market, OTC markets and rural market by making good use of our competitive advantage as well as the extensive sales networks, and put great efforts to increase overseas sales through expansion of overseas markets, and actively explore new markets with growth potentials in an effort to enhance our leading position in the market. In addition, the Group has also proactively expanded the sales of OTC products, Chinese medicine and healthcare products in chain pharmacies. That has further driven the growth of finished products.

With continuous efforts to enhance our competitiveness, we are confident that we can seize market opportunities, accelerate the cultivation of innovation ability and reinforce our scientific research ability by taking advantage of the great opportunity of industrial transformation and upgrading, and maintain the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support during the past year, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

2015 ANNUAL RESULTS

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2015 together with the comparative figures for the year 2014 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2015

	Notes	**2015** **HK$'000**	2014 *HK$'000*
Turnover	4	**7,694,563**	8,029,835
Cost of sales		**(4,733,378)**	(4,801,444)
Gross profit		**2,961,185**	3,228,391
Other income	5	**174,451**	509,151
Other gains and losses	6(a)	**(249,929)**	(10,079)
Selling and distribution expenses		**(1,289,856)**	(1,252,067)
Administrative expenses		**(733,683)**	(719,065)
Other expenses	6(b)	**(203,474)**	(291,839)
Impairment loss recognised in respect of property, plant and equipment		**(564)**	(110,064)
Donation of properties		**(29,782)**	-
Loss on fair value change on investment properties		**(50,173)**	(315,730)
Gain (loss) on fair value change of embedded derivative components of convertible bonds		**6,755**	(3,191)
Finance costs	7	**(349,508)**	(371,961)
Profit before taxation		**235,422**	663,546
Tax (expenses) credit	8	**(125,064)**	17,530
Profit for the year attributable to owners of the Company	9	**110,358**	681,076
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(360,842)**	(193,788)
Total comprehensive (expenses) income for the year attributable to owners of the Company		**(250,484)**	487,288
Earnings per share	11		
Basic		**HK6.78cents**	HK41.86cents
Diluted		**HK6.78cents**	HK41.86cents

Consolidated Statement of Financial Position
As at 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Property, plant and equipment	12	**9,263,771**	9,616,785
Investment properties		**1,482,789**	1,634,245
Properties held for development		**297,153**	318,707
Prepaid lease payments		**248,950**	268,271
Goodwill		**3,605**	3,777
Intangible assets		**95,994**	54,517
Deposit for land use rights		**7,597**	7,602
Deposits for acquisition of property, plant and machinery		**54,446**	186,572
Pledged deposits against finance leases		**154,674**	162,019
Available-for-sale investment		**595**	-
Deferred tax asset		**37,663**	41,929
		11,647,237	12,294,424
Current assets			
Inventories		**1,415,109**	1,417,886
Trade and bills receivables, other receivables, deposits and prepayments	13	**2,195,214**	2,981,580
Derivative financial instruments		**-**	227
Prepaid lease payments		**6,021**	6,307
Pledged bank deposits		**970,316**	1,214,683
Pledged deposits against finance leases		**59,490**	-
Bank balances and cash		**1,114,537**	1,003,079
		5,760,687	6,623,762
Current liabilities			
Trade and bills payables and accrued charges	14	**3,294,663**	3,570,047
Derivative financial instruments		**203,665**	27,590
Obligations under finance leases - due within one year		**698,999**	696,019
Tax payables		**33,950**	62,831
Borrowings - due within one year		**4,109,911**	4,557,651
Convertible bonds		**116,824**	-
		8,458,012	8,914,138
Net current liabilities		**(2,697,325)**	(2,290,376)
Total assets less current liabilities		**8,949,912**	10,004,048

	Notes	**2015** *HK$'000*	2014 *HK$'000*
Non-current liabilities			
Deferred tax liabilities		**713,035**	768,120
Deferred income in respect of government grants	14	**98,096**	103,315
Obligations under finance leases - due after one year		**507,451**	704,960
Borrowings - due after one year		**912,697**	1,335,013
Convertible bonds		**-**	123,523
		2,231,279	3,034,931
		6,718,633	6,969,117
Capital and reserves			
Share Capital	15	**16,269**	16,269
Reserves		**6,702,364**	6,952,848
Equity attributable to owners of the Company		**6,718,633**	6,969,117

Notes:

1. General

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company are Heren Far East Limited and Gesell Holdings Limited respectively, both are companies incorporated in the British Virgin Islands and are ultimately controlled by Choy's Family Trust. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The functional currency of the Company and its subsidiaries (the "Group") in the People's Republic of China (the "PRC") is Renminbi ("RMB"). The consolidated financial statements of the Group are presented in Hong Kong dollars because the Company is a public company with the shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and a majority of its investors are based in Hong Kong and therefore, the directors consider that Hong Kong dollars ("HK$") is a preferred currency to be used in presenting the operating results and financial position of the Group.

2. Basis of preparation of consolidated financial statements

As at 31 December 2015, the Group had net current liabilities of HK$2,697,325,000 which included borrowings due within one year of HK$4,109,911,000. The directors believe the existing bank borrowings included in current liabilities at the end of the reporting period could be successfully renewed on maturity date based on prior experiences. In addition, the Group had available unutilised borrowing facilities of HK$6,580,001,000 at 31 December 2015 which can be utilised before maturity of the facilities and will be subject to review upon maturity. The directors are of the opinion that the Group has a good track record and maintains good relationship with banks which enhance the Group's ability to renew the borrowing facilities upon expiry.

In view of these circumstances, the directors of the Company have given consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Taking into account the Group's cash flow projection, including the Group's unutilised bank facilities, ability to renew or refinance the banking facilities upon maturity and the Group's future capital expenditure in respect of its non-cancellable capital commitments, the directors of the Company consider that it has sufficient working capital to meet in full its financial obligations as they fall due for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. Application of new and revised Hong Kong Financial Reporting Standards

Application of new and revised HKFRSs

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 - 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 - 2013 Cycle

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to HKAS 1	Disclosure Initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants[3]
Amendment to HKAS 27	Equity Method in Separate Financial Statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle[3]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined

HKFRS 9 *"Financial Instruments"*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 *"Financial Instruments: Recognition and Measurement"* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

HKFRS 15 *"Revenue from Contracts with Customers"*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *"Revenue"*, HKAS 11 *"Construction Contracts"* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company anticipate that the application of HKFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company do not anticipate that the application of the other amendments to HKFRSs will have a material effect on the amounts recognised in the Group's consolidated financial statements.

4. Turnover and segment information

Turnover

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

	2015	2014
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**7,694,563**	8,029,835

Segment information

HKFRS 8 "Operating Segments" 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 ("CODM") (i.e. executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

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 "Finished products"). These three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

(a) Segment turnover and results:

Year ended 31 December 2015

	Intermediate products	Bulk medicine	Finished products	Segment total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	**1,680,418**	**3,272,179**	**2,741,966**	**7,694,563**	**-**	**7,694,563**
Inter-segment sales	**1,434,541**	**357,182**	**-**	**1,791,723**	**(1,791,723)**	**-**
	3,114,959	**3,629,361**	**2,741,966**	**9,486,286**	**(1,791,723)**	**7,694,563**
RESULT						
Segment profit	**323,761**	**187,973**	**577,560**			**1,089,294**
Unrealised profit elimination	**(77,425)**	**(34,749)**	**(4,004)**			**(116,178)**
	246,336	**153,224**	**573,556**			**973,116**
Unallocated other income						**72,142**
Unallocated corporate expenses						**(136,638)**
Other gains and losses						**(249,926)**
Impairment loss recognised in respect of property, plant and equipment						**(564)**
Donation of properties						**(29,782)**
Gain on fair value change of embedded derivative components of convertible bonds						**6,755**
Loss on fair value change on investment properties						**(50,173)**
Finance costs						**(349,508)**
Profit before taxation						**235,422**

Year ended 31 December 2014

	Intermediate products	Bulk medicine	Finished products	Segment total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	1,357,381	3,940,056	2,732,398	8,029,835	-	8,029,835
Inter-segment sales	1,935,420	418,945	-	2,354,365	(2,354,365)	-
	3,292,801	4,359,001	2,732,398	10,384,200	(2,354,365)	8,029,835
RESULT						
Segment profit	209,858	330,871	634,823			1,175,552
Unrealised profit elimination	(20,135)	(25,747)	(13,901)			(59,783)
	189,723	305,124	620,922			1,115,769
Unallocated other income						454,133
Unallocated corporate expenses						(95,331)
Other gains and losses						(10,079)
Impairment loss recognised in respect of property, plant and equipment						(110,064)
Loss on fair value change of embedded derivative components of convertible bonds						(3,191)
Loss on fair value change on investment properties						(315,730)
Finance costs						(371,961)
Profit before taxation						663,546

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the annual report. Performance is measured based on segment profit that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

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

Other than the segment revenue and segment profit analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of certain other income, impairment loss recognised in respect of property, plant and equipment, donation of properties, loss on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties, sundry income, other gains and losses, corporate expenses and finance costs.

(b) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2015

	Intermediate products	Bulk medicine	Finished products	Unallocated expenses	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of prepaid lease payment	**5,722**	**1,285**	**378**	**-**	**7,385**
Amortisation of intangible assets	**-**	**-**	**3,687**	**-**	**3,687**
Depreciation of property, plant and equipment	**654,057**	**99,771**	**51,674**	**4,641**	**810,143**
Loss (gain) on disposal of property, plant and equipment	**-**	**880**	**(6,938)**	**(14,239)**	**(20,297)**
Write-down of long aged deposit and prepayment	**-**	**3,288**	**-**	**31,008**	**34,296**
Impairment loss recognised in respect of property, plant and equipment	**-**	**564**	**-**	**-**	**564**

For the year ended 31 December 2014

	Intermediate products	Bulk medicine	Finished products	Unallocated expenses	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amortisation of prepaid lease payment	3,336	1,312	1,108	-	5,756
Amortisation of intangible assets	-	-	5,112	-	5,112
Depreciation of property, plant and equipment	556,821	90,536	54,968	-	702,325
Loss (gain) on disposal of property, plant and equipment	-	(160)	374	5,031	5,245
Write-down of long aged deposit and prepayment	6,678	-	-	25,756	32,434
Impairment loss recognised in respect of property, plant and equipment	-	-	19,153	90,911	110,064

(c) Geographical information

The turnover by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Turnover from external customers	
	2015	2014
	HK$'000	*HK$'000*
PRC (country of domicile)	**5,279,534**	5,400,957
Europe	**688,478**	808,865
India	**557,511**	618,440
Hong Kong	**122,333**	71,617
Middle East	**111,889**	90,184
South America	**211,977**	236,036
Other Asian regions	**534,869**	610,131
Other regions	**187,972**	193,605
	7,694,563	8,029,835

Note:

Analysis on turnover from external customers attributed to individual countries in Europe, other Asian regions and other regions is not presented as the cost to develop such necessary information would be excessive.

5. Other income

	2015	2014
	HK$'000	*HK$'000*
Bank interest income	**43,638**	31,708
Overprovision of accrued expenses	**39,131**	-
Sales of raw materials	**23,475**	19,839
Sales of scrap materials	**2,443**	-
Subsidy income on Chengdu factory	**-**	392,038
Other subsidy income	**31,717**	54,244
Sundry income	**15,287**	11,322
Reversal of impairment loss on property, plant and equipment	**18,760**	-
	174,451	509,151

6. Other gains and losses / other expenses

	2015	2014
	HK$'000	*HK$'000*
(a) Other gains and losses		
Fair value loss on forwards contracts	**174,475**	9,276
Net foreign exchange loss	**95,976**	6,048
Gain on disposal of property, plant and equipment	**(20,297)**	(5,245)
Others	**(225)**	-
	249,929	10,079
(b) Other expenses		
Research and development expenditures	**73,205**	147,608
Staff redundancy costs and removal costs upon cessation of production	**3,344**	4,919
Temporary production suspension costs	**83,703**	99,048
Write-down of long aged deposits and prepayments	**34,296**	32,434
Others	**8,926**	7,830
	203,474	291,839

7. Finance costs

	2015	2014
	HK$'000	*HK$'000*
Interest on borrowings	**339,518**	387,018
Interest on convertible bonds	**16,317**	15,622
Interest on finance leases	**49,243**	75,995
	405,078	478,635
Less: amounts capitalised in property, plant and equipment	**(55,570)**	(106,674)
	349,508	371,961

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.59% (2014: 6.76%) per annum to expenditure on qualifying assets.

8. Tax expenses (credit)

	2015 *HK$'000*	2014 *HK$'000*
The charges (credit) comprises:		
Current tax		
Hong Kong Profits Tax	**673**	9,960
PRC Enterprise Income Tax	**132,112**	157,729
PRC withholding tax	**5,963**	32,194
	138,748	199,883
(Over) under provision in prior years		
Hong Kong	**(211)**	981
Sub-total	**138,537**	200,864
Deferred tax	**(13,473)**	(218,394)
	125,064	(17,530)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

PRC Enterprise Income Tax ("EIT") is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2015 and 2014.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by the PRC entity to non-PRC tax resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises.

9. Profit for the year

	2015	2014
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Provision of allowances for inventories (included in cost of sales)	**8,290**	8,026
Provision of allowances for doubtful debts, net	**3,474**	16,956
Auditor's remuneration	**5,633**	5,913
Amortisation of prepaid lease payments	**7,385**	5,756
Depreciation and amortisation		
Depreciation of property, plant and equipment	**810,143**	702,325
Amortisation of intangible assets (included in administrative expenses)	**3,687**	5,112
	813,830	707,437
Less: amount included in temporary production suspension costs in other expenses	**(70,490)**	(77,773)
Less: amount included in research and development expenditures in other expenses	**(10,255)**	(35,044)
	733,085	594,620
Operating lease payments in respect of rented premises	**2,411**	2,119
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**946,362**	882,047
Retirement benefit costs	**114,720**	100,092
	1,061,082	982,139
Less: amount included in research and development expenditures in other expenses	**(21,218)**	(22,530)
Less: amount included in temporary production suspension costs in other expenses	**(2,555)**	(3,551)
	1,037,309	956,058

10. Dividends

The Board does not recommend payment of final dividend for the year ended 31 December 2015 (2014: Nil).

11. Earnings per share

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

Earnings

	2015	2014
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to owners of the Company	**110,358**	681,076

Number of shares

	2015	2014
	'000	*'000*
Number of ordinary shares for the purpose of basic and diluted earnings per share	**1,626,875**	1,626,875

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share for both years.

12. Property, plant and equipment

During the year, the Group spent approximately HK$1,099,191,000 (2014: HK$912,408,000) on the acquisition of property, plant and equipment, in order to upgrade its manufacturing capabilities.

13. Trade and bills receivables, other receivables, deposits and prepayments

	2015	2014
	HK$'000	*HK$'000*
Trade and bills receivables	**1,986,634**	2,596,814
Value added tax receivables	**66,126**	166,667
Other receivables, deposits and prepayments	**181,553**	255,526
Less : allowance for doubtful receivables		
- trade	**(11,053)**	(11,435)
- non-trade	**(28,046)**	(25,992)
	2,195,214	2,981,580

The Group normally allows a credit period of between 30 days and 120 days (2014: between 30 days and 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 a general maturity period of between 90 days and 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 period which approximate the respective revenue recognition dates:

	2015	2014
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**458,121**	613,416
31 to 60 days	**349,407**	324,225
61 to 90 days	**118,582**	128,787
91 to 120 days	**54,836**	83,821
121 to 180 days	**21,748**	19,198
Over 180 days	**19,634**	5,028
	1,022,328	1,174,475
Bills receivables		
0 to 30 days	**145,306**	295,838
31 to 60 days	**171,957**	187,496
61 to 90 days	**183,048**	298,977
91 to 120 days	**170,406**	244,937
121 to 180 days	**278,173**	376,216
Over 180 days	**4,363**	7,440
	953,253	1,410,904

14. Trade and bills payables and accrued charges

The Group normally receives credit terms of up to 120 days and 180 days of trade payables and bills payables, respectively, 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:

	2015	2014
	HK$'000	*HK$'000*
Trade payables		
0 to 90 days	**782,912**	818,640
91 to 180 days	**163,882**	306,048
Over 180 days	**113,163**	162,965
	1,059,957	1,287,653
Bills payables		
0 to 90 days	**257,140**	510,420
91 to 180 days	**366,069**	271,693
	623,209	782,113
Other payables and accruals	**633,080**	442,497
Deferred income in respect of government grants	**188,433**	174,199
Payables in respect of the acquisition of property, plant and equipment	**888,080**	986,900
	3,392,759	3,673,362
Less: Amount due within one year shown under current liabilities	**(3,294,663)**	(3,570,047)
Amount shown under non-current liabilities	**98,096**	103,315

Included in the trade payables and other payables above are HK$228,720,000 and HK$42,845,000 (2014: HK$550,765,000 and HK$19,192,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills have not yet fallen due as at the end of the reporting period.

15. Share capital

	Number of shares	Amount
	'000	*HK$'000*
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2014, 31 December 2014 and 31 December 2015	3,800,000	38,000
Issued and fully paid:		
At 1 January 2014, 31 December 2014 and 31 December 2015	**1,626,875**	**16,269**

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2015, the Group's turnover was approximately HK$7,694.6 million, a decrease of 4.2% as compared with last year. The profit attributable to shareholders was approximately HK$110.4 million, representing a decrease of 83.8% as compared with last year. The substantial decrease in net profit for 2015 is attributable to a number of factors as below:

- One-off subsidy income of approximately HK$391 million from Chengdu local government was received last year but there is no such subsidy income in current year;
- Loss arising from RMB forward contracts due to depreciation of RMB during the year 2015; and
- Decrease in turnover of intermediate products and bulk medicine products (including inter-segment sales) thus resulting decrease in gross profit.

During the year, segmental turnover (including inter-segment sales) of intermediate products and bulk medicine and finished products decreased by 5.4% and 16.7% respectively as compared with last year. Segmental turnover of finished products increased by 0.4% as compared with last year. Segmental result of intermediate products increased by 29.8%.Segmental result of bulk medicine and finished products decreased by 49.8% and 7.6% respectively as compared with last year.

The Group's operations during the year are summarized as follows:

Decrease in sales and gross profit margin of intermediate and bulk medicine products

Sales of intermediate products and bulk medicine products (including inter-segment sales) decreased as the selling prices of them decreased as compared with last year. The major raw materials are corn and coal which are principal intermediate products, 6-APA, its cost prices decreased as a result offsetting some of the impact of the gross margin declined. The export sales of intermediate and bulk medicine products kept stable, the overseas pharmaceutical manufactures kept stable demand on the Group's products.

Stable in sales of finished products

Since the Group successfully obtained bidder contracts through tenders in the healthcare system of difference provinces and urban areas in China, the Group's sales of finished products was stable by obtain these bidder contracts. In additions, the Group's sales of recombinant human insulin were in line with the sales strategic targets, the sales increased and contributed to the Group's overall turnover. During the year, in addition to our success in bidding campaigns, we continued to receive orders for our recombinant human insulin products from the medium-to-large hospitals, basic pharmacy market, OTC market and rural market, and our performance in Shandong, Henan, Anhui, Guangdong and Jilin provinces was particularly satisfactory.

Cost savings by optimization of the Group's debt structure

The Group restructured the debt components during the year, enhanced more channel of fund financing by reducing financing of discounted bills and restructured to finance from middle to long term difference loans financing, reducing the interest expenses and therefore finance costs saved. The Group seized market opportunities and optimized the financial structure during the year through difference financing measures to ensure adequate working capital. In January 2015, the Company as borrower entered into two additional facility agreements with China Development Bank Corporation Hong Kong Branch for a HK$300 million guaranteed term-loan facility and a HK$300 million unsecured term-loan facility respectively.

Liquidity and Financial Resources

As at 31 December 2015, the Group had pledged bank deposits and cash and bank balances amounted to approximately HK$2,084.9 million (2014: HK$2,217.8 million).

As at 31 December 2015, the Group had interest-bearing borrowings of approximately HK$5,022.6 million (2014: HK$5,892.7 million), which were denominated in Hong Kong dollars, Reminbi and United States dollars with maturity within five years. Borrowings of approximately HK$1,776.1 million are fixed rates loans while the remaining balance of approximately HK$3,246.5 million is at floating rates. The directors expect that all such 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 31 December 2015, current assets of the Group amounted to approximately HK$5,760.7 million (2014: HK$6,623.8 million). The Group's current ratio was approximately 0.68 as at 31 December 2015, as compared with 0.74 as at 31 December 2014. As at 31 December 2015, the Group had total assets of approximately HK$17,407.9 million (2014: HK$18,918.2 million) and total liabilities of approximately HK$10,689.3 million (2014: HK$11,949.1 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged deposit against finance leases, pledged bank deposits and cash and bank balances to total equity) of 60.2% as at 31 December 2015, as compared with 72.3% as at 31 December 2014.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi and Hong Kong dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Contingent Liabilities

As at 31 December 2014 and 2015, the Group had no material contingent liabilities.

Outlook for 2016

Looking to the year 2016, we are cautiously optimistic about the development of China's pharmaceutical market. The Group will continue to increase market share in China and overseas, and optimize the plant production efficiency and financial financing structure. Our strategies in various aspects are as follows:

Development of new products to increase market share

The Group will continue to develop the finished products with high demand and high profit margin. In particular, the additional research and development resources will be allocated to develop the new generation of recombinant human insulin products and other biological products, such as 3.1 new drug levetiracetam for the treatment of epilepsy, and others products. The Group will implement the existing business strategy, continue to expand in the medium-sized hospitals, sales of basic medicine market, OTC market and rural markets, and to develop overseas markets to promote overseas sales. We will actively explore new markets with potential to further enhance our market share.

Improvement of production line efficiency

With full operation of the production plant in Inner Mongolia, vertical integration has improved the production efficiency. The Group will enhance the production capacity by the integration of plant utilization, and enhance the Group's productivity. The Group will also actively develop new production technology and improve existing production processes in order to improve efficiency, reduce cost and improve the market competitiveness of the Group's products.

Expansion of sales network

The Group will implement the existing business strategy and, with competitive advantages and extensive sales network, continue to expand in the medium-sized hospitals, sales of basic medicine market, OTC market and rural markets and to develop overseas markets to promote overseas sales. We will actively explore new markets with potential for development and strengthen our market leadership. In addition, the Group is also actively expanding the sales network for OTC products, proprietary Chinese medicines and health products in chain drug stores.

Employees and Remuneration

As at 31 December 2015, the Group had approximately 11,400 (2014: 12,000) employees in Hong Kong and the PRC. 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 Directors 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 year ended 31 December 2015.

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.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 year ended 31 December 2015, 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 3 June 2015 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 the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

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 with the management of the Company the consolidated financial statements for the year ended 31 December 2015, including the accounting principles and practices adopted by the Group.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises (1) Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Ms. Choy Siu Chit, Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as executive directors; and (2) Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming, and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board
Tsoi Hoi Shan
Chairman

Hong Kong, 22 March 2016