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)

2016 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2016	2015	**Decrease**
	HK$'000	*HK$'000*	**%**
Turnover	**7,062,571**	7,694,563	**8.2%**
EBITDA	**948,881**	1,406,145	**32.5%**
(Loss) profit before taxation	**(154,551)**	235,422	**N/A**
(Loss) profit for the year attributable to owners of the Company	**(311,294)**	110,358	**N/A**
(Loss) earning per share			
Basic	**HK(19.13)cents**	HK6.78cents	**N/A**
Diluted	**HK(19.13)cents**	HK6.78cents	**N/A**

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 2016.

The year 2016 witnessed uncertainties in the world economy. After the American presidential election, close attention has been paid to whether there would be significant changes in the policies of the new government. The risk of economic downturn still haunted Europe where unemployment rate stayed at high level despite of the loose monetary policy of the European Central Bank, which was complicated by the refugee flow and terrorist attack. In Asia, the unsatisfactory economic performance in Japan has made its government to not only postpone its plan to raise consumption tax rate up to 2019 but also launch extensive fiscal stimulation measures. Against the backdrop of a stronger US dollar and a slowdown in Chinese economy, RMB continued to depreciate.

In the face of such unpredictable changes in macro economy, China's pharmaceutical market still witnessed a series of policy adjustments and struggled through various pressures such as economic downturn. Due to a number of factors such as market environment, the Group's turnover amounted to HK$7,062.6 million during the year, representing a decrease of approximately 8.2% over 2015. EBITDA was approximately HK$948.9 million, representing a decrease of 32.5% as compared with last year. Loss attributable to owners of the Company was approximately HK$311.3 million. Loss per share amounted to HK19.13 cents. The Board does not recommend payment of final dividend for the year ended 31 December 2016. However, due to the improved market demand and selling price of intermediate products and bulk medicine products in the fourth quarter, the Group's revenue and gross profit for the quarter increased significantly compared to the previous quarter.

The finished products business of the Group went into a stage of stability. Among them, products such as insulin and carbapenems type continued to saw satisfactory growth. During the year, a total of 11.1 million vials of recombinant human insulin products was sold with a sale revenue of HK$534.8 million, representing an increase of 33.8% over last year in terms of quantity. While continuing to be the major growth drivers of the Group, insulin products has for the first time become the biggest contributor to the sales revenue of finished products of the Group. Currently, our recombinant human insulin products had won the bids in more than twenty provinces in China which carry out pharmaceutical products procurement through open bidding, and received orders from the medium-to-large hospitals, OTC market, essential drugs market and rural market, among which the sale performance in Anhui, Shandong, Henan, Guangdong and Jilin provinces was particularly satisfactory. To our delight, the insulin glargine injection product of the Group has successfully obtained approval for production, including the prefilled specification and refilled pen-type injection, and we plan to start the production and sales of such products in 2017. At the same time, our antibiotics products recorded satisfactory sales. During the year, sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection amounted to HK$450.6 million, and sales revenue from United Laboratories Amoxicillin branded capsules amounted to HK$510.8 million. In addition, the high-end carbapenems antibiotics preparations including the Imipenem and Cilastatin Sodium for Injection and the Meropenem for Injection continued to saw high-speed growth in terms of sales, with a sales revenue of HK$145.0 million recorded in the year, representing an increase of 18.3% over last year. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

During the year, production capacity is limited due to the enhancement of environmental protection facilities in factories and hence the product supply decreased. Production cost increased as a result of reduced production, thus the gross profit decreased significantly and affected the annual results. Along with the improved market situation in fourth quarter, both price and sales volume of intermediate products and bulk medicine products improved.

The Group has been long committed to research and development. We currently have 42 new products under development and have obtained 9 clinical trial approvals during the year. Currently, we have 21 patents which have been successfully registered and 9 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. As for the research and development of biological preparations, we aim to further optimize our offerings of insulin products. Insulin glargin (the third generation insulin) has passed the stringent examination over the clinical information by China Food and Drug Administration and successfully obtained the approval for production, which is an evidence of the strong research capability of the Group and paved the way for our research and development of new products in the future. Clinical trials have been successfully completed for insulin as part (the third generation insulin) and we are making preparation for application of production approval. The Group is the first manufacturer in China to work on the generic third generation of insulin detemir, and has successfully obtained such clinical trial approval in the year. Meanwhile, the Group is researching a variety of biological preparations, including insulin Degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future. With regard to the research and development of chemical pharmaceuticals, the Group has coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics. A total of eight chemical pharmaceuticals of the Group were granted clinical trial approval, including the Tadalafil Tablets to be used for treating male erectile dysfunction and benign prostatic hyperplasia and the pulmonary hypertension, and the Imatinib Mesylate Capsules to be used for fighting cancer, and relevant works are expected to be carried out gradually.

With regard to finance, the Group continued to seize market opportunities with an aim to optimising financial structure during the year and ensuring adequate working capital. The Company completed the issuance of convertible bonds with total principal amount of US$130,000,000 and a term of five years in December 2016. In addition, Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances will be used for repayment of bank loans and as general working capital of the Group.

Looking forward, the Group believes that China's pharmaceutical industry will still enjoy an optimistic prospect. According to the report of Frost & Sullivan, China's medical expenditure is expected to further increase from RMB3,926.8 billion in 2015 to RMB6,188.9 billion in 2020 at a compound annual growth rate of 9.5%. According to the estimates for 2016, China is still lagging far behind most of the major countries in terms of the percentage of the medical expenditure to GDP. In addition, as shown in the Report on Analysis of Development of China's Pharmaceutical Industry and the Investment Research (2014-2019) issued by Zhongshang Industry Institute, it is estimated that China's medical expenditure will further increase to RMB4,756.1 billion, representing 6.1% as a percentage of its GDP, indicating a plenty room for growth in the future.

The pharmaceutical industry in China has been subject to a tightening policy environment in recent years in China, and accordingly the control over medical expenses and industry practices have been the focus of the medical reform. Industry policy has paid more and more attention to enhance the quality and safety of medicine, in particular the consistency assessment of generic drugs. It is required that the existing generic drugs on the market shall have the quality and efficacy consistent with the original drugs and shall substitutable for each other clinically. This is conductive to reducing the medical expenses, enhancing product quality, phasing out backward capacity and increasing the overall competitiveness of domestic-made generic drugs, which will definitely result in structural adjustment and facilitate industrial upgrading in China's pharmaceutical industry. The Group will carry out the consistency assessment in batches with priority to be put on the exiting core items on the market or items that is subject to the Group's vertical integration of industry chain, and more resources will be devoted to such items in 2017.

Meanwhile, the National Reimbursement Drug List was revised again after seven years since the previous revision made in 2009. The revised National Reimbursement Drug List (2017 version) shows a policy direction that is to "replenish shortage, select the excellent, support innovation and encourage competition", which gives top priority and support to drugs for work-related injury insurance, children drugs, innovation drugs, drugs for major illnesses and ethnic drugs, noticeably broadens the scope of insurance coverage of the medical insurance, uplifts the insurance standards and facilitates the innovative development of China's pharmaceutical industry.

The new National Reimbursement Drug List was officially promulgated in February 2017 and 49 drug items of the Group were included in this list. Especially, the memantine hydrochloride oral solution used for treating disease of which the Group owns sole proprietorship was for the first time included in the list as western medicine under catalogue II, which is expected to facilitate the extensive marketing and sales of such medicine. In addition, the recombinant human insulin product was upgraded from catalogue II western medicine to catalogue I. As China further carries forward the new medical reform and the consistency assessment of the quality and efficacy of generic drugs and enforces the new National Reimbursement Drug List, China's pharmaceutical industry is expected to enjoy a healthy development in the long term, which will bring opportunities and challenges to the Group.

The Group will continue to take insulin series as its priority strategic products. Currently, the Group has become the pharmaceutical enterprise which owns both the second and third generation insulin products in China. It is expected that the insulin analogue series, particularly the insulin glargin, will speed up the development of the Group and will also bring considerable return to the Group and its shareholders in future. Currently, we have won bids in Chongqing and Fujian for our insulin glargin products and we expect to win bids or obtain qualification in supplementary tendering in additional provinces. Meanwhile, the Group will continue to put aggressive efforts in the research and development of medicine for treating diabetes mellitus, including insulin aspart, insulin detemir and liraglutid, with an aim to continuously optimize our insulin product offerings, so that the high-quality domestic-made insulin products could benefit more diabetics in China. In addition, the Group will also launch chemical medicine of various types and specifications to give impetus to the growth of our sales and profit. As for intermediate and bulk medicine business, prices of such products, in particular the 6-APA went up to various degrees due to the recovery in market environment and demand. Looking forward, the Group is modestly optimistic on its intermediate and bulk medicine business in 2017. The Group will continue to enhance its capacity utilisation rate and reduce production costs, with an aim to improve the profit.

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 arising from industrial transformation and upgrading, and maintain the Group's sustainable growth momentum, hence creating the maximum 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.

2016 ANNUAL RESULTS

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2016 together with the comparative figures for the year 2015 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 *HK$'000*
Turnover	4	**7,062,571**	7,694,563
Cost of sales		**(4,545,930)**	(4,733,378)
Gross profit		**2,516,641**	2,961,185
Other income	5	**112,246**	174,451
Other gains and losses	6(a)	**(130,798)**	(249,929)
Selling and distribution expenses		**(1,235,798)**	(1,289,856)
Administrative expenses		**(710,851)**	(733,683)
Other expenses	6(b)	**(183,203)**	(203,474)
Impairment loss recognised in respect of property, plant and equipment		**-**	(564)
Donation of properties		**-**	(29,782)
Loss on fair value change on investment properties		**(139,440)**	(50,173)
(Loss) gain on fair value change of embedded derivative components of convertible bonds		**(110,910)**	6,755
Finance costs	7	**(272,438)**	(349,508)
(Loss) profit before taxation		**(154,551)**	235,422
Tax expenses	8	**(156,743)**	(125,064)
(Loss) profit for the year attributable to owners of the Company	9	**(311,294)**	110,358
Other comprehensive expense			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(433,912)**	(360,842)
Total comprehensive expense for the year attributable to owners of the Company		**(745,206)**	(250,484)
(Loss) earning per share	11		
Basic		**HK(19.13)cents**	HK6.78cents
Diluted		**HK(19.13)cents**	HK6.78cents

Consolidated Statement of Financial Position
As at 31 December 2016

	Notes	**2016** **_HK$'000_**	2015 *HK$'000*
Non-current assets			
Property, plant and equipment	12	**8,201,265**	9,263,771
Investment properties		**1,261,925**	1,482,789
Properties held for development		**268,188**	297,153
Prepaid lease payments		**237,153**	248,950
Goodwill		**3,370**	3,605
Intangible assets		**160,336**	95,994
Deposit for land use rights		**8,075**	7,597
Deposits for acquisition of property, plant and machinery		**28,906**	54,446
Pledged deposits against finance leases		**83,400**	154,674
Available-for-sale investment		**556**	595
Deferred tax asset		**14,041**	37,663
		10,267,215	11,647,237
Current assets			
Inventories		**1,071,734**	1,415,109
Trade and bills receivables, other receivables, deposits and prepayments	13	**2,180,432**	2,195,214
Prepaid lease payments		**5,509**	6,021
Pledged deposits against finance leases		**84,228**	59,490
Pledged bank deposits		**1,077,596**	970,316
Bank balances and cash		**1,982,565**	1,114,537
		6,402,064	5,760,687
Current liabilities			
Trade and bills payables and accrued charges	14	**3,319,638**	3,294,663
Derivative financial instruments		**95,511**	203,665
Obligations under finance leases - due within one year		**417,715**	698,999
Tax payables		**32,384**	33,950
Borrowings - due within one year		**3,613,650**	4,109,911
Convertible bonds		**-**	105,365
Embedded derivative components of convertible bonds		**-**	11,459
		7,478,898	8,458,012
Net current liabilities		**(1,076,834)**	(2,697,325)
Total assets less current liabilities		**9,190,381**	8,949,912

	Notes	2016 HK$'000	2015 HK$'000
Non-current liabilities			
Deferred tax liabilities		**641,157**	713,035
Deferred income in respect of government grants	14	**69,824**	98,096
Obligations under finance leases - due after one year		**283,330**	507,451
Borrowings - due after one year		**1,105,282**	912,697
Convertible bonds		**656,130**	-
Embedded derivative components of convertible bonds		**461,231**	-
		3,216,954	2,231,279
		5,973,427	6,718,633
Capital and reserves			
Share Capital	15	**16,269**	16,269
Reserves		**5,957,158**	6,702,364
Equity attributable to owners of the Company		**5,973,427**	6,718,633

Notes:

1. General

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company is Heren Far East Limited, while the ultimate holding companies are Heren Far East #2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited. All of those are companies incorporated in the British Virgin Islands and are ultimately controlled by The 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 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 2016, the Group had net current liabilities of HK$1,076,834,000 which included borrowings due within one year of HK$3,613,650,000. 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$2,797,788,000 at the date of these consolidated financial statements which can be utilised before maturity of the facilities and will be subject to renewal upon maturity, together with a fixed bond of approximately HK$1,241,350,000 issued on 1 March 2017. The total financial resources available for use as at the date of these consolidated financial statements is HK$4,039,138,000. 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 will have 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

Amendments to HKFRSs that are mandatorily effective for the current year

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 HKFRS 11	Accounting for Acquisitions of Interest in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 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 amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

HKFRS 9 *Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 39 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 fair value through other comprehensive income ("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.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. 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.

In 2016, the HKICPA issued Clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures. However, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Amendments to HKAS 7 *Disclosure Initiative*

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

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.

	2016	2015
	HK$'000	*HK$'000*
Sales of pharmaceutical products	**7,062,571**	7,694,563

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 2016

	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	**1,435,194**	**2,870,718**	**2,756,659**	**7,062,571**	**-**	**7,062,571**
Inter-segment sales	**1,206,918**	**284,157**	**-**	**1,491,075**	**(1,491,075)**	**-**
	2,642,112	**3,154,875**	**2,756,659**	**8,553,646**	**(1,491,075)**	**7,062,571**
RESULT						
Segment (loss) profit	**(234,404)**	**179,686**	**671,400**			**616,682**
Unrealised profit elimination	**633**	**(13,101)**	**(18,501)**			**(30,969)**
	(233,771)	**166,585**	**652,899**			**585,713**
Unallocated other income						**64,670**
Unallocated corporate expenses						**(151,348)**
Other gains and losses						**(130,798)**
Loss on fair value change of embedded derivative components of convertible bonds						**(110,910)**
Loss on fair value change on investment properties						**(139,440)**
Finance costs						**(272,438)**
Loss before taxation						**(154,551)**

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

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 results 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, 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 2016

	Intermediate products *HK$'000*	Bulk medicine *HK$'000*	Finished products *HK$'000*	Unallocated expenses *HK$'000*	Consolidated *HK$'000*
Amortisation of prepaid lease payment	**5,292**	**1,217**	**357**	**-**	**6,866**
Amortisation of intangible assets	**-**	**-**	**3,502**	**-**	**3,502**
Depreciation of property, plant and equipment	**664,599**	**103,340**	**50,218**	**2,469**	**820,626**
Loss on disposal of property, plant and equipment	**26,420**	**10,088**	**-**	**-**	**36,508**
Write-down of long aged deposit and prepayment	**27,529**	**-**	**-**	**-**	**27,529**

For the year ended 31 December 2015

	Intermediate products *HK$'000*	Bulk medicine *HK$'000*	Finished products *HK$'000*	Unallocated expenses (income) *HK$'000*	Consolidated *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

(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	
	2016	2015
	HK$'000	*HK$'000*
PRC (country of domicile)	**5,158,585**	5,279,534
Europe	**500,546**	688,478
India	**598,259**	557,511
Hong Kong	**50,391**	122,333
Middle East	**38,260**	111,889
South America	**87,853**	211,977
Other Asian regions	**452,126**	534,869
Other regions	**176,551**	187,972
	7,062,571	7,694,563

5. Other income

	2016	2015
	HK$'000	*HK$'000*
Other subsidy income	**68,356**	31,717
Bank interest income	**23,091**	43,638
Sundry income	**9,972**	15,287
Sales of raw materials	**8,405**	23,475
Sales of scrap materials	**2,422**	2,443
Reversal of impairment loss on property, plant and equipment	**-**	18,760
Overprovision of accrued expenses	**-**	39,131
	112,246	174,451

6. Other gains and losses / other expenses

	2016	2015
	HK$'000	*HK$'000*
(a) Other gains and losses		
Unrealised (gain) loss from changes in fair value of forwards contracts	**(107,412)**	172,036
Realised loss on forwards contracts	**109,589**	2,439
Net foreign exchange loss	**90,645**	95,976
Loss (gain) on disposal of property, plant and equipment	**36,508**	(20,297)
Others	**1,468**	(225)
	130,798	249,929
(b) Other expenses		
Research and development expenditures	**86,171**	73,205
Staff redundancy costs and removal costs upon cessation of production	**-**	3,344
Temporary production suspension costs	**59,032**	83,703
Write-down of long aged deposits and prepayments	**27,529**	34,296
Others	**10,471**	8,926
	183,203	203,474

7. Finance costs

	2016	2015
	HK$'000	*HK$'000*
Interest on borrowings	**219,965**	339,518
Interest on convertible bonds	**25,734**	16,317
Interest on finance leases	**45,964**	49,243
	291,663	405,078
Less: amounts capitalised in property, plant and equipment	**(19,225)**	(55,570)
	272,438	349,508

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.10% (2015: 5.59%) per annum to expenditure on qualifying assets.

8. Tax expenses

	2016	2015
	HK$'000	*HK$'000*
The charges comprises:		
Current tax		
Hong Kong Profits Tax	**836**	673
PRC Enterprise Income Tax	**134,941**	132,112
PRC withholding tax	**3,866**	5,963
	139,643	138,748
Under (over) provision in prior years		
Hong Kong	**761**	(211)
Sub-total	**140,404**	138,537
Deferred tax	**16,339**	(13,473)
	156,743	125,064

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 2016 and 2015.

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. (Loss) profit for the year

	2016	2015
	HK$'000	*HK$'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Provision of allowances for inventories (included in cost of sales)	**12,210**	8,290
Provision of allowances for doubtful debts, net	**28,146**	3,474
Auditor's remuneration	**5,670**	5,633
Amortisation of prepaid lease payments	**6,866**	7,385
Depreciation and amortisation		
Depreciation of property, plant and equipment	**820,626**	810,143
Amortisation of intangible assets (included in administrative expenses)	**3,502**	3,687
	824,128	813,830
Less: amount included in temporary production suspension costs in other expenses	**(45,678)**	(70,490)
Less: amount included in research and development expenditures in other expenses	**(7,229)**	(10,255)
	771,221	733,085
Operating lease payments in respect of rented premises	**2,263**	2,411
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**936,492**	946,362
Retirement benefit costs	**108,598**	114,720
	1,045,090	1,061,082
Less: amount included in research and development expenditures in other expenses	**(22,872)**	(21,218)
Less: amount included in temporary production suspension costs in other expenses	**(1,715)**	(2,555)
	1,020,503	1,037,309

10. Dividends

The Board does not recommend payment of final dividend for the year ended 31 December 2016 (2015: Nil).

11. (Loss) earning per share

The calculation of the basic and diluted (loss) earning per share attributable to the owners of the Company is based on the following data:

(Loss) earning

	2016	2015
	HK$'000	*HK$'000*
(Loss) earning for the purposes of basic and diluted (loss) earning per share being (loss) profit for the year attributable to owners of the Company	**(311,294)**	110,358

Number of shares

	2016	2015
Basic and diluted	***'000***	*'000*
Number of ordinary shares for the purpose of basic and diluted (loss) earning per share	**1,626,875**	1,626,875

The computation of diluted (loss) earning per share does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share and increase in earning per share for the years ended 31 December 2016 and 31 December 2015, respectively.

12. Property, plant and equipment

During the year, the Group spent approximately HK$448,631,000 (2015: HK$1,099,191,000) 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

	2016	2015
	HK$'000	*HK$'000*
Trade and bills receivables	**2,009,878**	1,986,634
Value added tax receivables	**51,184**	66,126
Other receivables, deposits and prepayments	**174,147**	181,553
Less : allowance for doubtful receivables		
- trade	**(10,428)**	(11,053)
- non-trade	**(44,349)**	(28,046)
	2,180,432	2,195,214

The Group normally allows a credit period of between 30 days and 120 days (2015: 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, net of allowance for doubtful receivables, at the end of the reporting period which approximate the respective revenue recognition dates:

	2016	2015
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**544,422**	458,121
31 to 60 days	**260,262**	349,407
61 to 90 days	**120,632**	118,582
91 to 120 days	**36,111**	54,836
121 to 180 days	**13,524**	21,748
Over 180 days	**26,628**	19,634
	1,001,579	1,022,328
Bills receivables		
0 to 30 days	**234,224**	145,306
31 to 60 days	**228,306**	171,957
61 to 90 days	**145,718**	183,048
91 to 120 days	**177,242**	170,406
121 to 180 days	**210,310**	278,173
Over 180 days	**2,071**	4,363
	997,871	953,253

14. Trade and bills payables, other 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:

	2016	2015
	HK$'000	*HK$'000*
Trade payables		
0 to 90 days	**702,690**	782,912
91 to 180 days	**256,806**	163,882
Over 180 days	**126,297**	113,163
	1,085,793	1,059,957
Bills payables		
0 to 90 days	**161,095**	257,140
91 to 180 days	**449,631**	366,069
	610,726	623,209
Other payables and accruals	**662,364**	633,080
Deferred income in respect of government grants	**146,792**	188,433
Payables in respect of the acquisition of property, plant and equipment	**883,787**	888,080
	3,389,462	3,392,759
Less: Amount due within one year shown under current liabilities	**(3,319,638)**	(3,294,663)
Amount shown under non-current liabilities	**69,824**	98,096

Included in the trade payables and other payables above are HK$221,829,000 and HK$109,456,000 (2015: HK$228,720,000 and HK$42,845,000), 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 2015, 31 December 2015 and 31 December 2016	3,800,000	38,000
Issued and fully paid:		
At 1 January 2015, 31 December 2015 and 31 December 2016	**1,626,875**	**16,269**

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2016, the Group's turnover was approximately HK$7,062.6 million, a decrease of 8.2% as compared with last year. The loss attributable to shareholders was approximately HK$311.3 million for the year ended 31 December 2016 while the profit attributable to shareholders was approximately HK$110.4 million in 2015. The loss for 2016 is mainly attributable to a number of factors as below:

- Loss on fair value change on investment properties located in Chengdu, China of approximately HK$139.4 million;

- Loss on fair value change of embedded derivative components of convertible bonds issued in December 2016 of approximately HK$110.9 million which the change in the Company's share price from the date of issue to the year-end date as at 31 December 2016 is one of the major factors; and

- Decrease in turnover of major intermediate products 6-APA and decrease in production lead to higher production costs during the year thus resulting decrease in gross profit.

During the year, segmental turnover (including inter-segment sales) of intermediate products and bulk medicine decreased by 15.2% and 13.1% respectively as compared with last year. Segmental turnover of finished products increased by 0.5% as compared with last year. Segmental result of intermediate products turned from profit of HK$246.3 million in 2015 to loss of HK$233.8 million in 2016. Segmental result of bulk medicine and finished products increased by 8.7% and 13.8% 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

As China's pharmaceutical market still witnessed a series of policy adjustments and struggled through various pressures such as economic downturn, the sales of 6-APA (main product of finished products) decreased which affected the overall sales of the Group. In addition, due to decrease in demand in the market, decrease in production lead to higher production costs during the year thus resulting decrease in gross profit.

Sales of finished products in line of expectation

The sales of the Group's finished products met expected target, especially for chemical pharmaceutical products such as recombinant human insulin, carbapenems type, etc continued to saw satisfactory growth. During the year, our recombinant human insulin products had won the bids in more than twenty provinces in China which carry out pharmaceutical products procurement through open bidding, and received orders from the medium-to-large hospitals, OTC market, essential drugs market and rural market, among which the sale performance in Anhui, Shandong, Henan, Guangdong and Jilin provinces was particularly satisfactory. The Group's antibiotics products recorded satisfactory sales during the year. Sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection, United Laboratories Amoxicillin branded capsules, the Imipenem and Cilastatin Sodium for Injection and the Meropenem for Injection, etc, continued to saw high-speed growth.

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 continued to seize market opportunities with an aim to optimising financial structure during the year and ensuring adequate working capital. The Group completed the issuance of convertible bonds with total principal amount of US$130,000,000 and a term of five years in December 2016. In addition, Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances are used to repay bank loans and as general working capital of the Group.

Liquidity and Financial Resources

As at 31 December 2016, the Group had pledged bank deposits and cash and bank balances amounted to approximately HK$3,060.2 million (2015: HK$2,084.9 million).

As at 31 December 2016, the Group had interest-bearing borrowings of approximately HK$4,718.9 million (2015: HK$5,022.6 million), which were denominated in Hong Kong dollars, Reminbi, Euro dollars and United States dollars with maturity within five years. Borrowings of approximately HK$2,887.7 million are fixed rates loans while the remaining balance of approximately HK$1,831.2 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 2016, current assets of the Group amounted to approximately HK$6,402.1 million (2015: HK$5,760.7 million). The Group's current ratio was approximately 0.86 as at 31 December 2016, as compared with 0.68 as at 31 December 2015. As at 31 December 2016, the Group had total assets of approximately HK$16,669.3 million (2015: HK$17,407.9 million) and total liabilities of approximately HK$10,695.9 million (2015: HK$10,689.3 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 55.4% as at 31 December 2016, as compared with 60.2% as at 31 December 2015.

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 2015 and 2016, the Group had no material contingent liabilities.

Outlook for 2017

Looking to the year 2017, we are optimistic about the development of China's pharmaceutical market. The Group will continue to increase market share in China and overseas, developing new products and optimize financing structure. Our strategies in various aspects are as follows:

Increasing market share

The Group will continue to take insulin series as its priority strategic products. Currently, the Group has become the pharmaceutical enterprise which owns both the second and third generation insulin products in China. It is expected that the insulin analogue series, particularly the insulin glargin, will speed up the development of the Group and will also bring considerable return to the Group and its shareholders in future. Currently, we have won bids in Chongqing and Fujian for our insulin glargin products and we expect to win bids or obtain qualification in supplementary tendering in additional provinces. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

Developing new products

The Group will continue to put aggressive efforts in the research and development of medicine for treating diabetes mellitus, including insulin aspart, insulin detemir and liraglutid, with an aim to continuously optimize our insulin product offerings, so that the high-quality domestic-made insulin products could benefit more diabetics in China. The Group has been long committed to drugs research and development. We currently have 42 new products under development and obtained 9 clinical trial approvals during the year. Currently, we have 21 patents which have been successfully registered and 9 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. Meanwhile, the Group is researching a variety of biological preparations, including insulin Degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future. With regard to the research and development of chemical pharmaceuticals, the Group has coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics. A total of eight chemical pharmaceuticals of the Group were granted clinical trial approval, including the Tadalafil Tablets to be used for treating male erectile dysfunction and benign prostatic hyperplasia and the pulmonary hypertension, and the Imatinib Mesylate Capsules to be used for fighting cancer, and relevant works are expected to be carried out gradually.

Strengthening productivity

As for intermediate and bulk medicine business, prices of such products, in particular the 6-APA went up to various degrees due to the recovery in market environment and demand. The Group will continue to enhance its utilisation rate and reduce production costs, with an aim to improve the profit.

Optimizing financing structure

The Group will continue to optimize the financing structure, to seek more mid to long-term financing opportunities and lower-cost financing channels to reduce its finance costs. Thus, the net current liabilities of the Group will have significant improvement.

Employees and Remuneration

As at 31 December 2016, the Group had approximately 11,700 (2015: 11,400) 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 2016.

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 separated and should not be performed by the same individual. During the year ended 31 December 2016, 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. Certain independent non-executive directors were unable to attend the annual general meeting of the Company held on 3 June 2016 due to their other important engagements.

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 2016, 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 2017