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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)

2018 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2018	2017	**Increase**
	RMB'000	*RMB'000*	*%*
Revenue	**7,510,586**	6,826,645	**10.0%**
EBITDA	**1,788,400**	1,125,470	**58.9%**
Profit before taxation	**793,879**	68,951	**1,051.4%**
Profit for the year attributable to owners of the Company	**682,928**	81,758	**735.3%**
Earnings per share (RMB cents)			
Basic	**41.80**	5.03	**731.0%**
Diluted	**32.27**	5.03	**541.6%**

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 (the "Year").

In 2018, as affected by the tightening global financial environment, trade frictions and other factors, the world economy grew at a slower pace. In particular, the gross domestic product (GDP) of the PRC exceeded RMB90.0 trillion during the Year, representing a year-on-year increase of 6.6%. The PRC economy has shifted from the stage of high-speed growth to high-quality development, and continuously demonstrated a general stable and upward trend.

In 2018, the pharmaceutical industry of the PRC entered a new development phase. During the Year, the government further deepened the comprehensive reform of public hospitals, continued to focus on medical insurance, medical treatment and pharmacy in the new health care reform, and made efforts to advance the health care reform from the prospective of "medical insurance, medical treatment and pharmacy". Meanwhile, the government issued a new edition of National Essential Drugs List, established the Bureau of National Health Care (國家醫療保障局), promoted and implemented the 4+7 centralised procurement of medicines in cities, which all indicated the State's determination to promote reform at the drug supply side, deepen the health care reform and improve the quality of domestic drugs. Upon this round of reform, we are expecting a significant rise in the concentration of the pharmaceutical industry, and leading enterprises that are in line with the general direction of medical reform policies will also embrace new growth opportunities.

During the Year, the Group's revenue amounted to RMB7,510.6 million, representing an increase of approximately 10.0% over 2017. EBITDA was approximately RMB1,788.4 million, representing an increase of 58.9% as compared with last year. Profit attributable to owners of the Company was RMB682.9 million, representing an increase of 735.3% as compared with last year. Earnings per share amounted to RMB41.80 cents. The Board proposes a final dividend of RMB6 cents per share for the year ended 31 December 2018.

During the Year, the Group's insulin series products continued to be the major growth driver. A total of 14.9 million vials of recombinant human insulin injections were sold during the Year, up by 21.1% as compared to last year and meeting the expected sales target, and recording a sales revenue of RMB574.8 million in total. In addition, the "United Laboratories USLEN" insulin glargine injection, which was officially launched to the market in May 2017, recorded a sales revenue of RMB84.1 million during the Year. Currently, insulin glargine products of the Group have won the tender through bidding in 17 provinces, and the Group will also continue to participate in the bidding in other provinces actively.

The Group's finished products business maintained a stable growth and antibiotics products recorded a sales revenue of RMB1,855.4 million in total during the Year. In particular, during the Year, the sales revenue from the piperacillin sodium and tazobactam sodium for injection amounted to RMB482.7 million, representing an increase of 18.3% over 2017, and the sales revenue from the United Laboratories amoxicillin branded capsules (the amoxicillin capsule) amounted to RMB451.2 million, representing an increase of 11.4% over 2017. In addition, memantine hydrochloride series products, a drug to treat Alzheimer's disease, recorded a sales revenue of RMB44.4 million during the Year, representing a significant increase over 2017.

The National Essential Drugs List (2018 version) was promulgated during the Year and 30 products under 15 categories of the Group were included in the List. In particular, the insulin glargine and piperacillin sodium and tazobactam sodium, two categories newly included in the List, are expected to have a positive impact on the Group's sales of finished products.

The Group has been committed to research and development on a continual basis. We currently have 38 new products under development, which are expected to further enrich our reserve of preparations. Currently, we have 29 patents which have been successfully registered and 13 patents which are in the process of applying for registration. As for the research and development of biological preparations, the Group will further optimise our offerings of antidiabetic drugs. In particular, the Group has currently applied for production of insulin aspart injection and insulin aspart 30 injection. The liraglutide injection has been approved for clinical trial in November 2018, and the Group will speed up advancing the clinical trial of such product, which is expected to effectively make up for the vacancy of domestic GLP-1 analog upon launched to the market. In addition, insulin degludec injection, insulin degludec-insulin aspart injection, insulin degludec-liraglutide injection and semaglutide have initiated pre-clinical studies. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as antidiabetic drugs, anti-HBV drugs and eye drops, and intends to expand into new drugs.

China Food and Drug Administration ("CFDA") officially issued the announcement on the consistency of quality and efficacy evaluation for generic drugs (the "Consistency Evaluation") in 2016, which marks the thorough implementation of the Consistency Evaluation in the PRC and signals the new start of the long cycle of the pharmaceutical industry of the PRC. The Group positively promoted the Consistency Evaluation for generic drugs, and thus differentiated itself in the fierce competition. In particular, the Group's amoxicillin capsule (specification: 0.25g) and cefuroxime axetil tablet (specification: 0.25g) were among the first to pass the Consistency Evaluation in April 2018 and August 2018, respectively. Benefiting from the Consistency Evaluation, the Group is expected to further expand our market shares of antibiotic products in different business segments, and further improve our product sales and market competitiveness, which lays a sound basis for the smooth development of the Group's subsequent Consistency Evaluation projects.

Upholding the sustainable development idea of "environment priority", the Group constantly increased investments in environmental protection and enhanced environmental protection with focus placed on the national environmental protection strategy. During the Year, United Laboratories (Inner Mongolia) Co., Ltd. (聯邦制藥(內蒙古)有限公司) successfully passed the supervision over environmental protection by the central government, and continued to promote the "Reclaimed Water Reuse" project. Such project is planned to be constructed in three tranches, and expected to comprehensively achieve the target of zero discharge of point source sewage in 2019. Benefiting from the continuous supervision over environmental protection by the central government, the prices of 6-APA and amoxicillin fluctuated stably and maintained at an ideal level during the Year. United Laboratories (Inner Mongolia) Co., Ltd. (聯邦制藥(內蒙古)有限公司) was included in the Third Batch of Green Manufacturing List issued by the Ministry of Industry and Information Technology and won the national "Green Plant" award; Zhuhai United Laboratories Co., Ltd. (珠海聯邦制藥股份有限公司) was accredited as a "new high-tech enterprise in Guangdong Province" once again, which demonstrated the recognition of the government in respect of the Group's operating results, technological innovation results and R&D strength, thereby further improving our brand image and comprehensive influence.

With regard to finance, the convertible bonds of approximately US$8,049,000 (equivalent to approximately RMB51,111,000) issued on 5 December 2016 have been converted by bondholders during the Year and 12,845,770 ordinary shares were allotted upon conversion. The Group will continue to optimise its financial structure and improve its liquidity to ensure adequate working capital.

Looking forward, the world economy faces downward pressures, and the PRC economy is expected to continue its stable growth under the micro adjustment of macro policies with a steady advancement of economic transformation. Currently, the pharmaceutical industry of the PRC is in rapid development, the medical insurance system is further improved, and the supply-side reform is continuously advanced. With a combined effect of the high-frequency policy guidance, the "Healthy China" industrial development strategy facilitation and an ageing population, the pharmaceutical industry is in urgent need for structural adjustment, so as to gradually enter a new development circle. As China further deepens its reform in the pharmaceutical industry including promotion of consistency of quality and efficacy evaluation for generic drugs, implementation of a new edition of National Essential Drugs List and pilot adoption of bulky procurement plan, we believe the pharmaceutical industry will embrace new development opportunities and achieve a long-term and healthy development in the future.

The Group will continue to place its strategic focus on insulin series products and actively promote the continued growth of sales of this series of products. Meanwhile, we will focus on promoting the piperacillin sodium and tazobactam sodium for injection, the United Laboratories amoxicillin branded capsules, the United Laboratories Ampicillin Capsules, the United Laboratories USLIN and the United Laboratories USLEN as a new product mix. Through ongoing improvement in our management system, the Group will continue to increase academic investments to achieve an all-rounded, balanced and sustainable development in terms of the market, products and teams. In the meantime, the Group will closely monitor the changes in pharmaceutical policy and market, and accelerate the project progress of the R&D and the Consistency Evaluation to gain a head start in the market. Furthermore, we will continue to improve the capacity utilisation rate of intermediate products and bulk medicines, optimise production costs, and adopt customised sales and pricing strategies for varied products to improve our profitability.

2019 is a year of both challenges and opportunities for the pharmaceutical industry of the PRC. The Group will make continuous efforts to enhance our product competitiveness, accelerate the cultivation of innovation ability and scientific research ability, and positively capitalise on the market opportunities arising from industrial transformation to 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 in 2018, as well as all staff for their efforts and contributions. I hope we can join hands and create a better future together.

2018 ANNUAL RESULTS

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2018 together with the comparative figures for the year 2017 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Revenue	3	**7,510,586**	6,826,645
Cost of sales		**(4,458,446)**	(4,328,428)
Gross profit		**3,052,140**	2,498,217
Other income	4	**118,925**	133,962
Other gains and losses, net	5(a)	**(121,133)**	8,904
Selling and distribution expenses		**(1,186,051)**	(1,067,920)
Administrative expenses		**(646,830)**	(596,746)
Other expenses	5(b)	**(309,922)**	(252,866)
Impairment loss reversed (recognised)		**2,106**	(6,947)
Loss on fair value change on investment properties		**(94,873)**	(326,980)
Gain (loss) on fair value change of embedded derivative components of convertible bonds		**226,414**	(53,938)
Finance costs	6	**(246,897)**	(266,735)
Profit before taxation		**793,879**	68,951
Tax (expense) credit	7	**(110,951)**	12,807
Profit for the year attributable to owners of the Company	8	**682,928**	81,758
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**615**	12,521
attributable to owners of the Company		**683,543**	94,279
Earnings per share (RMB cents)	10		
Basic		**41.80**	5.03
Diluted		**32.27**	5.03

Consolidated Statement of Financial Position
At 31 December 2018

	Notes	**2018** **RMB'000**	2017 RMB'000
Non-current assets			
Property, plant and equipment	11	**6,494,202**	6,831,488
Properties held for development		**255,723**	255,723
Investment properties		**698,424**	793,297
Prepaid lease payments		**223,186**	207,649
Goodwill		**3,031**	3,031
Intangible assets		**141,337**	150,797
Deposit for land use rights		**7,262**	7,262
Deposits for acquisition of property, plant and equipment		**46,080**	36,269
Pledged deposits against finance leases		**20,028**	46,737
Financial asset at fair value through profit or loss		**500**	-
Available-for-sale investment		**-**	500
Deferred tax asset		**15,516**	14,167
		7,905,289	8,346,920
Current assets			
Inventories		**1,464,661**	1,173,082
Trade and bills receivables, other receivables, deposits and prepayments	12	**3,065,886**	2,453,675
Prepaid lease payments		**5,406**	4,954
Pledged bank deposits		**555,806**	487,738
Pledged deposits against finance leases		**26,709**	51,709
Bank balances and cash		**1,578,540**	1,593,768
		6,697,008	5,764,926
Current liabilities			
Trade and bills payables, other payables and accrued charges	13	**3,700,672**	3,268,323
Contract liabilities		**68,439**	-
Obligations under finance leases - due within one year		**108,572**	285,594
Tax payables		**84,338**	97,145
Borrowings - due within one year		**1,625,638**	1,138,257
Bank overdraft		**96,644**	-
Convertible bonds		**830,894**	-
		6,515,197	4,789,319
Net current assets		**181,811**	975,607
Total assets less current liabilities		**8,087,100**	9,322,527

	Notes	**2018** *RMB'000*	2017 *RMB'000*
Non-current liabilities			
Deferred tax liabilities		**296,866**	362,667
Deferred income in respect of government grants	13	**77,453**	84,947
Obligations under finance leases - due after one year		**7,423**	115,639
Borrowings - due after one year		**1,583,316**	2,279,286
Convertible bonds		**-**	1,038,223
		1,965,058	3,880,762
		6,122,042	**5,441,765**
Capital and reserves			
Share Capital		**15,346**	**15,237**
Reserves		**6,106,696**	**5,426,528**
Equity attributable to owners of the Company		**6,122,042**	**5,441,765**

Notes:

1. General

The United Laboratories International Holdings Limited (the "Company") is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company is Heren Far East Limited, incorporated in the British Virgin Islands and is 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 principal place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The consolidated financial statements are presented in Renminbi ("RMB") which is the same as the functional currency of the Company and most of its subsidiaries (the "Group"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

2. Application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the amendments to HKFRSs and the interpretation 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.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

The Group recognises revenue from sales of pharmaceutical products.

Summary of effects arising from initial application of HKFRS 15

There is no impact on timing and amounts of revenue recognised under HKFRS 15 and HKAS 18.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	Reclassification	Carrying amounts under HKFRS 15 at 1 January 2018*
	RMB'000	*RMB'000*	*RMB'000*
Current liabilities			
Trade and bills payables, other payables and accrued charges	(3,268,323)	87,054	(3,181,269)
Contract liabilities	-	(87,054)	(87,054)

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Note: As at 1 January 2018, advances from customers of RMB87,054,000 in respect of sales of pharmaceutical products contracts previously included in trade and other payables were reclassified to contract liabilities under HKFRS 15.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	As reported	Adjustment	Amounts without application of HKFRS 15
		RMB'000	*RMB'000*	*RMB'000*
Current liabilities				
Trade and bills payables, other payables and accrued charges	(a)	(3,700,672)	(68,439)	(3,769,111)
Contract liabilities	(a)	(68,439)	68,439	-

Note:

(a) As at 31 December 2018, advance from customers of RMB68,439,000 would have been included in trade and bills payables, other payables and accrued charges under HKAS 18.

Impact on the consolidated statement of cash flows

	As reported	Adjustment	Amounts without application of HKFRS 15
	RMB'000	*RMB'000*	*RMB'000*
Operating activities			
Increase in trade and bills payables, other payables and accrued charges	585,561	(18,615)	566,946
Decrease in contract liabilities	(18,615)	18,615	-

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Note	Available-for-sale ("AFS") investment	Financial asset at fair value through profit or loss ("FVTPL")
		RMB'000	*RMB'000*
Closing balance at 31 December 2017 – HKAS 39		500	-
Effect arising from initial application of HKFRS 9:			
Reclassification from AFS investment	(a)	(500)	500
Opening balance at 1 January 2018		-	500

(a) AFS investment

From AFS investment to financial asset at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investment of RMB500,000 were reclassified from AFS investment to financial asset at FVTPL. No fair value change relating to those equity investment previously carried at cost less impairment was adjusted to financial asset at FVTPL and retained profits as at 1 January 2018 as the amount involved is considered to be insignificant.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. The ECL on these assets are assessed collectively using a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates.

ECL for other financial assets at amortised cost, including certain other receivables, bills receivables, pledged bank deposits, pledged deposits against finance leases and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised against retained profits as the amounts involved are insignificant.

Except as described above, the application of HKFRS 9 has had no material impact on the amounts reported set out in these consolidated financial statements.

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017	HKFRS 15	HKFRS 9	1 January 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Audited)			(Restated)
Non-current Assets				
AFS investment	500	-	(500)	-
Financial asset at FVTPL	-	-	500	500
Current liabilities				
Trade and bills payables, other payables and accrued charges	(3,268,323)	87,054	-	(3,181,269)
Contract liabilities	-	(87,054)	-	(87,054)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

3. Revenue and segment information

The Group is currently organised into three revenue streams, including Intermediate products; Bulk medicine; and Finished products.

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 three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

(a) Segment revenue and results:

Year ended 31 December 2018

	Intermediate products	Bulk medicine	Finished products	Segment total	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External sales	**1,233,625**	**3,389,710**	**2,887,251**	**7,510,586**	**-**	**7,510,586**
Inter-segment sales	**1,617,804**	**423,009**	**-**	**2,040,813**	**(2,040,813)**	**-**
Segment revenue	**2,851,429**	**3,812,719**	**2,887,251**	**9,551,399**	**(2,040,813)**	**7,510,586**
Segment profit	**287,120**	**105,193**	**615,374**			**1,007,687**
Unallocated other income						**107,539**
Unallocated corporate expenses						**(84,858)**
Other gains and losses, net						**(121,133)**
Gain on fair value change of embedded derivative components of convertible bonds						**226,414**
Loss on fair value change on investment properties						**(94,873)**
Finance costs						**(246,897)**
Profit before taxation						**793,879**

Year ended 31 December 2017

	Intermediate products	Bulk medicine	Finished products	Segment total	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External sales	1,473,511	2,853,437	2,499,697	6,826,645	-	6,826,645
Inter-segment sales	1,183,311	391,812	-	1,575,123	(1,575,123)	-
Segment revenue	2,656,822	3,245,249	2,499,697	8,401,768	(1,575,123)	6,826,645
Segment profit	34,433	103,293	620,727			758,453
Unallocated other income						110,615
Unallocated corporate expenses						(161,368)
Other gains and losses, net						8,904
Loss on fair value change of embedded derivative components of convertible bonds						(53,938)
Loss on fair value change on investment properties						(326,980)
Finance costs						(266,735)
Profit before taxation						68,951

(b) Geographical information

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

	Revenue from external customers	
	2018	2017
	RMB'000	*RMB'000*
PRC (country of domicile)	**5,541,842**	4,754,285
Europe	**570,821**	484,135
India	**532,060**	783,367
Hong Kong	**33,601**	21,654
Middle East	**48,234**	35,406
South America	**151,704**	209,084
Other Asian regions	**421,675**	385,997
Other regions	**210,649**	152,717
	7,510,586	6,826,645

4. Other income

	2018	2017
	RMB'000	*RMB'000*
Bank interest income	**22,636**	**26,355**
Sales of scrap materials	**7,282**	**7,176**
Other subsidy income (Note)	**69,556**	**89,068**
Sundry income	**19,451**	**11,363**
	118,925	**133,962**

Note: Other subsidy income includes government grants from the PRC government which are specifically for (i) capital expenditure incurred for plant and machinery, which are recognised as income over the useful life of related assets; (ii) incentives and other subsidies for research and development activities, which are recognised upon meeting the specific conditions; and (iii) incentives which have no specific conditions attached to the grants.

5. Other gains and losses/other expenses

	2018 *RMB'000*	2017 *RMB'000*
(a) Other gains and losses, net		
Impairment loss recognised on intangible assets	**17,960**	-
Loss on derivative financial instrument (Note a)	**3,813**	24,646
Net loss on disposal of property, plant and equipment	**29,529**	4,808
Net foreign exchange loss (gain)	**70,005**	(38,352)
Others	**(174)**	(6)
	121,133	(8,904)

	2018 *RMB'000*	2017 *RMB'000*
(b) Other expenses		
Research and development costs	**283,224**	162,298
Temporary production suspension costs	**11,263**	43,781
Write-off of long-aged deposits and prepayments	**-**	28,445
Demolition expenses (Note b)	**-**	7,760
Tax penalty	**7,700**	6,575
Others	**7,735**	4,007
	309,922	252,866

Notes:

(a) For the year ended 31 December 2018, the Group had entered into several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There were no outstanding foreign currency forward contracts held by the Group as at 31 December 2018 and 2017.

(b) The demolition expense represents the cost for destruction and removal of the property, plant and equipment in site of Chengdu after entering into an agreement with the local government of Pengzhou in 2017.

6. Finance costs

	2018 *RMB'000*	2017 *RMB'000*
Interest on borrowings	**160,480**	**156,313**
Interest on convertible bonds	**88,648**	**84,490**
Interest on finance leases	**19,748**	**40,553**
	268,876	**281,356**
Less: amounts capitalised in property, plant and equipment	**(21,979)**	**(14,621)**
	246,897	**266,735**

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.81% (2017: 5.33%) per annum to expenditure on qualifying assets.

7. Tax expenses (credit)

	2018	2017
	RMB'000	*RMB'000*
The tax charges (credit) comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	**130,601**	147,734
PRC withholding tax on distributed profits of PRC subsidiaries	**47,500**	54,913
	178,101	202,647
Deferred tax credit	**(67,150)**	(215,454)
	110,951	(12,807)

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime are applicable to the Company for its annual reporting periods beginning on or after 1 January 2018. No Hong Kong Profits Tax has been recognised as its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

The PRC 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 EIT 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 EIT Law), the subsidiaries are entitled to a reduced rate of 15% and such qualification is subject to renewal for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2018 and 2017.

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 a PRC entity to a non-PRC tax resident shall be subject to PRC EIT 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. The withholding tax rate applicable to the Group is 5%. As at 31 December 2018 and 31 December 2017, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

8. Profit for the year

	2018	2017
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**4,575**	4,571
Depreciation		
Depreciation of property, plant and equipment	**728,755**	774,490
Less: amount included in research and development expenditures	**(30,125)**	(25,206)
Less: amount included in temporary production suspension costs in other expenses	**(2,866)**	(25,444)
Less: amount included in cost of sales	**(65,978)**	(62,751)
	629,786	661,089
Amortisation		
Intangible assets (included in cost of sales)	**12,284**	9,676
Prepaid lease payments	**6,585**	5,618
	18,869	15,294
Minimum lease payments in respect of rented premises	**429**	1,665
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**956,203**	892,141
Retirement benefit costs	**99,957**	90,922
	1,056,160	983,063
Less: amount included in research and development expenditures	**(54,733)**	(34,450)
Less: amount included in temporary production suspension costs in other expenses	**(1,327)**	(3,515)
	1,000,100	945,098
(Reversal) write-down of inventories, net (included in cost of sales)	**(7,797)**	19,584
Cost of inventories recognised as expenses	**4,458,446**	4,328,428

9. Dividends

	2018	2017
	RMB'000	*RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year		
2017 final dividend RMB5 cents (2017: 2016 final dividend of nil) per share	84,443	-

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of RMB6 cents (2017: RMB5 cents) per ordinary share, in an aggregate amount of RMB98,383,000 (2017: RMB84,443,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

10. 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

	2018	2017
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share being profit for the year attributable to owners of the Company	**682,928**	81,758
Effect of diluted potential ordinary shares:		
Effect on convertible bonds	**(91,031)**	-
Earnings for the purposes of diluted earnings per share being profit for the year attributable to owners of the Company	**591,897**	81,758

Number of shares

	2018	2017
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,633,778**	1,626,875
Effect of dilutive potential ordinary shares:		
Effect on convertible bonds	**200,570**	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,834,348**	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 the year ended 31 December 2017.

11. Property, plant and equipment

During the year, the Group spent approximately RMB452,969,000 (2017: RMB265,322,000) on the acquisition of property, plant and equipment, in order to upgrade its manufacturing capabilities.

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

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**1,134,749**	1,066,835
Bills receivables	**1,854,888**	1,255,237
Value added tax receivables	**27,141**	56,245
Other receivables, deposits and prepayments	**81,037**	126,558
Less : allowance for credit losses		
- trade	**(25,518)**	(19,212)
- non-trade	**(6,411)**	(31,988)
	3,065,886	2,453,675

As at 31 December 2018 and 31 December 2017, carrying amount of trade receivables from contracts with customers amounted to RMB1,134,749,000 and RMB 1,066,835,000 respectively.

The Group normally allows a credit period of 60 days on average (2017: 60 days on average) 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, net of allowances for credit losses, presented based on the invoice date, at the end of the reporting period which approximate the respective revenue recognition dates:

	2018	2017
	RMB'000	*RMB'000*
Trade receivables		
0 to 30 days	**392,207**	628,482
31 to 60 days	**460,665**	300,223
61 to 90 days	**176,782**	71,975
91 to 120 days	**46,778**	21,440
121 to 180 days	**32,799**	14,479
Over 180 days	-	11,024
	1,109,231	1,047,623
Bills receivables		
0 to 30 days	**427,028**	329,005
31 to 60 days	**316,823**	245,459
61 to 90 days	**325,024**	202,961
91 to 120 days	**302,806**	199,464
121 to 180 days	**460,105**	267,709
Over 180 days	**23,102**	10,639
	1,854,888	1,255,237

13. 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:

	2018	2017
	RMB'000	*RMB'000*
Trade payables		
0 to 90 days	**839,253**	852,136
91 to 180 days	**440,247**	251,858
Over 180 days	**27,637**	41,737
	1,307,137	1,145,731
Bills payables		
0 to 90 days	**563,778**	305,609
91 to 180 days	**410,836**	389,541
	974,614	695,150
Other payables and accruals	**1,041,738**	984,477
Deferred income in respect of government grants	**128,302**	130,758
Payables in respect of the acquisition of property, plant and equipment	**326,334**	397,154
	3,778,125	3,353,270
Less: Amount due within one year shown under current liabilities	**(3,700,672)**	(3,268,323)
Amount shown under non-current liabilities	**77,453**	84,947

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB26,185,000 and RMB496,381,000 (2017: RMB105,433,000 and RMB72,140,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period.

14. Capital commitments

As at 31 December 2018, the Group had capital commitments in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements of RMB633,246,000 (2017: RMB332,998,000).

15. Pledge of assets

Other than deposits made to financing leasing companies with carrying value of RMB46,737,000 (2017: RMB98,446,000) and the property, plant and equipment with carrying value of RMB275,701,000 (2017: RMB800,198,000) under finance leases, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**576,407**	638,008
Land use rights	**44,491**	24,142
Bills receivables	**373,657**	25,317
Pledged bank deposits	**555,806**	487,738

16. Related party transaction

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

	2018	2017
	RMB'000	*RMB'000*
Fees	**702**	832
Salaries and other benefits	**16,206**	16,536
Retirement benefits scheme contribution	**127**	126
	17,035	17,494

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2018, the Group's revenue was approximately RMB7,510.6 million, an increase of 10.0% as compared with last year. The profit attributable to shareholders was approximately RMB682.9 million for the year ended 31 December 2018 while the profit for the year ended 31 December 2017 was approximately RMB81.8 million, representing an increase of 735.3%. The profit for 2018 is mainly attributable to a number of factors as below:

- Increase in the sales prices of intermediate products, resulting a substantial improvement in overall profit margin;
- The fair value change of embedded derivative components of convertible bonds records a gain of approximately RMB226.4 million; and
- Substantial decrease in loss on fair value change on investment properties.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 7.3%, 17.5% and 15.5% respectively as compared with last year. Segmental result of intermediate products and bulk medicine increased by 733.9% and 1.8% respectively as compared with last year. Segmental result of finished products decreased slightly by 0.9% as compared with last year.

The fair value change of embedded derivative components of convertible bonds records a gain of approximately RMB226.4 million is mainly due to fluctuation in the share price of the Company during the year.

Fair value loss of investment properties located in Chengdu is due to increase in construction costs and reference to current market.

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

<u>Intermediate Products and Bulk Medicine</u>

During the year, the sales price of intermediate products increased steadily thus resulting a significant improvement in segment profit. The sales of bulk medicine also increased gradually during the year. Segment revenue of intermediate products amounts to RMB2,851.4 million representing an increase of 7.3% as compared to 2017. Segment results of intermediate products records a significant increase from profit of approximately RMB34.4 million in 2017 to profit of approximately RMB287.1 million in current year, representing an increase of 733.9%. Bulk medicine segment records a segment revenue of approximately RMB3,812.7 million, representing an increase of 17.5% as compared to 2017, and segment profit of approximately RMB105.2 million for current year.

Finished Products

During the year, the Group's finished products business maintained continued growth and records a segment revenue of approximately RMB2,887.3 million, representing an increase of 15.5%, and segment profit of approximately RMB615.3 million for current year.

The Group's insulin series products continued to be the major driving force of the Group's growth. Sales volume of recombinant human insulin injections was increased by 21.1% as compared to last year, and recording a sales revenue of approximately RMB574.8 million. The "United Laboratories USLEN" insulin glargin injection launched to market in May 2017 has recorded a sales revenue of RMB84.1 million during 2018 and RMB21.9 million in 2017, representing an increase of 284.0%. Currently, the Group's insulin glargine products have won the tender through bidding in 17 provinces.

Research and Development

The Group has been long committed to research and development. The expenditure in R&D for current year amounted to approximately RMB283.2 million, representing 74.5% increase as compared with last year. The Group currently has 38 new products under development. Currently, 29 patents have been successfully registered and 13 patents are in the process of applying for registration, which is expected to further enrich our reserve of preparations. The Group has currently applied for production of insulin aspart injection and insulin aspart 30 injection. The liraglutide injection has been approved for clinical trial in November 2018, and the Group will speed up advancing the clinical trial of such product, which is expected to effectively make up for the vacancy of domestic GLP-1 analog upon launched to the market. In addition, insulin degludec injection, insulin degludec-insulin aspart injection, insulin degludec-liraglutide injection and semaglutide have initiated pre-clinical studies. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as antidiabetic drugs, anti-HBV drugs and eye drops, and intends to expand into new drugs.

Products Consistency Evaluation

China Food and Drug Administration ("CFDA") officially issued the announcement on the consistency of quality and efficacy evaluation for generic drugs (the "Consistency Evaluation") in early 2016, which marks the thorough implementation of the Consistency Evaluation in the PRC and signals the new start of the long cycle of the pharmaceutical industry of the PRC. The Group made positive responses and continuously promoted the Consistency Evaluation for generic drugs, and thus differentiated itself in the fierce competition. As approved by China Food and Drug Administration, one of our major antibiotic products the United Laboratories amoxicillin branded capsule (the amoxicillin capsule) (specification: 0.25g) was among the first to pass the Consistency Evaluation in April 2018. The cefuroxime axetil tablet (specification: 0.25g) of the Group had also passed the Consistency Evaluation in August 2018. Benefiting from a head start in the Consistency Evaluation, we are expecting to further expand our market shares of antibiotic products in different business segments. The aforementioned approvals also provided a good start for the smooth development of the Group's subsequent Consistency Evaluation projects.

Optimising Financing Structure

With regard to finance, the Group continued to optimise its financial condition. The convertible bonds of approximately US$8,100,000 (equivalent to approximately RMB51,100,000) issued on 5 December 2016 have been converted by bondholders in June 2018 and approximately 12,800,000 ordinary shares were allotted upon conversion. As at 31 December 2018, the Group's net gearing ratio was further decreased to 33.8% as a result of improvement in earnings.

Liquidity and Financial Resources

As at 31 December 2018, the Group had pledged bank deposits and cash and bank balances amounted to approximately RMB2,134.3 million (2017: RMB2,081.5 million).

As at 31 December 2018, the Group had interest-bearing borrowings and bank overdraft of approximately RMB3,305.6 million (2017: RMB3,417.5 million), which were denominated in Hong Kong dollars, Reminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB2,209.9 million are fixed rates loans while the remaining balance of approximately RMB999.0 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 2018, current assets of the Group amounted to approximately RMB6,697.0 million (2017: RMB5,764.9 million). The Group's current ratio was approximately 1.03 as at 31 December 2018, as compared with 1.20 as at 31 December 2017. As at 31 December 2018, the Group had total assets of approximately RMB14,602.3 million (2017: RMB14,111.8 million) and total liabilities of approximately RMB8,480.3 million (2017: RMB8,670.1 million), representing a net gearing ratio (calculated as total borrowings, bank overdraft, 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 33.8% as at 31 December 2018, as compared with 49.2% as at 31 December 2017.

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 denominated in Renminbi and Hong Kong dollars. The Group's borrowings are denominated in Hong Kong dollars, Reminbi, Euro and United States dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange 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 2018 and 2017, the Group had no material contingent liabilities.

Outlook for 2019

2019 is a year of both challenges and opportunities for the pharmaceutical industry of the PRC. The PRC economy is expected to continue its stable growth under the micro adjustment of macro policies with a steady advancement of economic transformation. Currently, the pharmaceutical industry of the PRC is in rapid development, the medical insurance system is further improved, and the supply-side reform is continuously advanced.

The Group will continue to place its strategic focus on insulin series products and actively promote the continued growth of sales of this series of products. Meanwhile, we will focus on promoting the piperacillin sodium and tazobactam sodium for injection, the United Laboratories amoxicillin branded capsules, the United Laboratorie Ampicillin Capsules, the United Laboratories USLIN and the United Laboratories USLEN as a new product mix.

The Group will also make continuous efforts to enhance our product competitiveness, accelerate the cultivation of innovation ability and scientific research ability. Currently, we have 38 new products under development, which are expected to further enrich our reserve of preparations; 29 patents which have been successfully registered and 13 patents which are in the process of applying for registration. As for the research and development of biological preparations, the Group will further optimise our offerings of antidiabetic drugs. The Group has currently applied for production of insulin aspart injection and insulin aspart 30 injection, which is expected to obtain approval the soonest within the year. The liraglutide injection has been approved for clinical trial in November 2018. With regard to the research and development of chemical pharmaceuticals, the Group has focal coverage over series of products such as antidiabetic drugs, anti-HBV drugs and eye drops, and intends to expand into new drugs.

Employees and Remuneration

As at 31 December 2018, the Group had approximately 12,200 (2017: 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.

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 2018.

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 ("CG Code") and Corporate Governance Report contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarised 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 2018, 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 the non-executive directors should attend general meetings of the Company. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 8 June 2018 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 three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2018, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend, the Register of Members of the Company will be closed on Wednesday, 19 June 2019 and Thursday, 20 June 2019 on which no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 18 June 2019.

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, Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board
Tsoi Hoi Shan
Chairman

Hong Kong, 28 March 2019