



聯邦制藥國際控股有限公司
The United Laboratories
International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code:3933)

Interim Report 2016



讓生命更有價值
Our mission is to make life more valuable



Contents

2	Financial Highlights
3	Corporate Information
4	Report on Review of Condensed Consolidated Financial Statements
5	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
6	Condensed Consolidated Statement of Financial Position
8	Condensed Consolidated Statement of Changes in Equity
9	Condensed Consolidated Statement of Cash Flows
11	Notes to the Condensed Consolidated Financial Statements
30	Management Discussion and Analysis
34	Other Information

Financial Highlights

	Six months ended 30 June		
	2016 HK\$'000	2015 HK\$'000	Decrease
Revenue	3,503,506	4,062,365	(13.8%)
EBITDA	661,194	803,364	(17.7%)
Profit before taxation	100,336	259,380	(61.3%)
(Loss) profit for the period attributable to owners of the Company	(15,107)	280,279	N/A
(Loss) earnings per share	HK cents	HK cents	
– Basic	(0.93)	17.23	N/A
– Diluted	(0.93)	17.23	N/A

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (*Chairman*)
Mr. Leung Wing Hon (*Vice-Chairman*)
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent non-executive directors

Mr. Chong Peng Oon
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

COMPANY SECRETARY

Mr. Leung Wing Hon (*FCPA*)

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon (*Chairman*)
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

Mr. Chong Peng Oon (*Chairman*)
Mr. Huang Bao Guang
Prof. Song Ming
Ms. Fu Xiao Nan

NOMINATION COMMITTEE

Prof. Song Ming (*Chairman*)
Mr. Chong Peng Oon
Mr. Huang Bao Guang
Ms. Fu Xiao Nan

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon (*Chairman*)
Mr. Leung Wing Hon
Ms. Choy Siu Chit
Prof. Song Ming

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
Ping An Bank Co., Ltd., Zhuhai Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of China Limited, Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Huaxia Bank, Zhuhai Branch

Hong Kong

China Development Bank Corporation,
Hong Kong Branch
The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
Taipei Fubon Commercial Bank Co., Limited,
Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

INVESTOR RELATIONS CONTACT

Ms. Karen Yang (IR Officer)
Email: tulir@tul.com.hk
Telephone: (852) 6131 3992

Deloitte.

德勤

TO THE BOARD OF DIRECTORS OF

THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of The United Laboratories International Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 5 to 29, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25 August 2016

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	3,503,506	4,062,365
Cost of sales		(2,221,082)	(2,424,283)
Gross profit		1,282,424	1,638,082
Other income	4	42,018	55,202
Other gains and losses, net	5	(51,552)	63,123
Selling and distribution expenses		(619,689)	(661,086)
Administrative expenses		(345,573)	(370,052)
Research and development expenditures		(45,456)	(33,990)
Other expenses	8	(28,300)	(42,230)
Impairment loss recognised in respect of investment properties	11	–	(30,131)
Loss on fair value change on investment properties	11	–	(174,733)
Gain (loss) on fair value change of embedded derivative components of convertible bonds	15	11,251	(5,474)
Finance costs	6	(144,787)	(179,331)
Profit before taxation		100,336	259,380
Tax (expense) credit	7	(115,443)	20,899
(Loss) profit for the period attributable to owners of the Company	8	(15,107)	280,279
Other comprehensive expense:			
Items that will not be subsequently reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		(142,132)	(13,511)
Total comprehensive (expenses) income for the period attributable to the owners of the Company		(157,239)	266,768
		HK cents	HK cents
(Loss) earnings per share	9		
– Basic		(0.93)	17.23
– Diluted		(0.93)	17.23

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	<i>NOTES</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	8,678,771	9,263,771
Investment properties	11	1,451,983	1,482,789
Properties held for development	11	290,858	297,153
Prepaid lease payments		238,716	248,950
Goodwill		3,530	3,605
Intangible assets		118,257	95,994
Deposit for land use rights		7,438	7,597
Deposits for acquisition of property, plant and equipment		69,590	54,446
Pledged deposits against finance leases		122,325	154,674
Available-for-sale investment		583	595
Deferred tax asset		23,512	37,663
		<u>11,005,563</u>	<u>11,647,237</u>
Current assets			
Inventories		1,397,579	1,415,109
Trade and bills receivables, other receivables, deposits and prepayments	12	2,324,685	2,195,214
Prepaid lease payments		5,771	6,021
Pledged bank deposits		1,000,128	970,316
Pledged deposits against finance leases		81,550	59,490
Bank balances and cash		1,335,709	1,114,537
		<u>6,145,422</u>	<u>5,760,687</u>
Current liabilities			
Trade and bills payables and accrued charges	13	3,166,782	3,294,663
Derivative financial instruments		133,035	203,665
Obligations under finance leases – due within one year		618,446	698,999
Tax payables		42,675	33,950
Borrowings – due within one year	14	3,782,838	4,109,911
Convertible bonds	15	107,192	116,824
		<u>7,850,968</u>	<u>8,458,012</u>
Net current liabilities		<u>(1,705,546)</u>	<u>(2,697,325)</u>
Total assets less current liabilities		<u>9,300,017</u>	<u>8,949,912</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	<i>NOTES</i>	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		712,754	713,035
Deferred income in respect of government grants	13	82,490	98,096
Obligations under finance leases – due after one year		476,517	507,451
Borrowings – due after one year	14	1,466,862	912,697
		2,738,623	2,231,279
		6,561,394	6,718,633
Capital and reserves			
Share capital	16	16,269	16,269
Reserves		6,545,125	6,702,364
Equity attributable to owners of the Company		6,561,394	6,718,633

The condensed consolidated financial statements on pages 5 to 29 were approved and authorised for issue by the Board of Directors on 25 August 2016 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Foreign exchange reserve HK\$'000	Retained profits HK\$'000	
At 1 January 2015 (audited)	16,269	2,656,294	286,032	619,570	121,968	797,784	2,471,200	6,969,117
Profit for the period	-	-	-	-	-	-	280,279	280,279
Exchange differences arising on translation to presentation currency	-	-	-	-	-	(13,511)	-	(13,511)
Total comprehensive income for the period	-	-	-	-	-	(13,511)	280,279	266,768
At 30 June 2015 (unaudited)	<u>16,269</u>	<u>2,656,294</u>	<u>286,032</u>	<u>619,570</u>	<u>121,968</u>	<u>784,273</u>	<u>2,751,479</u>	<u>7,235,885</u>
At 1 January 2016 (audited)	16,269	2,656,294	286,032	658,628	121,968	436,942	2,542,500	6,718,633
Loss for the period	-	-	-	-	-	-	(15,107)	(15,107)
Exchange differences arising on translation to presentation currency	-	-	-	-	-	(142,132)	-	(142,132)
Total comprehensive expense for the period	-	-	-	-	-	(142,132)	(15,107)	(157,239)
At 30 June 2016 (unaudited)	<u>16,269</u>	<u>2,656,294</u>	<u>286,032</u>	<u>658,628</u>	<u>121,968</u>	<u>294,810</u>	<u>2,527,393</u>	<u>6,561,394</u>

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of respective subsidiaries.

Included in special reserve is an amount of HK\$208,792,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of HK\$77,240,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquiring of additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Operating activities		
Profit before taxation	100,336	259,380
Provision of allowance for inventories	10,580	–
(Reversal of) provision of allowance of doubtful debts	(2,465)	5,179
Amortisation of intangible assets	1,775	2,232
Amortisation of prepaid lease payments	3,747	2,165
Depreciation of property, plant and equipment	410,549	360,256
Loss on fair value change on investment properties	–	174,733
Impairment loss recognised in respect of investment properties	–	30,131
Finance costs	144,787	179,331
Bank interest income	(13,958)	(24,295)
Subsidy income	(25,305)	–
Net losses on disposal of property, plant and equipment	15,878	33
Investment loss (income) on forward contracts	45,982	–
Fair value gain on derivative financial instruments	(70,373)	(26,576)
(Gain) loss on fair value change of embedded derivative components of convertible bonds	(11,251)	5,474
Written down of deposits for acquisition of property, plant and equipment	–	4,514
Unrealised exchanged gain	–	(136)
Operating cash flows before movements in working capital	610,282	972,421
Increase in inventories	(21,382)	(229,824)
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	(96,478)	335,275
(Decrease) increase in derivative financial instruments	(45,982)	380
(Decrease) increase in trade and bills payables and accrued charges	(113,484)	121,438
Cash generated from operations	332,956	1,199,690
Tax paid	(77,673)	(81,174)
Net cash from operating activities	255,283	1,118,516

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Investing activities		
Decrease (increase) in prepaid lease payments	589	(474)
Payments for purchase of property, plant and equipment	(107,381)	(377,723)
Payment for deposits of acquisition of property, plant and equipment	(22,710)	–
Proceeds on disposal of property, plant and equipment	76,497	5,587
Placement of pledged bank deposits, net	(50,767)	(323,792)
Receipt of government grants	8,435	–
Interest received	13,958	24,295
Additions to intangible assets	(26,230)	(27,404)
Net cash used in investing activities	(107,609)	(699,511)
Financing activities		
Interest paid	(147,829)	(189,591)
Proceeds from finance leases – sale and leaseback	295,500	–
Repayment of obligations under finance leases	(383,155)	(368,638)
Release of pledged deposits against finance leases, net	5,910	–
New borrowings raised	1,747,390	3,239,145
Repayment of borrowings	(1,423,897)	(3,244,407)
Net cash from (used in) financing activities	93,919	(563,491)
Net increase (decrease) in cash and cash equivalents	241,593	(144,486)
Cash and cash equivalents at beginning of the period	1,114,537	1,003,079
Effect of foreign exchange rate changes	(20,421)	(3,505)
Cash and cash equivalents at end of the period, represented by bank balances and cash	1,335,709	855,088

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (HKAS 34) "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

As at 30 June 2016, the Group had net current liabilities of approximately HK\$1,705,546,000. The directors of the Company are of the opinion that, taking into account the available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements that is for at least the next twelve months commencing from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 HKFRS 14	Disclosure Initiative Regulatory deferral accounts
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 HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Sales of goods	<u>3,503,506</u>	<u>4,062,365</u>

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

The Group is currently organised into three revenue streams, including (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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

The following is an analysis of the Group's revenue and result by operating segments for the periods under review:

For the six months ended 30 June 2016 (unaudited)

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Segment total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	757,366	1,388,193	1,357,947	3,503,506	–	3,503,506
Inter-segment sales	574,675	141,923	–	716,598	(716,598)	–
	<u>1,332,041</u>	<u>1,530,116</u>	<u>1,357,947</u>	<u>4,220,104</u>	<u>(716,598)</u>	<u>3,503,506</u>
RESULT						
Segment (loss) profit	(7,659)	27,339	366,486			386,166
Unrealised profit elimination	(6,817)	(28,407)	(11,100)			(46,324)
	<u>(14,476)</u>	<u>(1,068)</u>	<u>355,386</u>			339,842
Unallocated other income						15,259
Other gains and losses, net						(51,552)
Unallocated corporate expenses						(69,677)
Gain on fair value change of embedded derivative components of convertible bonds						11,251
Finance costs						(144,787)
Profit before taxation						<u>100,336</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2015 (unaudited)

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Segment total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	962,681	1,766,549	1,333,135	4,062,365	–	4,062,365
Inter-segment sales	<u>776,007</u>	<u>140,277</u>	<u>–</u>	<u>916,284</u>	<u>(916,284)</u>	<u>–</u>
	<u><u>1,738,688</u></u>	<u><u>1,906,826</u></u>	<u><u>1,333,135</u></u>	<u><u>4,978,649</u></u>	<u><u>(916,284)</u></u>	<u><u>4,062,365</u></u>
RESULT						
Segment profit	251,999	136,103	263,887			651,989
Unrealised profit elimination	<u>(2,801)</u>	<u>(5,985)</u>	<u>(10,869)</u>			<u>(19,655)</u>
	<u><u>249,198</u></u>	<u><u>130,118</u></u>	<u><u>253,018</u></u>			<u><u>632,334</u></u>
Unallocated other income						35,148
Other gains and losses, net						63,123
Unallocated corporate expenses						(81,556)
Impairment loss recognised in respect of investment properties						(30,131)
Loss on fair value change on investment properties						(174,733)
Loss on fair value change of embedded derivative components of convertible bonds						(5,474)
Finance costs						<u>(179,331)</u>
Profit before taxation						<u><u>259,380</u></u>

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

Inter-segment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of bank interest income, sundry income, certain other expenses relating to relocation, other gains and losses, corporate expenses and staff costs, impairment loss recognised in respect of investment properties, fair value change on investment properties, gain (loss) on fair value change of embedded derivative components of convertible bonds and finance costs.

Total assets and liabilities for reportable segments are not presented in the condensed consolidated financial statement, as the information is not regularly provided to the CODM. Accordingly, the Group has not included total assets or liabilities information as part of segment information.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

4. OTHER INCOME

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Bank interest income	13,958	24,295
Sales of raw materials	1,454	16,175
Subsidy income (<i>note</i>)	25,305	3,879
Sundry income	1,301	10,853
	<u>42,018</u>	<u>55,202</u>

Note: Included in the amount for the six months ended 30 June 2016 mainly consists of approximately HK\$25,305,000 (30 June 2015: HK\$2,483,000) government grants received for the purpose of financing certain expenditure on new products development.

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Exchange (losses) gains, net	(60,083)	22,665
Investment (loss) income on forward contracts	(45,982)	13,860
Fair value change on derivative financial instruments	70,373	26,576
Net loss on disposal of property, plant and equipment	(15,878)	(33)
Others	18	55
	<u>(51,552)</u>	<u>63,123</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

6. FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interests on borrowings, convertible bonds and finance leases	157,582	198,997
Less: amounts capitalised in property, plant and equipment	(12,795)	(19,666)
	144,787	179,331

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.31% (30 June 2015: 6.03%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	3,312	2,102
People's Republic of China (the "PRC") enterprise income tax ("EIT")	82,148	86,181
PRC withholding tax	1,439	10,767
	86,899	99,050
Deferred tax	28,544	(119,949)
	115,443	(20,899)

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) of the estimated assessable profit for the period.

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 both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

7. TAX EXPENSE (CREDIT) (Continued)

During the six months ended 30 June 2016, no unused tax losses was utilised. For the six months ended 30 June 2015, the taxation charge for PRC EIT is calculated after taking into account the utilisation of unused tax losses amounting to approximately HK\$18,744,000 for which no deferred tax asset was previously recognised.

During the period ended 30 June 2015, deferred tax liabilities of approximately HK\$116,702,000 (30 June 2016: HK\$nil) had been reversed in respect of the impairment loss of HK\$30,131,000 and fair value loss of HK\$174,733,000 (30 June 2016: HK\$nil and HK\$nil) of the investment properties recognised as disclosed in note 11.

8. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss) profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Salaries and other benefits costs	472,719	498,545
Retirement benefit costs	59,767	28,852
	<u>532,486</u>	<u>527,397</u>
Less: amount included in research and development expenditures	(6,446)	(19,040)
Less: amount included in temporary production suspension costs in other expenses	–	(47)
	<u>526,040</u>	<u>508,310</u>
Depreciation and amortisation		
Depreciation of property, plant and equipment	410,549	360,256
Amortisation		
– intangible assets	1,775	2,232
– prepaid lease payments	3,747	2,165
	<u>416,071</u>	<u>364,653</u>
(Reversal of) provision of allowance of doubtful debts	(2,465)	5,179
Provision of allowance for inventories	10,580	–
Amounts included in other expenses		
– Written down of deposit for acquisition of property, plant and equipment	–	4,514
	<u>–</u>	<u>4,514</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss) earnings		
(Loss) earnings for the purpose of basic and diluted (loss) earnings per share, being (loss) profit for the period attributable to the owners of the Company	<u>(15,107)</u>	<u>280,279</u>

	Six months ended 30 June	
	2016 '000 (Unaudited)	2015 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<u>1,626,875</u>	<u>1,626,875</u>

The computation of diluted (loss) earnings per share for the period ended 30 June 2016 and 2015 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease/increase in (loss) earnings per share for the period.

10. DIVIDENDS

The board of directors do not recommend payment of interim dividend for the six months ended 30 June 2016 (30 June 2015: nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND PROPERTIES HELD FOR DEVELOPMENT

The Group acquired approximately HK\$182,892,000 (six months ended 30 June 2015: HK\$366,066,000) on property, plant and equipment to expand and upgrade certain production plants and office buildings primarily in Zhuhai and Inner Mongolia, the PRC, during the six months ended 30 June 2016.

An impairment loss of HK\$30,131,000 was made on investment property located at Chengdu ("Chengdu Lands") during the period ended 30 June 2015 (30 June 2016: nil) as the Group had donated an investment property to the local government at nil consideration during the period.

The fair value of the Group's investment properties as at 30 June 2016 has been arrived at based on a valuation carried out on that date by Roma Appraisals Limited ("ROMA"), an independent qualified professional valuer. There was no comparable recent sales transactions of lands available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the development costs to be incurred to arrive at the residual value. The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin and commercial/residential portion, which would expose the Group to fair value measurement risks.

No change in fair value of investment properties has been recognised directly in the profit or loss for the six months ended 30 June 2016 (six months ended 30 June 2015: decreased by HK\$174,733,000).

As at 30 June 2016, the carrying amount of the properties held for development amounted to HK\$290,858,000 (31 December 2015: HK\$297,153,000). The carrying amount of properties held for development represents land held for development for sales purposes for which no development work has yet been commenced.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade and bills receivables	2,017,634	1,986,634
Value-added tax receivables	77,224	66,126
Other receivables, deposits and prepayments	265,683	181,553
Less: allowance for doubtful receivables		
– trade	(8,394)	(11,053)
– non-trade	(27,462)	(28,046)
	<u>2,324,685</u>	<u>2,195,214</u>

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 to 180 days.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

12. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

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:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade receivables		
0 to 30 days	463,806	458,121
31 to 60 days	259,775	349,407
61 to 90 days	130,828	118,582
91 to 120 days	36,132	54,836
121 to 180 days	36,263	21,748
Over 180 days	49,696	19,634
	976,500	1,022,328
Bills receivables		
0 to 30 days	153,321	145,306
31 to 60 days	136,349	171,957
61 to 90 days	211,516	183,048
91 to 120 days	175,698	170,406
121 to 180 days	320,028	278,173
Over 180 days	35,828	4,363
	1,032,740	953,253

At 30 June 2016, the Group had HK\$264,440,000 (31 December 2015: HK\$71,737,000) of bills receivables discounted to several banks with full recourse, of which HK\$184,050,000 (31 December 2015: HK\$52,043,000) bills receivables were issued by the Group's debtors, and the remaining HK\$80,390,000 (31 December 2015: HK\$19,694,000) were issued by certain subsidiaries of the Company for the purposes of settlement or prepayment of inter-group purchase. Accordingly, the Group continues to recognise the full carrying amount of Group's receivables from the external debtors and has recognised the cash received on such discounting arrangement as secured borrowings (see note 14). In addition, as at 30 June 2016, the Group continues to recognise an amount of HK\$313,365,000 (31 December 2015: HK\$271,565,000) representing bills receivables issued by the Group's external debtors which had been endorsed to the Group's creditors for settlement (see note 13).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

13. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

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

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Trade payables		
0 to 90 days	617,536	782,912
91 to 180 days	385,320	163,882
Over 180 days	167,558	113,163
	1,170,414	1,059,957
Bills payables		
0 to 90 days	317,813	257,140
91 to 180 days	95,566	366,069
	413,379	623,209
Other payables and accruals	606,858	633,080
Deferred income in respect of government grants	167,878	188,433
Payables in respect of the acquisition of property, plant and equipment	890,743	888,080
	3,249,272	3,392,759
Less: Amount due within one year shown under current liabilities	(3,166,782)	(3,294,663)
Amount shown under non-current liabilities	82,490	98,096

Included in the trade payables and other payables above are HK\$242,106,000 and HK\$71,259,000 (31 December 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 (see note 12).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

14. BORROWINGS

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Bank loans	3,879,972	3,834,235
Discounted bills with recourse (<i>note 12</i>)	264,440	71,737
Bonds	1,105,288	1,116,636
	<u>5,249,700</u>	<u>5,022,608</u>
Analysed as:		
Secured	2,338,512	1,949,862
Unsecured	2,911,188	3,072,746
	<u>5,249,700</u>	<u>5,022,068</u>
The borrowings are repayable as follows*:		
Carrying amount repayable within one year	3,553,080	3,543,073
Carrying amount repayable more than one year, but not exceeding two years	778,031	668,467
Carrying amount repayable more than two years, but not exceeding five years	688,831	244,230
Carrying amount of bank loans that contain a repayment on demand clause		
– repayable within one year from the end of the reporting period	74,275	374,275
– not repayable within one year from the end of the reporting period but shown under current liabilities	155,483	192,563
	<u>5,249,700</u>	5,022,608
Less: Amount due within one year shown under current liabilities	<u>(3,782,838)</u>	<u>(4,109,911)</u>
Amount shown under non-current liabilities	<u>1,466,862</u>	<u>912,697</u>

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

14. BORROWINGS *(Continued)*

During the period, the Group obtained borrowings with recourse amounting to HK\$1,747,390,000 (six months ended 30 June 2015: HK\$3,239,145,000), and the Group repaid borrowings of HK\$1,423,897,000 (six months ended 30 June 2015: HK\$3,244,407,000). These borrowings carry interest at effective interest rates ranging from 1.22% to 7.85% (31 December 2015: 1.50% to 7.85%) per annum.

15. CONVERTIBLE BONDS

On 14 November 2011, the Company issued Renminbi ("RMB") denominated United States dollars ("US\$") settled 7.5% unsecured convertible bonds at par with the aggregate principal amount of RMB790,000,000 with initial conversion price of HK\$7.2 (subject to adjustments) per share at a fixed exchange rate of HK\$1.00 to RMB0.8137 (the "Convertible Bonds"). An adjustment has been made to the conversion price from HK\$7.2 to HK\$6.4 as a result of the rights share issued during the year ended 31 December 2012. The Convertible Bonds will be settled in a fixed amount of their RMB principal amount and paid in US\$ equivalent translated at the spot rate at the settlement date, together with accrued but unpaid interest. The Convertible Bonds are listed in the Singapore Exchange Securities Trading Limited.

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option derivative, the Company's and the bond holder's early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

On 12 November 2013, an aggregate principal amount of RMB692,600,000 (equivalent to approximately HK\$883,480,000) was redeemed by bond holders. After partial redemption of the Convertible Bonds, Convertible Bonds in an aggregate principal amount of RMB97,400,000 (equivalent to approximately HK\$124,243,000) remain outstanding with a maturity date of 14 November 2016 and have been reclassified to current liability subsequent to 14 November 2015.

Details of the Bonds are set out in the Group's annual financial statements for the year ended 31 December 2015.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

15. CONVERTIBLE BONDS (Continued)

The fair value of the Convertible Bonds with embedded derivatives was determined by the directors with reference to a valuation report carried out by an independent valuer. The movement of the Convertible Bonds for the six months ended 30 June 2016 are set out as below:

	HK\$'000
At 1 January 2015 (audited)	123,523
Interest charged	8,044
Loss arising on changes in fair value	5,474
Interest paid	(4,826)
Exchange realignment	<u>(1,956)</u>
At 30 June 2015 (unaudited)	<u>130,259</u>
At 1 January 2016 (audited)	116,824
Interest charged	8,266
Gain arising on changes in fair value	(11,251)
Interest paid	(4,317)
Exchange realignment	<u>(2,330)</u>
At 30 June 2016 (unaudited)	<u>107,192</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised		
At 1 January 2015, 30 June 2015, 31 December 2015 and 30 June 2016	<u>3,800,000,000</u>	<u>38,000</u>
Issued and fully paid:		
At 1 January 2015, 30 June 2015, 31 December 2015 and 30 June 2016	<u>1,626,875,000</u>	<u>16,269</u>

17. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of approximately HK\$513,974,000 (31 December 2015: HK\$613,260,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

18. PLEDGE OF ASSETS

- a. Other than deposits made to financing leasing companies disclosed elsewhere in the condensed consolidated financial statements, 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:

	30 June 2016 HK\$'000 (Unaudited)	31 December 2015 HK\$'000 (Audited)
Property, plant and equipment	193,965	104,069
Land use rights	28,946	30,614
Bills receivables	264,440	71,737
Pledged bank deposits	<u>1,000,128</u>	<u>970,316</u>
	<u>1,487,479</u>	<u>1,176,736</u>

- b. At 30 June 2016, the carrying value of property, plant and equipment included an amount of HK\$2,016,216,000 (31 December 2015: HK\$2,159,644,000) in respect of assets held under finance leases.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

19. 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:

	Six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Fees	480	480
Salaries and other benefits	8,877	9,756
Retirement benefits scheme contribution	63	71
	<u>9,420</u>	<u>10,307</u>

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2016 HK\$'000	31 December 2015 HK\$'000				
Foreign currency forward contracts classified as financial instruments accounted for as fair value through profit or loss ("FVTPL") in the condensed consolidated statement of financial position	Liabilities – HK\$133,035	Liabilities – HK\$203,665	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2016 HK\$'000	31 December 2015 HK\$'000				
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	HK\$131	HK\$11,459	Level 3	<p>Binomial Pricing Model</p> <p>Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component.</p> <p>The main inputs include term to maturity, dividend yield, risk-free rate, spot price as of the valuation date, exercise price and expected volatility of stock price.</p>	<ul style="list-style-type: none"> – dividend yield – company specific discounted rate (the "Rate") 	<ul style="list-style-type: none"> – the higher the dividend yield, the lower the fair value – the higher the Rate, the lower the fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

There is no transfer between the different levels of the fair value hierarchy for the period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Company determines the fair value by reference to the valuation carried out as of the end of reporting period by banks and financial institutions for foreign currency forward contracts whereas for the embedded derivative component of the Convertible Bonds, a third party qualified valuer was engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

Management Discussion and Analysis

BUSINESS REVIEW FOR THE FIRST HALF OF 2016

For the six months ended 30 June 2016, the Group's revenue was decreased by 13.8% to HK\$3,503.5 million as compared with the same period in the preceding year of HK\$4,062.4 million. The Group's loss for the period attributable to shareholders was approximately HK\$15.1 million (first half of 2015: profit of HK\$280.3 million). Segmental turnover (including inter-segment sales) of intermediate products and bulk medicine were decreased by 23.4% and 19.8% respectively, and segmental turnover (including inter-segment sales) of finished products was increased by 1.9% for the six months ended 30 June 2016, as compared with the same period in preceding year. Segmental loss margin of intermediate products and bulk medicine were 1.1% and 0.1% respectively for the current period as compared with segmental profit margin of 14.3% and 6.8% respectively for the corresponding period in 2015. Segmental profit margin of finished products was 26.2% for the current period, as compared with segmental profit margin of 19.0% for the corresponding period last year.

Global investors worried about market conditions in the first half of 2016. The United Kingdom will withdraw from the European Union, the economy in the US and Europe may slow down, the negative interest rates policies in Europe and Japan may bring adverse side-effects, the US Federal Reserve Board becomes indecisive regarding rate hike, and the corporate debt problem in China remains – these are dominating the economic landscape. During the period, the economic growth indicators in China have stabilized, but the debt-to-GDP ratio has increased, and the strategy of boosting economic growth with credit was mixed. Regarding the industry, due to lots of changes in the market environment and policy environment, the production and operation of enterprises have seen unprecedented challenges. The overall growth of

the pharmaceutical industry has slowed down, and the overall industry is consolidating at the bottom. Also, as the State has kept on focusing key aspects, such as new medical reform, carrying out quality and efficacy consistency assessment for generic drugs, and the new National Medical Insurance Drugs Catalogue is expected to be activated, it is believed that the pharmaceutical industry will face both opportunities and challenges in the future.

Falling prices and sales of intermediate products and bulk medicine products

The domestic pharmaceutical market in China is in the adjustment stage of government medical reform, and the sluggish economy in China and the continuous fall of raw material prices have affected the demand from the market, therefore the market showed a wait-and-see attitude regarding the demand for antibiotics products, causing decreases in prices and sales of intermediate products and bulk medicine products. As the sales volume and selling prices of the major intermediate product 6-APA and major bulk medicine product Amoxicillin have recorded declines during the period, the decreasing production volumes have driven up the production costs, and thus the significant fall in the gross profit has affected the performance for the period.

Sales of finished products driven by increasing sales of recombinant human insulin products

During the period, in addition to our success in bidding campaigns, we continued to receive orders for our recombinant human insulin products from the medium-to-large hospitals, basic pharmacy market, OTC market and rural market. Our performance in Anhui, Shandong, Henan, Guangdong and Jilin provinces was particularly satisfactory, driving up the sales revenue during the period.

Resumption of the Yuen Long production plant

The Yuen Long production plant in Hong Kong resumed in the first half of 2016 after the completion of modification for compliance of Pharmaceutical Inspection Co-operation Scheme (PIC/S GMP), as requested by Pharmacy and Poisons Board of Hong Kong.

Research and development of new products

We currently have 45 new products under development. In the first half of 2016, we received four approvals for clinical trial of our products. As of now, we had 21 patent registration applications approved, with another nine applications pending approval. Our finished products reserve is expected to be further expanded. We have a strong sales team consisting of nearly 3,000 sales representatives, which has obviously shortened the time of product launch, being a strong driving force for the promotion of the Group's new products in the market.

As for the research and development of biological preparations, the Group will further complement our insulin product line. Currently, the Group has passed the three-in-one approval of insulin glargine (third generation insulin), and clinical trial for insulin aspart (third generation insulin) has also been completed successfully, which is now in the stage of preparing for application for production approval. As the first domestic generic drug in this regard, the third generation of insulin aspart has successfully obtained the approval of clinical trial during the period. 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.

For the research and development of chemical pharmaceuticals, three chemical pharmaceuticals of the group have obtained approvals for clinical trial during the period, and will gradually commence clinical trials, including Tadalafil tablets, which is for the treatment of erectile dysfunction and benign prostatic hyperplasia and pulmonary hypertension; Imatinib Mesylate capsules and Imatinib Mesylate tablets, which are anti-cancer drugs.

Optimization of financial structure

For financial strategy, the Group seized market opportunities and optimised the financial structure during the period to ensure adequate working capital. In June 2016, the Company as a borrower entered into one facility agreement with China Development Bank Corporation Hong Kong Branch for a HK\$600,000,000 unsecured term-loan facility in order to maintain a proper balance between onshore/offshore borrowings. The principal amount under the facility shall be repaid in full after the expiry of a 36 months term from the relevant drawdown date.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had pledged bank deposits, cash and bank balances amounted to HK\$2,335.8 million (31 December 2015: HK\$2,084.9 million).

As at 30 June 2016, the Group had interest-bearing borrowings of approximately HK\$5,249.7 million (31 December 2015: HK\$5,022.6 million), which were denominated in US dollars, Euro, Hong Kong dollars and Renminbi with maturity within five years. Borrowings of approximately HK\$2,425.8 million are fixed rates loans while the remaining balance of approximately HK\$2,823.9 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.

Management Discussion and Analysis

As at 30 June 2016, current assets of the Group amounted to approximately HK\$6,145.4 million (31 December 2015: HK\$5,760.7 million). The Group's current ratio was approximately 0.78 as at 30 June 2016 as compared with 0.68 as at 31 December 2015. As at 30 June 2016, the Group had total assets of approximately HK\$17,151.0 million (31 December 2015: HK\$17,407.9 million) and total liabilities of approximately HK\$10,590.0 million (31 December 2015: HK\$10,689.3 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less cash and bank balances, pledged deposits against finance leases and pledged bank deposits to total equity) of 59.6% as at 30 June 2016, as compared with 60.2% as at 31 December 2015.

CURRENCY EXCHANGE EXPOSURES

The Group's purchases and sales are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The operating expenses of the Group are mainly in Hong Kong dollars and Renminbi. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in currency exchange rates.

CONTINGENT LIABILITIES

At 30 June 2016 and 31 December 2015, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2016

According to the report of Frost & Sullivan, China's pharmaceutical expenditure is expected to further increase from RMB3.9 trillion in 2015 to RMB6.2 trillion at a compound annual growth rate of 9.5%. According to the estimates for 2016, China's pharmaceutical market is rapidly expanding, China is lagging far behind most of the major countries

in terms of the amount of medical expenditure and its percentages to GDP and per capita expenditure. Therefore, there is plenty room for development in the future. Besides, China ranked the first among the world with over 1.3 billion population. With expedited ageing population and higher illness rate, the demand for and supply of medical resources are, however, extremely imbalanced. In the foreseeable future, the medical market in China has a huge room for further development.

To enhance industry standards and to ensure safety and efficacy of pharmaceuticals, the State has been putting the assessment on generics in terms of quality and efficacy on its agenda. On 21 to 22 June 2016, China Food and Drug Administration convened the Working Conference of Carrying out Quality and Efficacy Consistency Assessment for Generic Drugs, to implement the Opinions of the State Council on Carrying out Quality and Efficacy Consistency Assessment of Generic Drugs and to carry on the reforming the review and approval system. The conference has concluded that carrying out quality and efficacy consistency assessment for generic drugs is an important move to boost the supply-side reform of the medical and pharmaceutical industry. Improving the quality of generic drug and replacing each other with the principles clinically is beneficial to reduce the overall medical expenditure, to eliminate obsolete production capacities and to lift the competitiveness of domestic generic drugs. The Group believes that an assessment of generic drugs is a clear trend. The enactment of such requirement will lead to consolidation of pharmaceutical industry and industrial upgrading. The Group will actively promote the related development. Looking forward, the Group will strive to strengthen its overall competitiveness and position in the industry on its vertical integration, which is its competitive edge in the industry.

Management Discussion and Analysis

Looking forward, for research and development, the Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand, and focus in aspects such as therapeutic drug for diabetes, anti-hepatitis, anti-cancer, high-end anti-infective and so on. With the continuous enrichment of its insulin product line, and the third generation insulin aspart being expected to obtain the production approval by the end of the year at the earliest, insulin product will continue to be its key strategic product. For intermediate products and bulk medicine products, during the period, the Group has launched the product Penicillin Potassium industrial salt, and the group will actively explore the market, enrich the product line and fully utilize the existing production capacity of the Inner Mongolia Plant; as the Inner Mongolia Plant enlarged the production capacity of enzymatic bulk amoxicillin, it can further drive the internal digestion of upstream intermediate product 6-APA; at the same time, the Group will also improve the production process of products and realize high-end product customization in response to the demand from different customers.

For finished products, the Group will keep an eye on all favourable policies from the State related to pharmaceuticals for critical diseases such as diabetes and invest more resources in the related field so that we can win the tenders in other provinces and expand its market presence. We will strengthen penetration in large and medium-sized hospitals, essential drugs market, OTC markets and rural market by making good use of our competitive advantage as well as the extensive sales networks. In addition, the Group has also proactively expanded the sales of products such as OTC products in chain pharmacies that has further driven the growth of finished products.

In additions, The United Animal Healthcare (Inner Mongolia) Co., Ltd. received 32 approvals of animal healthcare drugs and 7 approvals of mixed feed additive products for production and will be launched in the second half of this year.

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had approximately 11,300 (31 December 2015: 11,400) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

CHANGE OF INFORMATION OF DIRECTOR

Prof. Song Ming was appointed as an independent director of Tande Co., Ltd., a company listed on the Shanghai Stock Exchange, with effect from 30 December 2015.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be

kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,106,875	Personal interest	0.99%
Mr. Leung Wing Hon	153,500	Personal interest	0.01%
Ms. Choy Siu Chit	14,623,875	Personal interest	0.90%
Mr. Fang Yu Ping	260,000	Personal interest	0.02%
Ms. Zou Xian Hong	100,000	Personal interest	0.01%
Ms. Zhu Su Yan	150,179	Personal interest	0.01%

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the six months ended 30 June 2016, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its

subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long positions in the ordinary shares of the Company:

Name	<i>Notes</i>	Number of shares held	Percentage of interest
Heren Far East Limited ("Heren")		1,006,250,000	61.85%
Gesell Holdings Limited ("Gesell")	(1)	1,006,250,000	61.85%
Nautilus Trustees Asia Limited	(2)	1,006,250,000	61.85%

Notes:

- (1) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.
- (2) The Choy Family Trust is a discretionary trust and whose discretionary objects include the directors of the Company, Mr. Tsoi Hoi Shan and Ms. Choy Siu Chit, and certain other family members of Mr. Choy Kam Lok (deceased). Nautilus Trustees Asia Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 1,006,250,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2016.

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 six months ended 30 June 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 six months ended 30 June 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 other important engagement.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Board. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

AUDIT COMMITTEE

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 Xiao Nan. The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2016. The Audit Committee has relied on a review conducted by the Company’s external auditor in accordance with Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA and representations from the management.

On behalf of the Board

TSOI HOI SHAN

Chairman

Hong Kong, 25 August 2016