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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)

Interim Results Announcement

For the six months ended 30 June 2018

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Increase (decrease)
	2018	2017	
	RMB'000	RMB'000	
Revenue	3,792,714	3,339,798	13.6%
EBITDA	627,412	677,650	(7.4%)
Profit before taxation	149,199	152,169	(2.0%)
Profit for the period attributable to owners of the Company	91,177	109,129	(16.5%)
Earnings per share	RMB cents	RMB cents	
- Basic	5.60	6.71	(16.5%)
- Diluted	5.60	3.31	69.2%

The Board of Directors (the “Board”) of The United Laboratories International Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 together with the comparative figures for the corresponding period in 2017 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Notes	Six months ended 30 June	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	3	3,792,714	3,339,798
Cost of sales		<u>(2,206,127)</u>	<u>(2,157,439)</u>
Gross profit		1,586,587	1,182,359
Other income	4	50,039	34,965
Other gains and losses, net	5	(22,918)	(27,961)
Selling and distribution expenses		(572,161)	(541,249)
Administrative expenses		(329,124)	(299,925)
Research and development expenditures		(99,651)	(43,722)
Other expenses		(7,249)	(26,110)
Reversal (impairment) of allowance for doubtful debts		9,697	(5,490)
Loss on fair value change on investment properties	11	(59,275)	(49,000)
(Loss) gain on fair value change of embedded derivative components of convertible bonds		(280,621)	68,333
Finance costs	6	<u>(126,125)</u>	<u>(140,031)</u>
Profit before taxation		149,199	152,169
Tax expense	7	<u>(58,022)</u>	<u>(43,040)</u>
Profit for the period attributable to owners of the Company	8	<u>91,177</u>	<u>109,129</u>
Other comprehensive (expense) income: <i>Item that will be reclassified subsequently to profit or loss:</i> Exchange differences arising on translation of a foreign operation		<u>(2,299)</u>	<u>2,297</u>
Total comprehensive income for the period attributable to owners of the Company		<u>88,878</u>	<u>111,426</u>
		RMB cents	RMB cents
Earnings per share	9		
- Basic		5.60	6.71
- Diluted		<u>5.60</u>	<u>3.31</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	6,617,621	6,831,488
Investment properties	11	734,022	793,297
Properties held for development		255,723	255,723
Prepaid lease payments		226,982	207,649
Goodwill		3,031	3,031
Intangible assets		160,808	150,797
Deposit for land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		99,740	36,269
Pledged deposits against finance leases		21,737	46,737
Available-for-sale investment		-	500
Financial assets at fair value through profit or loss		500	-
Deferred tax asset		17,903	14,167
		8,145,329	8,346,920
Current assets			
Inventories		1,388,134	1,173,082
Trade and other receivables, deposits and prepayments	12	2,632,051	2,453,675
Prepaid lease payments		4,954	4,954
Pledged bank deposits		531,127	487,738
Pledged deposits against finance leases		46,709	51,709
Bank balances and cash		1,664,287	1,593,768
		6,267,262	5,764,926
Current liabilities			
Trade and bills payables, other payables and accrued charges	13	3,353,171	3,268,323
Dividend payables		84,443	-
Contract liabilities		134,254	-
Obligations under finance leases - due within one year		203,280	285,594
Tax payables		37,827	97,145
Borrowings - due within one year		1,493,377	1,138,257
Bank overdraft		99,921	-
		5,406,273	4,789,319
Net current assets		860,989	975,607
Total assets less current liabilities		9,006,318	9,322,527

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018 - Continued

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		309,845	362,667
Deferred income in respect of government grants	13	80,263	84,947
Obligations under finance leases - due after one year		34,167	115,639
Borrowings - due after one year		1,769,951	2,279,286
Convertible bonds		1,284,715	1,038,223
		<u>3,478,941</u>	<u>3,880,762</u>
		<u>5,527,377</u>	<u>5,441,765</u>
Capital and reserves			
Share capital		15,346	15,237
Reserves		<u>5,512,031</u>	<u>5,426,528</u>
Equity attributable to owners of the Company		<u>5,527,377</u>	<u>5,441,765</u>

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs and an interpretation

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

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

The new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards which results in changes in accounting policies and amounts reported as described below.

2.1 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the sale of pharmaceutical products.

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 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.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

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

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Under HKFRS 15, revenue from sales of pharmaceutical products is recognised at a point in time when the customer obtains control of the distinct goods.

2.1.2 Summary of effects arising from initial application of HKFRS 15

The Group sells pharmaceutical products to the medical distributors, who re-sell the related products through their sales network. Revenue is recognised at a point in time when the control of the goods has been transferred to the distributor being when the goods have been delivered to the distributor's specific location.

Following the delivery, the Group recognises product sales at the sales value of goods less estimated discounts and sales related taxes.

For contracts that contain variable consideration (to specify), the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

The following adjustments were made to the amounts recognised in the condensed 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 <u>RMB'000</u>	<u>Reclassification</u> RMB'000	Carrying amounts under HKFRS 15 at 1 January 2018 <u>RMB'000</u>
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: As at 1 January 2018, received in 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 table summarise the impact of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 30 June 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the condensed consolidated statement of financial position

	<u>As reported</u> RMB'000	<u>Reclassification</u> RMB'000	Amounts without application of HKFRS 15 <u>RMB'000</u>
Current Liabilities			
Trade and bills payables, other payables and accrued charges	(3,353,171)	(134,254)	(3,487,425)
Contract liabilities	(134,254)	134,254	-

Note: As at 30 June 2018, received in advance from customers of RMB134,254,000 would have been included in trade and bills payables, other payables and accrued charges under HKAS 18.

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

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, 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) 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.

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

2.2.1 Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application / initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income ("FVTOCI") or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item, if any.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.2.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including pledged bank deposits, bank balances and trade and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligation in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at 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 accumulated profits as the amounts involved are insignificant.

2.2.2 Summary of effects arising from initial application of HKFRS 9

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

	<u>Note</u>	<u>Available- for-sale</u> RMB'000	<u>Financial asset at FVTPL</u> RMB'000
Closing balance at 31 December 2017 – HKAS 39		500	-
Effect arising from initial application of HKFRS 9:			
<i>Reclassification</i>			
From available-for-sale	(a)	<u>(500)</u>	<u>500</u>
Opening balance at 1 January 2018		<u>-</u>	<u>500</u>

(a) Available-for-sale investments (“AFS”)

From AFS investments to FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of RMB500,000 were reclassified from available-for-sale investments to financial asset at FVTPL. No fair value change relating to those equity investments previously carried at cost less impairment was adjusted to financial assets at FVTPL and retained profits as at 1 January 2018 as the amounts involved are considered as insignificant.

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

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

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited) <u>RMB'000</u>	<u>HKFRS 15</u> RMB'000	<u>HKFRS 9</u> RMB'000	1 January 2018 (Restated) <u>RMB'000</u>
Non-current Assets				
Available-for-sale 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)

Except as described above, the application of other amendments to HKFRSs and the interpretation in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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 2018 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	779,077	1,608,723	1,404,914	3,792,714	-	3,792,714
Inter-segment sales	<u>813,335</u>	<u>211,800</u>	<u>-</u>	<u>1,025,135</u>	<u>(1,025,135)</u>	<u>-</u>
Revenue from contracts with customers	<u>1,592,412</u>	<u>1,820,523</u>	<u>1,404,914</u>	<u>4,817,849</u>	<u>(1,025,135)</u>	<u>3,792,714</u>
RESULT						
Segment profit	<u>293,031</u>	<u>86,839</u>	<u>287,809</u>			667,679
Unallocated other income						19,490
Unallocated corporate expenses						(49,031)
Other gains and losses, net						(22,918)
Loss on fair value change of embedded derivative components of convertible bonds						(280,621)
Loss on fair value change on investment properties						(59,275)
Finance costs						<u>(126,125)</u>
Profit before taxation						<u>149,199</u>

For the six months ended 30 June 2017 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	732,104	1,426,721	1,180,973	3,339,798	-	3,339,798
Inter-segment sales	<u>698,512</u>	<u>182,933</u>	<u>-</u>	<u>881,445</u>	<u>(881,445)</u>	<u>-</u>
Revenue from contracts with customers	<u>1,430,616</u>	<u>1,609,654</u>	<u>1,180,973</u>	<u>4,221,243</u>	<u>(881,445)</u>	<u>3,339,798</u>
RESULT						
Segment profit	<u>14,810</u>	<u>35,731</u>	<u>303,539</u>			354,080
Unallocated other income						20,131
Unallocated corporate expenses						(73,383)
Other gains and losses, net						(27,961)
Gain on fair value change of embedded derivative components of convertible bonds						68,333
Loss on fair value change on investment properties						(49,000)
Finance costs						<u>(140,031)</u>
Profit before taxation						<u>152,169</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 results represent the profit earned or loss incurred by each segment without allocation of certain other income, corporate expenses, other gains and losses, (loss) gain on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties, and finance costs.

Total assets and liabilities for reportable segments are not presented in the condensed consolidated financial statements, as the information is not regularly provided to the CODM.

4. OTHER INCOME

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	11,189	18,577
Sales of scrap materials	7,914	5,251
Government grants (Note)	26,527	9,583
Sundry income	4,409	1,554
	50,039	34,965

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

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange losses	(17,228)	(24,292)
(Loss) gain on derivative financial instrument	(5,032)	5,735
Net losses on disposal of property, plant and equipment	(724)	(8,934)
Others	66	(470)
	(22,918)	(27,961)

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interests on borrowings	76,044	84,030
Interests on convertible bonds	45,387	42,451
Interests on finance leases	6,980	21,854
Less: amounts capitalised in property, plant and equipment	(2,286)	(8,304)
	126,125	140,031

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 4.55% (30 June 2017: 5.26%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
Hong Kong Profits Tax	3,351	-
PRC enterprise income tax ("EIT")	68,678	58,442
PRC withholding tax	42,551	2,411
	114,580	60,853
Deferred tax	(56,558)	(17,813)
	58,022	43,040

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2017: 16.5%) of the estimated assessable profit for the period.

Pursuant to the PRC Enterprise Income Tax Law and its detailed implementation rules on 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 to 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.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments:		
Salaries and other benefits costs	402,562	417,375
Retirement benefit costs	42,759	46,524
	445,321	463,899
Less : amount included in research and development expenditures	(5,521)	(4,372)
Less : amount included in temporary production suspension costs in other expenses	(324)	(408)
	439,476	459,119
Depreciation and amortisation:		
Depreciation of property, plant and equipment	341,791	379,359
Less : amount included in research and development expenditures	(8,144)	(19,282)
Less: amount included in temporary production suspension costs in other expenses	(1,511)	(21,958)
	332,136	338,119
Amortisation		
- intangible assets	7,058	3,064
- prepaid lease payments	3,239	3,027
	10,297	6,091
(Reversal) provision of allowance for doubtful debts, net	(9,697)	5,490
(Reversal of) write-down for inventories	(16,093)	1,021

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share, being profit for the period attributable to owners of the Company	91,177	109,129
Effect of dilutive potential ordinary shares:		
- interest on convertible bonds	-	42,451
- exchange gain on convertible bonds	-	(22,459)
- gain on fair value change of derivative component of convertible bonds	-	(68,333)
	<u>-</u>	<u>(68,333)</u>
Earnings for the purpose of diluted earning per share	<u>91,177</u>	<u>60,788</u>
	Six months ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,627,738	1,626,875
Effect of dilutive potential ordinary shares on convertible bonds issued	-	207,473
	<u>-</u>	<u>207,473</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>1,627,738</u>	<u>1,834,348</u>

The computation of diluted earnings per share for the period ended 30 June 2018 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 period.

10. DIVIDENDS

During the current interim period, a final dividend of RMB 5 cents per share in respect of the year ended 31 December 2017 was declared to be paid to the owners of the Company. The aggregate amount of the 2017 final dividend declared in the current interim period amounted to RMB 84,443,000. The 2017 final dividend was paid on 10 July 2018.

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2018 (30 June 2017: Nil).

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

The Group incurred approximately RMB128,988,000 (30 June 2017: RMB261,539,000) 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 2018.

The fair value of the Group's investment properties as at 30 June 2018 has been arrived at based on a valuation carried out on that date by Ravia Global Appraisal Advisory Limited ("Ravia"), an independent qualified professional valuer. There was no comparable recent sale transaction of land with similar size available in the relevant markets and accordingly the valuation of the leasehold land located in Chengdu ("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.

For the six months ended 30 June 2018, the fair value loss of Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Ravia was approximately RMB59,275,000 (30 June 2016: RMB49,000,000).

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	30 June 2018	31 December 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade and bills receivables	2,451,141	2,322,072
Value-added tax receivables	83,380	56,245
Other receivables, deposits and prepayments	106,157	94,570
Less: allowance for doubtful receivables	(8,627)	(19,212)
	<u>2,632,051</u>	<u>2,453,675</u>

The Group normally allows a credit period of between 30 days and 120 days (2017: between 30 days and 120 days) to its trade customers, credit period may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of allowance for doubtful receivables, at the end of the reporting period which approximate the respective revenue recognition dates:

	30 June 2018	31 December 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade receivables		
0 to 30 days	529,066	628,482
31 to 60 days	263,857	300,223
61 to 90 days	286,501	71,975
91 to 120 days	95,047	21,440
121 to 180 days	85,759	14,479
Over 180 days	32,806	11,024
	<u>1,293,036</u>	<u>1,047,623</u>
Bills receivables		
0 to 30 days	225,942	329,005
31 to 60 days	167,785	245,459
61 to 90 days	215,527	202,961
91 to 120 days	239,944	199,464
121 to 180 days	285,553	267,709
Over 180 days	14,727	10,639
	<u>1,149,478</u>	<u>1,255,237</u>

At 30 June 2018, the Group had RMB160,671,000 (31 December 2017: RMB25,317,000) of bills receivables discounted to several banks with full recourse, the Group continues to recognise the full carrying amount of these receivables and has recognised the cash received on such discounting arrangement as secured borrowings. In addition, as at 30 June 2018, the Group continues to recognise an amount of RMB381,560,000 (31 December 2017: RMB177,573,000) representing bills receivables issued by the Group's debtors which had been endorsed to the Group's creditors for settlement (Note 13).

13. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days for 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:

	30 June 2018	31 December 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade payables		
0 to 90 days	656,061	852,136
91 to 180 days	398,940	251,858
Over 180 days	46,729	41,737
	1,101,730	1,145,731
Bills payables		
0 to 90 days	433,780	305,609
91 to 180 days	545,687	389,541
	979,467	695,150
Other payables and accruals	825,538	984,477
Deferred income in respect of government grants	126,075	130,758
Payables in respect of the acquisition of property, plant and equipment	400,624	397,154
	3,433,434	3,353,270
Less : Amount due within one year shown under current liabilities	(3,353,171)	(3,268,323)
Amount shown under non-current liabilities	80,263	84,947

Included in the trade payables and other payables above are RMB269,019,000 and RMB112,541,000 (31 December 2017: RMB105,433,000 and RMB72,140,000), 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 (Note 12).

14. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of RMB444,348,000 (31 December 2017: RMB332,998,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

15. PLEDGE OF ASSETS

- a. Other than deposits made to financing lease 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 2018	31 December 2017
	RMB'000 (Unaudited)	RMB'000 (Audited)
Property, plant and equipment	592,944	638,008
Land use rights	45,106	24,142
Bills receivables	160,671	25,317
Pledged bank deposits	531,127	487,738
	<u>1,329,848</u>	<u>1,175,205</u>

- b. At 30 June 2018, the carrying value of property, plant and equipment included an amount of RMB658,589,000 (31 December 2017: RMB800,198,000) in respect of assets held under finance leases.

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:

	Six months ended 30 June	
	2018	2017
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Fees	381	425
Salaries and other benefits	7,894	9,268
Retirement benefits scheme contribution	61	63
	<u>8,336</u>	<u>9,756</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review for the first half of 2018

In the first half of 2018, the world economy sustained the growth momentum in the previous year, but such favourable trend coexisted with and fought against risks caused by trade protectionism. The Chinese economy once again instilled confidence into the world economy with its solid performance in the first half of this year. According to the National Bureau of Statistics, the gross domestic product (GDP) of the PRC in the first half of this year grew by 6.8% year-on-year, of which 6.8% in the first quarter and 6.7% in the second quarter. On the whole, the national economy continued its overall stable development trend in the first half of the year.

In 2018, in order to comprehensively propel the in-depth development of medical reform, nearly 20 provinces and municipalities across the country had promulgated new policies for promoting medical reform, which involved adjusting barriers of entry, boosting approval efficiency and other key measures. Pursuant to the Plan for Restructuring State Council (國務院機構改革方案) approved at the First Session of the Thirteenth National People's Congress in March 2018, the National Health Commission (國家衛生健康委員會) and the Bureau of National Health Care (國家醫療保障局) had been established, which was another "cardiac stimulant" for the further advancement of medical reform. Upon this round of supply-side reform, we are expecting a significant rise in the degree of industrial concentration, and leading enterprises that are in line with the general direction of medical reform policies will also embrace new growth opportunities.

During the period under review, the Group's revenue amounted to approximately RMB3,792.7 million, representing an increase of approximately 13.6% over the same period in the preceding year. EBITDA was approximately RMB627.4 million, representing a decrease of 7.4% as compared with last year. Profit attributable to owners of the Company was RMB91.2 million, representing a decrease of 16.5% as compared with last year. Earnings per share amounted to RMB5.60 cents.

The decrease in net profit is mainly due to loss on fair value change of embedded derivative components of convertible bonds of approximately RMB280.6 million (2017: gain of RMB68 million), which is a non-cash item having no impact to the Group's liquidity position. Operating results from core business (excluding fair value changes arising from investment properties and convertible bonds) for the current period is approximately RMB399.2 million as compared to approximately RMB68.0 million of same period in 2017. The substantial increase in operating results is mainly contributed from significant improvement of segment results of intermediate products during the reporting period.

Segmental sales (including inter-segment sales) of intermediate products, bulk medicine and finished products for the six months ended 30 June 2018 are increased by 11.3%, 13.1% and 19.0% respectively, as compared with the same period in preceding year. Segmental profit for the current period are (i) intermediate products of RMB293.0 million (30 June 2017: RMB14.8 million), (ii) bulk medicine of RMB86.8 million (30 June 2017: RMB35.7 million), and (iii) finished products of RMB287.8 million (30 June 2017: RMB303.5 million) respectively.

The Board does not propose an interim dividend for the six months ended 30 June 2018.

Intermediate Products and Bulk Medicine Products

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. At present, United Laboratories (Inner Mongolia) has commenced the preparation of the "Reclaimed Water Reuse" project. The continuously tightened national environmental regulation has brought about new development opportunities for the Group to a certain extent. During the current period, the Group maintained stable production. The capacity utilisation rate of the intermediate products and bulk medicines such as 6-APA had been maintained at high level of production. Meanwhile, the prices of products represented by 6-APA and amoxicillin went up stably during the period thus resulting a significant improvement in segment results of intermediate products.

Finished Products

During the period, the Group's finished products business maintained stable growth and insulin series products continued to be the main driving force of the Group's growth. A total of 6,200,000 vials of recombinant human insulin products were sold during the period, up by 41.6% as compared to last year and recording a sales revenue of RMB250.8 million. In addition, the "United Laboratories USLEN" insulin glargine injection, which was officially launched to the market in May of last year, recorded a sales revenue of RMB29.9 million in the period, meeting its expected sales target. Currently, insulin glargine products of the Group have won the tender through bidding in 10 provinces including Fujian, Chongqing, Heilongjiang, Henan, Hebei and Guangdong and the Group will also continue to participate in the bidding in other provinces actively.

The Group's antibiotics products still recorded satisfactory sales. During the period, the sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection amounted to RMB247.6 million, representing an increase of 20.9% as compared with last year, and the sales revenue from the United Laboratories amoxicillin branded capsules amounted to RMB226.6 million, representing an increase of 17.1% as compared with same period last year. In addition, memantine hydrochloride series products, a drug to treat Alzheimer's disease, recorded a sales revenue of RMB17.5 million during the period, representing an increase of 161.2% as compared with same period last year. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

Research and Development of New Products

The Group has been long committed to research and development. We currently have 38 new products under development. Currently, we have 27 patents which have been successfully registered and 14 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. As for the research and development of biological preparations, we aim to further optimize our offerings of insulin products and antidiabetic drugs. The Group has applied for production of insulin aspart injection and insulin aspart 30 injection in November 2017 and has received relevant acceptance confirmation, and has applied for clinical trial for liraglutide at the beginning of 2018. The above programs are progressing well at present. In addition, insulin degludec, insulin aspart 50 injection, insulin degludec-insulin aspart mixed injection and liraglutide-insulin degludec injection had initiated pre-clinical studies. Based on our established and continuously improved biological R&D platform, it is expected that the Group's pipeline products for diabetes and other diseases will become more abundant in the future. 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.

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 above-mentioned approvals also provided a good start for the smooth development of the Group's subsequent Consistency Evaluation projects.

Optimization of Financial 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 30 June 2018, the Group's net gearing ratio was further decreased to 47.4%.

Liquidity and Financial Resources

As at 30 June 2018, the Group had pledged bank deposits, cash and bank balances amounted to RMB2,195.4 million (31 December 2017: RMB2,081.5 million).

As at 30 June 2018, the Group had bank overdraft of approximately RMB99.9 million (31 December 2017: Nil) and interest-bearing borrowings of approximately RMB3,263.3 million (31 December 2017: RMB3,417.5 million), which were denominated in US dollars, Euro, Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of approximately RMB2,242.1 million (31 December 2017: RMB1,837.9 million) are fixed rates loans while the remaining balance of approximately RMB1,021.2 million (31 December 2017: RMB1,579.6 million) 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 30 June 2018, current assets of the Group amounted to approximately RMB6,267.3 million (31 December 2017: RMB5,764.9 million). The Group's current ratio was approximately 1.16 as at 30 June 2018 as compared with 1.20 as at 31 December 2017. As at 30 June 2018, the Group's net gearing ratio (calculated as total bank overdraft, 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) decreased to 47.4%.

Currency Exchange Exposures

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

Contingent Liabilities

At 30 June 2018 and 31 December 2017, the Group had no material contingent liabilities.

Outlook

Looking forward, with a combined effect of the high-frequency policies, the "Healthy China" industrial development strategy and an ageing population, the pharmaceutical industry has gradually entered a new development cycle. On the supply side, the listing of new drugs will be speeded up by prioritizing approving and evaluating new drugs, and the quality of generic drugs will enhance through carrying out the supply side reform on the generic drug market by means of the Consistency Evaluation policy. On the demand side, to alter the medication behaviours of hospitals and doctors by providing guidance or introducing medical insurances, in an effort to facilitate the development of commercial insurances so as to support a more sound payment system. As for the circulation, to implement the "Two-invoice System" and cut down certain intermediate links, ultimately making the pharmaceutical industry value chain more reasonable; and in terms of regulation, more industrial peers will be phased out and eliminated given the importance attached to drug safety issues by the state in recent years. Against these reforms of significance, the pharmaceutical industry in China is to meet brand new development opportunities.

The Group will continue to take insulin series of products as its core strategic products and actively promote the continued growth of sales of this series of products, as well as accelerate the sales of insulin glargine products. The insulin aspart series is expected to be approved next year and gradually launch to the market. At the same time, the Group will increase R&D investments to accelerate the project progress of products under research and Consistency Evaluation for generic drugs, and it will keep monitoring the changes in the landscape of market competition caused by the policy of Consistency Evaluation and quicken the pace of subjecting products to the Consistency Evaluation to gain a head start in the market.

Given the continuously strict regulation in respect of environmental protection in the PRC, the market of antibiotic intermediates and bulk medicines will gradually stabilize and the Group keeps an optimistic attitude towards the intermediate products and bulk medicines business in the second half of this year. The Group will continue to improve the capacity utilisation rate so as to reduce production cost and further improve the profitability.

With continuous efforts to enhance our products' competitiveness, we are confident that we can capitalize on the market opportunities arising from industrial transformation to accelerate the cultivation of innovation ability and scientific research ability and maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, clients and stakeholders.

Employees and Remuneration Policies

As at 30 June 2018, the Group had approximately 12,000 (31 December 2017: 12,000) 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.

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 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 and Corporate Governance Report ("CG Code") 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 six months ended 30 June 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 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 2018.

AUDIT COMMITTEE

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 the unaudited condensed consolidated financial statements for the six months ended 30 June 2018. 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.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support during the first half of 2018, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

On behalf of the Board

Tsoi Hoi Shan
Chairman

Hong Kong, 28 August 2018

As at the date of this announcement, the Board comprises 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 Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.