The United Laboratories International Holdings Limited

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

仿制药一致性评价

INTERIM REPORT 2018

Our mission is to
make life more valuable

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Financial Highlights

	Six months ended 30 June		
	2018	2017	Increase
	RMB'000	RMB'000	(decrease)
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%

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
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)*
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
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

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Hong Kong

PRINCIPAL BANKERS

China

Industrial and Commercial Bank of China Limited, Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Bank of China Limited, Zhuhai Branch
China Resources Bank of Zhuhai Co., Ltd., Zhuhai Branch
Huaxia Bank Co., Ltd, Zhuhai Branch
China Merchants Bank Co., Ltd, Zhuhai Branch

Hong Kong

China Development Bank, 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

SMP Partners (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

Report on Review of Condensed Consolidated Financial Statements

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 40, which comprise the condensed consolidated statement of financial position as of 30 June 2018 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
28 August 2018

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		**(2,206,127)**	(2,157,439)
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 (provision) of allowance for doubtful debts, net		**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	*15*	**(280,621)**	68,333
Finance costs	*6*	**(126,125)**	(140,031)
Profit before taxation		**149,199**	152,169
Tax expense	*7*	**(58,022)**	(43,040)
Profit for the period attributable to owners of the Company	*8*	**91,177**	109,129
Other comprehensive (expense) income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**(2,299)**	2,297
Total comprehensive income for the period attributable to the owners of the Company		**88,878**	111,426
		RMB cents	RMB cents
Earnings per share	*9*		
– Basic		**5.60**	6.71
– Diluted		**5.60**	3.31

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	*14*	**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

	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	*14*	**1,769,951**	2,279,286
Convertible bonds	*15*	**1,284,715**	1,038,223
		3,478,941	3,880,762
		5,527,377	5,441,765
Capital and reserves			
Share capital	*16*	**15,346**	15,237
Reserves		**5,512,031**	5,426,528
Equity attributable to owners of the Company		**5,527,377**	5,441,765

The condensed consolidated financial statements from pages 5 to 40 were approved and authorised for issue by the Board of Directors on 28 August 2018 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 2018

	Attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Capital reserve *RMB'000*	Revaluation reserve *RMB'000*	Foreign exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2017 (Audited)	15,237	2,356,763	277,100	691,245	95,616	(9,862)	1,921,387	5,347,486
Profit for the period	–	–	–	–	–	–	109,129	109,129
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	2,297	–	2,297
Total comprehensive income for the period	–	–	–	–	–	2,297	109,129	111,426
Appropriations	–	–	–	61,578	–	–	(61,578)	–
At 30 June 2017 (Unaudited)	15,237	2,356,763	277,100	752,823	95,616	(7,565)	1,968,938	5,458,912
At 1 January 2018 (Audited)	15,237	2,356,763	277,100	763,404	95,616	2,659	1,930,986	5,441,765
Profit for the period	–	–	–	–	–	–	91,177	91,177
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	(2,299)	–	(2,299)
Total comprehensive income (expenses) for the period	–	–	–	–	–	(2,299)	91,177	88,878
Dividends recognised as distribution	–	–	–	–	–	–	(84,443)	(84,443)
Issue of shares upon conversion of convertible bonds *(Note 15)*	109	81,068	–	–	–	–	–	81,177
Appropriations	–	–	–	28,507	–	–	(28,507)	–
At 30 June 2018 (Unaudited)	15,346	2,437,831	277,100	791,911	95,616	360	1,909,213	5,527,377

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 RMB203,263,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 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 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating activities		
Profit before taxation	**149,199**	152,169
Adjustments for:		
(Reversal of) write-down for inventories	**(16,093)**	1,021
(Reversal) provision of allowance for doubtful debts, net	**(9,697)**	5,490
Amortisation of intangible assets	**7,058**	3,064
Amortisation of prepaid lease payments	**3,239**	3,027
Depreciation of property, plant and equipment	**341,791**	379,359
Loss on fair value change on investment properties	**59,275**	49,000
Finance costs	**126,125**	140,031
Bank interest income	**(11,189)**	(18,577)
Release of government grants	**(4,683)**	(9,583)
Net losses on disposal of property, plant and equipment	**724**	8,934
Unrealised exchange losses	**35,232**	11,860
Unrealised losses on change in fair value of derivative financial instruments	**–**	1,108
Loss (gain) on fair value change of embedded derivative components of convertible bonds	**280,621**	(68,333)
Operating cash flows before movements in working capital	**961,602**	658,570
Increase in inventories	**(198,959)**	(145,822)
Increase in trade and bills receivables, other receivables,deposits and prepayments	**(210,252)**	(150,346)
Change in derivative financial instruments	**–**	(6,843)
Increase in trade and bills payables, other payables and accrued charges	**152,394**	101,451
Increase in contract liabilities	**47,200**	–
Cash generated from operations	**751,985**	457,010
Tax paid	**(173,898)**	(104,193)
Net cash from operating activities	**578,087**	352,817

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Investing activities		
Payment for prepaid lease payments	**(22,572)**	–
Payments for purchase of property, plant and equipment	**(100,203)**	(238,881)
Payment for deposits of acquisition of property, plant and equipment	**(86,500)**	(26,282)
Proceeds on disposal of property, plant and equipment	**340**	2,402
Withdrawal of pledged bank deposits	**107,671**	311,623
Placement of pledged bank deposits	**(151,060)**	(285,236)
Interest received	**11,189**	18,577
Receipt of government grants	**–**	4,936
Settlement of forward contracts	**–**	(70,763)
Additions to intangible assets	**(692)**	(258)
Net cash used in investing activities	**(241,827)**	(283,882)
Financing activities		
Interest paid	**(86,865)**	(94,332)
Proceeds from finance leases	**–**	200,000
Repayment of obligations under finance leases	**(133,786)**	(243,943)
Placement of pledged deposits against finance leases	**–**	(20,000)
Release of pledged deposits against finance leases	**–**	45,745
New borrowings raised	**601,493**	2,017,373
Repayment of borrowings	**(744,114)**	(2,304,736)
Net cash used in financing activities	**(363,272)**	(399,893)
Net decrease in cash and cash equivalents	**(27,012)**	(330,958)
Cash and cash equivalents at beginning of the period	**1,593,768**	1,782,881
Effect of foreign exchange rate changes	**(2,390)**	(932)
Cash and cash equivalents at end of the period	**1,564,366**	1,450,991
Represented by:		
Bank balances and cash	**1,664,287**	1,522,064
Bank overdraft	**(99,921)**	(71,073)
	1,564,366	1,450,991

1. BASIS OF PREPARATION

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 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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

2.1.1. Key changes in accounting policies resulting from application of HKFRS 15 (Continued)

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using the expected value method, which 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 Group recognises product sales at the sales value of goods less estimated discounts.

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

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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

2.1.2 Summary of effects arising from initial application of HKFRS 15 (Continued)

Variable consideration *(Continued)*

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

	As reported RMB'000	Reclassification RMB'000	Amounts without application of HKFRS 15 RMB'000
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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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

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

Classification and measurement of financial assets *(Continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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

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

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

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

Impairment under ECL model *(Continued)*

Significant increase in credit risk *(Continued)*

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 *Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments* (Continued)

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

Impairment under ECL model *(Continued)*

Significant increase in credit risk *(Continued)*

Despite the aforegoing, 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 fulfil 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.2 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments *(Continued)*

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.

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

(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 assets 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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) RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	**1 January 2018 (Restated) RMB'000**
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

Disaggregation of revenue

For the six months ended 30 June 2018 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Total consolidated RMB'000
Types of products				
6-APA	**612,324**	**–**	**–**	**612,324**
Antibiotics products	**–**	**1,604,374**	**927,701**	**2,532,075**
Insulin products	**–**	**–**	**280,684**	**280,684**
Others	**166,753**	**4,349**	**196,529**	**367,631**
	779,077	**1,608,723**	**1,404,914**	**3,792,714**

All of the Group's revenue is recognised at a point in time during the six months ended 30 June 2018.

Geographical information

The revenue from the external customers by geographical market (irrespective of the origin of the goods) based on the location of the customers for the six months ended 30 June 2018 are presented below:

	RMB'000
PRC (country of domicile)	2,721,374
Europe	336,341
India	281,799
Hong Kong	18,059
Middle East	15,882
South America	89,672
Other Asian regions	240,313
Other regions	89,274
	3,792,714

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (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.

Segment result

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	813,335	211,800	–	1,025,135	(1,025,135)	–
Revenue from contracts with customers	1,592,412	1,820,523	1,404,914	4,817,849	(1,025,135)	3,792,714
RESULT						
Segment profit	293,031	86,839	287,809			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						(126,125)
Profit before taxation						149,199

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment result *(Continued)*

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	698,512	182,933	–	881,445	(881,445)	–
Revenue from contracts with customers	1,430,616	1,609,654	1,180,973	4,221,243	(881,445)	3,339,798
RESULT						
Segment profit	14,810	35,731	303,539			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						(140,031)
Profit before taxation						152,169

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 statement, 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 incentive 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 loss 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)
Interest on borrowings	**76,044**	84,030
Interest on convertible bond *(Note 15)*	**45,387**	42,451
Interest 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

7. TAX EXPENSE *(Continued)*

Hong Kong Profits Tax is calculated at two-tiered profits tax rates as set out below (six months ended 30 June 2017: 16.5%) of the estimated assessable profit for the period.

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

The application of the two-tiered profits tax rates regime is expected to have insignificant effect to the Group.

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.

During the six months ended 30 June 2018, the taxation charge for current Hong Kong Profits Tax and PRC EIT are calculated after taking into account the utilisation of unused tax losses amounting to approximately RMB2,270,000 and RMB232,932,000 respectively for which no deferred tax asset was previously recognised. No unused tax losses were utilized during the six months ended 30 June 2017.

During the six months ended 30 June 2018, the deferred tax credit amounting to RMB56,558,000 (30 June 2017: RMB17,813,000) was mainly arising from the net release of withholding tax and the land appreciation tax, PRC EIT and other taxes resulting from the decrease in fair value of the investment properties of approximately RMB59,275,000 (30 June 2017: RMB49,000,000).

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 the 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)
Earnings for the purpose of diluted earnings per share	**91,177**	60,788

	Six months ended 30 June	
	2018	2017
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weight average number of ordinary shares for the purpose of basic earnings per share	**1,627,738**	1,626,875
Effect of dilutive potential ordinary shares on convertible bonds issued	**–**	207,473
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,627,738**	1,834,348

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 RMB5 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 RMB84,443,000. The 2017 final dividend was paid on 10 July 2018.

The board of directors do not recommend payments 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 2017: RMB49,000,000).

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

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

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 to 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 RMB'000 (Unaudited)	31 December 2017 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
	1,293,036	1,047,623
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
	1,149,478	1,255,237

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 (Note 14). 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 RMB'000 (Unaudited)	31 December 2017 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. BORROWINGS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Bank loans	**1,908,780**	2,109,291
Discounted bills with recourse *(Note 12)*	**160,671**	25,317
Bonds	**1,193,877**	1,282,935
	3,263,328	3,417,543
Analysed as:		
Secured	**1,499,932**	1,639,347
Unsecured	**1,763,396**	1,778,196
	3,263,328	3,417,543
The carrying amount of the above borrowings are repayable		
Within one year	**1,424,496**	1,039,199
Within a period of more than one year, but not exceeding two years	**239,384**	752,252
Within a period of more than two years, but not exceeding five years	**1,530,567**	1,527,034
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	**68,881**	60,395
– Within a period of more than one year but not exceeding two years	**–**	38,663
	3,263,328	3,417,543
Less: Amount due within one year shown under current liabilities	**(1,493,377)**	(1,138,257)
Amount shown under non-current liabilities	**1,769,951**	2,279,286

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

14. BORROWINGS *(Continued)*

During the period, the Group obtained borrowings amounting to RMB601,493,000 (six months ended 30 June 2017: RMB2,017,373,000), and the Group repaid borrowings of RMB787,726,000 (six months ended 30 June 2017: RMB2,304,736,000). The borrowings balances carry interest at effective interest rates ranging from 0.65% to 6.81% (31 December 2017: 0.65% to 6.81%) per annum.

In March 2017, the Group issued fixed rate bonds of RMB1,100,000,000 carrying a fixed coupon rate of 5.5% per annum with a maturity of three years (extendable to five years) (the "Corporate Bonds"). The Corporate Bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, and listed and traded on The Shanghai Stock Exchange.

15. CONVERTIBLE BONDS

As disclosed in the Company's 2017 Annual Report, the Company issued USD denominated Hong Kong Dollars ("HKD") settled 4.5% unsecured convertible bonds at par with the aggregate principal amount of USD130,000,000 (equivalent to approximately RMB861,510,000) with initial conversion price of HK$5.35 and further adjusted to HK$4.86 per share at a fixed exchange rate of HK$7.7563 to USD1.00 (the "Convertible Bonds"). Details of the major terms of the Convertible Bonds are disclosed in the Company's 2017 Annual Reports.

In June 2018, the Convertible Bonds with fixed principal amount of USD8,049,000 (equivalent to approximately RMB51,111,000) were converted into total 12,845,770 ordinary shares of HK$0.01 each at a conversion price of HK$4.86 per conversion share (Note 16).

As at 30 June 2018, the Convertible Bonds in an aggregate principal amount of USD121,951,000 (equivalent to approximately RMB808,169,277) remained outstanding with a maturity date of 5 December 2021 and is classified as a non-current liability.

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 2018 and 2017 are set out as below:

	Debt component RMB'000	**Derivative component** RMB'000	**Total amount** RMB'000
At 1 January 2017 (Audited)	590,045	414,775	1,004,820
Interest charged	42,451	–	42,451
Gain arising on changes in fair value	–	(68,333)	(68,333)
Interest paid	(20,100)	–	(20,100)
Exchange gain	(13,737)	(8,722)	(22,459)
At 30 June 2017 (Unaudited)	598,659	337,720	936,379
At 1 January 2018 (Audited)	597,504	440,719	1,038,223
Interest charged	45,387	–	45,387
Loss arising on changes in fair value	–	280,621	280,621
Interest paid	(19,878)	–	(19,878)
Conversion into ordinary shares	(37,526)	(43,651)	(81,177)
Exchange loss	7,489	14,050	21,539
At 30 June 2018 (Unaudited)	592,976	691,739	1,284,715

16. SHARE CAPITAL

	Number of shares	**Amount** RMB'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 30 June 2017, 1 January 2018 and 30 June 2018	**3,800,000,000**	36,994
Issued and fully paid:		
At 1 January 2017, 30 June 2017, 1 January 2018	**1,626,875,000**	15,237
Issue of ordinary shares upon conversion of Convertible Bonds *(Note 15)*	**12,845,770**	109
At 30 June 2018	**1,639,720,770**	15,346

17. 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.

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 2018 RMB'000 (Unaudited)	31 December 2017 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
	1,329,848	1,175,205

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.

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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	**381**	425
Salaries and other benefits	**7,894**	9,268
Retirement benefits scheme contribution	**61**	63
	8,336	9,756

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 value 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).

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

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

	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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)				
Financial assets						
Financial assets at fair value through profit or loss—unquoted equity investment	**RMB500**	N/A	Level 3	Method of comparables is used to evaluate the market value of the unquoted equity investments by using price to book ratio of listed entities in similar industries	– book value of share of net assets of investee based on financial statements of investee – discount for lack of marketability of 30 per cent (2017: Nil), determined by reference to recent market research	– A slight increase in the book value of share of net assets of investee would result in a significant increase in the fair value – A significant increase in the discount for lack of marketability would result in a significant decrease in the fair value
Financial liabilities						
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	**Liabilities – RMB691,739**	Liabilities – RMB440,719	Level 3	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. The main inputs include term to maturity, dividend yield, risk-free rate, stock price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield – volatility of 48.48% (2017: 48.48%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– A significant increase in the dividend yield would result in a significant decrease in the fair value – A slight increase in the volatility in share price would result in a significant increase in the change in fair value

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

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

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 value. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

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. For the embedded derivative component of the Convertible Bonds and unlisted equity investment, the third party qualified valuers were 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.

21. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2018, the Group has repaid the finance lease with amounting RMB30,000,000 by offsetting the pledged deposit on finance lease.

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.

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

As at 30 June 2018, 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	16,306,875	Personal interest	1.00%
Mr. Leung Wing Hon	22,000	Personal interest	0.00%
Ms. Choy Siu Chit	8,575,875	Personal interest	0.53%
Mr. Fang Yu Ping	160,000	Personal interest	0.01%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	100,179	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 period, 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 period. 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 2018, 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 and short positions in the ordinary shares of the Company:

Name	*Notes*	Number of shares held	Percentage of Interest
Heren Far East Limited ("Heren")		1,006,250,000(L)	61.85%
	(1)	111,450,000(S)	6.85%
Heren Far East #3 Limited	*(2)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%
Heren Far East #4 Limited	*(2)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%
First Names (NTC) Trustees Asia Limited	*(3)*	1,006,250,000(L)	61.85%
		111,450,000(S)	6.85%

L/S: Long position/short position

Notes:

(1) Heren lent a total of 111,450,000 shares to Credit Suisse Group AG, pursuant to a stock borrowing agreement entered into on 21 November 2016.

(2) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the 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 purposes of Part XV of the SFO.

(3) First Names (NTC) Trustees Asia Limited (formerly known as Nautilus Trustees Asia Limited) is the trustee of the respective trusts holding entire interest in each of Heren Far East#2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 1,006,250,000 shares of the Company for the purposes 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 2018.

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. The 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