



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

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

Interim Report 2015



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Financial Highlights

	Six months ended 30 June		
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	Increase/ (Decrease)
Revenue	4,062,365	3,701,221	9.8%
EBITDA	803,364	1,283,137	(37.4%)
Profit before taxation	259,380	790,413	(67.2%)
Profit for the period attributable to owners of the Company	280,279	709,906	(60.5%)
Earnings per share	<i>HK cents</i>	<i>HK cents</i>	
– Basic	17.23	43.64	(60.5%)
– Diluted	17.23	43.64	(60.5%)

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

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

COMPANY SECRETARY

Mr. Leung Wing Hon (*FCPA*)

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Zhuhai Branch
Huaxia Bank, Zhuhai Branch
China Minsheng Banking Corp., Ltd., Zhuhai Branch
Bank of China Limited, Zhuhai Branch
Shanghai Pudong Development Bank Co., Ltd
Guangzhou Science City Sub-branch

Hong Kong

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

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

Report on Review of Condensed Consolidated Financial Statements



**TO THE BOARD OF DIRECTORS OF
THE UNITED LABORATORIES INTERNATIONAL HOLDINGS LIMITED**

(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 5 to 29, which comprise the condensed consolidated statement of financial position as of 30 June 2015 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 Main Board Listing 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

17 August 2015

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
	Notes		
Revenue	3	4,062,365	3,701,221
Cost of sales		<u>(2,424,283)</u>	<u>(2,160,269)</u>
Gross profit		1,638,082	1,540,952
Other income	4	55,202	467,882
Other gains and losses	5	63,123	(15,752)
Selling and distribution expenses		(661,086)	(627,777)
Administrative expenses		(370,052)	(292,206)
Research and development expenditures		(33,990)	(62,794)
Other expenses	8	(42,230)	(14,850)
Impairment loss recognised in respect of property, plant and equipment	10	–	(28,747)
Impairment loss recognised in respect of investment properties	10	(30,131)	–
Fair value change on investment properties	10	(174,733)	1,258
Loss on fair value change of embedded derivative components of convertible bonds	14	(5,474)	(13,001)
Finance costs	6	<u>(179,331)</u>	<u>(164,552)</u>
Profit before taxation		259,380	790,413
Taxation	7	<u>20,899</u>	<u>(80,507)</u>
Profit for the period attributable to owners of the Company	8	<u>280,279</u>	<u>709,906</u>
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		<u>(13,511)</u>	<u>(242,456)</u>
Total comprehensive income for the period attributable to the owners of the Company		<u>266,768</u>	<u>467,450</u>
Earnings per share (HK cents)	9		
– Basic		<u>17.23</u>	<u>43.64</u>
– Diluted		<u>17.23</u>	<u>43.64</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	9,600,848	9,616,785
Investment properties	10	1,441,417	1,634,245
Properties held for development for sale	10	302,811	318,707
Prepaid lease payments		264,759	268,271
Goodwill		3,770	3,777
Intangible assets		79,589	54,517
Deposit for land use rights		7,589	7,602
Deposits for acquisition of property, plant and equipment		239,766	186,572
Pledged deposits against finance leases		124,410	162,019
Deferred tax assets		50,529	41,929
		12,115,488	12,294,424
Current assets			
Inventories		1,645,556	1,417,886
Trade and bills receivables, other receivables, deposits and prepayments	11	2,638,756	2,981,580
Derivative financial instruments		5,320	227
Prepaid lease payments		6,297	6,307
Pledged bank deposits		1,536,993	1,214,683
Bank balances and cash		855,088	1,003,079
		6,688,010	6,623,762
Current liabilities			
Trade and bills payables and accrued charges	12	3,711,706	3,570,047
Derivative financial instruments		6,487	27,590
Obligations under finance leases – due within one year		607,041	696,019
Tax payables		75,233	62,831
Borrowings – due within one year	13	4,661,346	4,557,651
		9,061,813	8,914,138
Net current liabilities		(2,373,803)	(2,290,376)
Total assets less current liabilities		9,741,685	10,004,048

Condensed Consolidated Statement of Financial Position

At 30 June 2015

	<i>Notes</i>	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		661,953	768,120
Deferred income in respect of government grants	12	103,236	103,315
Obligations under finance leases – due after one year		388,082	704,960
Borrowings – due after one year	13	1,222,270	1,335,013
Convertible bonds	14	130,259	123,523
		2,505,800	3,034,931
		7,235,885	6,969,117
Capital and reserves			
Share capital	15	16,269	16,269
Reserves		7,219,616	6,952,848
Equity attributable to owners of the Company		7,235,885	6,969,117

The condensed consolidated financial statements on pages 5 to 29 were approved and authorised for issue by the Board of Directors on 17 August 2015 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 2015

	Attributable to owners of the Company							
	Share capital	Share premium	Special reserve	Capital reserve	Revaluation reserve	Foreign exchange reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014 (audited)	16,269	2,656,294	286,032	573,967	121,968	991,572	1,835,727	6,481,829
Profit for the period	-	-	-	-	-	-	709,906	709,906
Exchange differences arising on translation to presentation currency	-	-	-	-	-	(242,456)	-	(242,456)
Total comprehensive income for the period	-	-	-	-	-	(242,456)	709,906	467,450
Appropriation	-	-	-	45,803	-	-	(45,803)	-
At 30 June 2014 (unaudited)	16,269	2,656,294	286,032	619,770	121,968	749,116	2,499,830	6,949,279
At 1 January 2015 (audited)	16,269	2,656,294	286,032	619,570	121,968	797,784	2,471,200	6,969,117
Profit for the period	-	-	-	-	-	-	280,279	280,279
Exchange differences arising on translation to presentation currency	-	-	-	-	-	(13,511)	-	(13,511)
Total comprehensive income for the period	-	-	-	-	-	(13,511)	280,279	266,768
At 30 June 2015 (unaudited)	16,269	2,656,294	286,032	619,570	121,968	784,273	2,751,479	7,235,885

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

Included in special reserve is an amount of HK\$208,792,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of HK\$77,240,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of consideration 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 2015

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Operating activities		
Profit before taxation	259,380	790,413
Reversal of allowance for inventories	–	(5,907)
Provision of (reversal of) allowance for doubtful debts	5,179	(1,211)
Amortisation of intangible assets	2,232	147
Amortisation of prepaid lease payments	2,165	2,118
Depreciation of property, plant and equipment	360,256	325,907
Fair value change on investment properties	174,733	(1,258)
Government grants in relation to cessation of production in Chengdu	–	(392,375)
Impairment on property, plant and equipment	–	28,747
Impairment on investment properties	30,131	–
Finance costs	179,331	164,552
Bank interest income	(24,295)	(15,022)
Net loss on disposal of property, plant and equipment	33	–
Fair value (gain) loss on derivative financial instruments	(26,576)	3,979
Fair value change of derivative components of convertible bonds	5,474	13,001
Other non-cash items	–	407
Written down of deposits for acquisition of property, plant and equipment	4,514	9,938
Unrealised exchanged (gain) loss	(136)	20,884
Operating cash flows before movements in working capital	972,421	944,320
Increase in inventories	(229,824)	(461,519)
Decrease in trade and bills receivables, other receivables, deposits and prepayments	335,275	604,999
Increase (decrease) in derivative financial instruments	380	(142)
Increase (decrease) in trade and bills payables and accrued charges	121,438	(12,639)
Cash generated from operations	1,199,690	1,075,019
Tax paid	(81,174)	(107,241)
Net cash from operating activities	1,118,516	967,778

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Investing activities		
Additions to prepaid lease payment	(474)	–
Payments for purchase of property, plant and equipment	(377,723)	(301,458)
Payment of premium payables for change of use of land	–	(609,129)
Proceeds on disposal of property, plant and equipment	5,587	1,313
Placement of pledged bank deposits, net	(323,792)	(231,139)
Placement of pledged deposits against finance leases	–	(37,752)
Interest received	24,295	15,022
Additions to intangible assets	(27,404)	–
Receipt of government grants in relation to cessation of production in Chengdu	–	392,375
Net cash used in investing activities	(699,511)	(770,768)
Financing activities		
Interest paid	(189,591)	(222,403)
Proceeds on new finance leases raised	–	503,360
Repayment of obligations under finance leases	(368,638)	(241,754)
New borrowings raised	3,239,145	2,743,716
Repayment of borrowings	(3,244,407)	(2,850,957)
Net cash used in financing activities	(563,491)	(68,038)
Net (decrease) increase in cash and cash equivalents	(144,486)	128,972
Cash and cash equivalents at beginning of the period	1,003,079	1,080,713
Effect of foreign exchange rate changes	(3,505)	(21,046)
Cash and cash equivalents at end of the period, represented by	855,088	1,188,639
Bank balances and cash	855,088	1,188,639

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

1. BASIS OF PRESENTATION

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

As at 30 June 2015, the Group had net current liabilities of approximately HK\$2,373,803,000. The directors of the Company are of the opinion that, taking into account the available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements that is for at least the next twelve months commencing from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis other than certain financial instruments measured at fair value through profit or loss and investment properties measured at fair value.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

In the current interim period, the Group has adopted and applied, for the first time, certain amendments to the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

3. REVENUE AND SEGMENT INFORMATION

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of goods	<u>4,062,365</u>	<u>3,701,221</u>

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (i.e. executive directors of the Company) (the "CODM") for the purpose of allocating resources to segments and assessing their performance.

The Group is currently organised into three revenue streams, including (i) sale of intermediate products ("Intermediate products"); (ii) sale of bulk medicine ("Bulk medicine"); and (iii) sale of antibiotics finished products, non-antibiotics finished products and capsule casings (together "Finished products"). These three revenue streams are the operating and reportable segments of the Group.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

3. REVENUE AND SEGMENT INFORMATION (Continued)

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

For the six months ended 30 June 2015 (unaudited)

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2014 (unaudited)

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Segments total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
REVENUE						
External sales	497,773	1,914,528	1,288,920	3,701,221	-	3,701,221
Inter-segment sales	<u>808,435</u>	<u>301,218</u>	<u>-</u>	<u>1,109,653</u>	<u>(1,109,653)</u>	<u>-</u>
	<u>1,306,208</u>	<u>2,215,746</u>	<u>1,288,920</u>	<u>4,810,874</u>	<u>(1,109,653)</u>	<u>3,701,221</u>
RESULT						
Segment profit	169,421	195,471	279,144			644,036
Unrealised profit elimination	<u>(11,726)</u>	<u>(19,775)</u>	<u>(11,563)</u>			<u>(43,064)</u>
	<u>157,695</u>	<u>175,696</u>	<u>267,581</u>			600,972
Unallocated other income						446,902
Other gains and losses						(15,752)
Unallocated corporate expenses						(36,667)
Impairment loss recognised in respect of property, plant and equipment						(28,747)
Fair value change on investment properties						1,258
Loss on fair value change of embedded derivative components of convertible bonds						(13,001)
Finance costs						<u>(164,552)</u>
Profit before taxation						<u>790,413</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 revenue is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of subsidy income, bank interest income, fair value change of embedded derivative components of convertible bonds, sundry income, certain other expenses relating to relocation, other gains and losses, corporate expenses and staff costs, impairment loss recognised in respect of property, plant and equipment and investment properties, 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. Accordingly, the Group has not included total assets or liabilities information as part of segment information.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

4. OTHER INCOME

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Bank interest income	24,295	15,022
Sales of raw materials	16,175	11,070
Subsidy income (note)	3,879	429,946
Sundry income	10,853	11,844
	55,202	467,882

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

Included in the amount for the six months ended 30 June 2014 mainly consists of (i) approximately HK\$392,375,000 representing incentives received by a group entity in Chengdu which is for compensating losses incurred in relation to cessation of production in 2013 in Chengdu; (ii) approximately HK\$34,721,000 incentives as immediate financial support with no future related costs expected to be incurred nor related to any assets; and (iii) approximately HK\$566,000 grants for the purpose of financing certain expenditures on new products development.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Exchange gains (losses), net	22,665	(21,027)
Investment income on forward contracts	13,860	9,601
Fair value change on derivative financial instruments	26,576	(3,979)
Others	22	(347)
	63,123	(15,752)

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

6. FINANCE COSTS

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Interest on borrowings wholly repayable within five years	166,006	175,527
Interest on convertible bonds wholly repayable within five years	8,044	7,640
Interest on finance leases wholly repayable within five years	24,947	57,899
	198,997	241,066
Less: amounts capitalised in property, plant and equipment	(19,666)	(76,514)
	179,331	164,552

7. TAXATION

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	2,102	8,622
People's Republic of China (the "PRC") enterprise income tax ("EIT")	86,181	74,914
PRC withholding tax	10,767	16,132
	99,050	99,668
Deferred tax	(119,949)	(19,161)
	(20,899)	80,507

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2014: 16.5%) of the estimated assessable profit for the period. The PRC EIT is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

Pursuant to the PRC Enterprise Income Tax law and its detailed implementation rules promulgated on 16 March 2007 and 6 December 2007 respectively, the tax rate for domestic and foreign enterprises is unified at 25% and is effective from 1 January 2008. Besides, with effect from 1 January 2008, if the subsidiaries are qualified as high-technology companies (under the new PRC Enterprise Income Tax Law), the subsidiaries will be entitled a reduced rate of 15% and such qualification is subject to renewal for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2015 and 2014.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

7. TAXATION (Continued)

The taxation charge for current PRC EIT for the current interim period is calculated after taking into account the utilisation of unused tax losses amounting to approximately HK\$18,744,000 for which no deferred tax asset was previously recognised.

Deferred tax liabilities of approximately HK\$116,702,000 has been reversed in respect of the impairment loss of HK\$30,131,000 and fair value loss of HK\$174,733,000 of the investment properties as disclosed in note 10.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Salaries and other benefits costs	498,545	445,263
Retirement benefit costs	28,852	25,604
	<u>527,397</u>	470,867
Less: amount included in research and development expenditures	(19,040)	(19,209)
Less: amount included in temporary production suspension costs in other expenses	(47)	(3)
	<u>508,310</u>	451,655
Depreciation and amortisation		
Depreciation of property, plant and equipment	360,256	325,907
Amortisation		
– intangible assets	2,232	147
– prepaid lease payments	2,165	2,118
	<u>364,653</u>	328,172
Provision of (reversal of) allowance of doubtful debts	5,179	(1,211)
Reversal of allowance for inventories	–	(5,907)
Amounts included in other expenses		
– written down of deposits for acquisition of property, plant and equipment	4,514	9,938
	<u><u>4,514</u></u>	<u><u>9,938</u></u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share, being profit for the period attributable to owners of the Company	<u>280,279</u>	<u>709,906</u>
	Six months ended 30 June	
	2015 '000 (Unaudited)	2014 '000 (Unaudited)
Number of shares		
Number of ordinary shares for the purposes of basic and diluted earnings per share	<u>1,626,875</u>	<u>1,626,875</u>

The computation of diluted earnings per share for the period ended 30 June 2015 and 2014 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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

The Group acquired approximately HK\$366,066,000 (six months ended 30 June 2014: HK\$520,773,000) on property, plant and equipment to expand and upgrade certain production plants primarily in Inner Mongolia, the PRC, during the six months ended 30 June 2015.

Following the cessation of operations in the Group's production facilities in Chengdu ("Chengdu Production Plant") during the year ended 31 December 2013, the directors of the Company further re-assessed the recoverable amounts of the property, plant and equipment items in the Chengdu Production Plant based on the management's latest revised estimates of their state and condition as at 30 June 2014 and determined that an additional impairment loss of approximately HK\$28,747,000 was to be recognised in the profit or loss for the period ended 30 June 2014 (30 June 2015: nil).

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

The fair value of the Group's investment properties as at 30 June 2015 has been arrived at based on a valuation carried out on that date by Roma Appraisals Limited ("ROMA"), an independent qualified professional valuer. There was no comparable recent sales transactions of lands available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the development costs to be incurred to arrive at the residual value. The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin and commercial/residential portion, which would expose the Group to fair value measurement risks.

The decrease in fair value of investment properties of approximately HK\$174,733,000 has been recognised directly in the profit or loss for the six months ended 30 June 2015 (six months ended 30 June 2014: increased by HK\$1,258,000). The decrease in fair value is due to a longer construction period from 4-6 years estimated as at 31 December 2014 to 4-7 years estimated as at 30 June 2015 and decrease in expected selling price of completed units from an average of RMB9,651 per square meter as at 31 December 2014 to RMB9,209 per square meter as at 30 June 2015. The expected selling price per square meter upon completion of construction and the construction periods have been revisited by the directors of the Company taking into account the market conditions and construction complexity as at the valuation date.

Pursuant to the Group's development plan as at 30 June 2015, certain lands will be developed into residential properties for sale, the respective portion of lands have been reclassified from investment properties to "Properties held for development for sale" carried at the deemed costs equivalent to the fair value measured at 30 June 2015 immediately prior to its reclassification.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Trade and bills receivables	2,237,450	2,596,814
Value-added tax receivables	106,789	166,667
Other receivables, deposits and prepayments	337,064	255,526
Less: allowance for doubtful receivables		
– trade	(11,539)	(11,435)
– non-trade	(31,008)	(25,992)
	<u>2,638,756</u>	<u>2,981,580</u>

The Group normally allows a credit period of between 30 days and 120 days to its trade customers, and the 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 increase in other receivables, deposits and prepayments is resulted by the increase in prepayment for inventories comprising raw materials and consumables and expenditure on development stage for product testing included in research and development expenditures.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Trade receivables		
0 to 30 days	518,428	613,416
31 to 60 days	282,175	324,225
61 to 90 days	127,469	128,787
91 to 120 days	66,250	83,821
121 to 180 days	27,238	19,198
Over 180 days	27,510	5,028
	<u>1,049,070</u>	<u>1,174,475</u>
Bills receivables		
0 to 30 days	182,540	295,838
31 to 60 days	193,825	187,496
61 to 90 days	158,934	298,977
91 to 120 days	237,040	244,937
121 to 180 days	396,689	376,216
Over 180 days	7,813	7,440
	<u>1,176,841</u>	<u>1,410,904</u>

At 30 June 2015, the Group had HK\$1,523,099,000 (31 December 2014: HK\$1,100,872,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK\$254,862,000 (31 December 2014: HK\$216,233,000) bills receivables were issued by the Group's external debtors, and the remaining HK\$1,268,237,000 (31 December 2014: HK\$884,639,000) were issued by certain subsidiaries of the Company for the purposes of settlement or prepayment of inter-group purchase. Accordingly, the Group continues to recognise the full carrying amount of Group's receivables from the external debtors and has recognised the cash received on such discounted bills receivables as secured borrowings of HK\$1,523,099,000 (31 December 2014: HK\$1,100,872,000) (see note 13). In addition, as at 30 June 2015, the Group continues to recognise an amount of HK\$538,243,000 (31 December 2014: HK\$569,957,000) representing bills receivables issued by the Group's external debtors which had been endorsed to the Group's creditors for settlement (see note 12).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

12. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days for trade payables and bills payables, 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 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Trade payables		
0 to 90 days	925,609	818,640
91 to 180 days	302,622	306,048
Over 180 days	72,701	162,965
	1,300,932	1,287,653
Bills payables		
0 to 90 days	333,970	510,420
91 to 180 days	550,206	271,693
	884,176	782,113
Other payables and accruals	431,744	442,497
Deferred income in respect of government grants	186,272	174,199
Payables in respect of the acquisition of property, plant and equipment	1,011,818	986,900
	3,814,942	3,673,362
Less: Amount due within one year shown under current liabilities	(3,711,706)	(3,570,047)
Deferred income in respect of government grants shown under non-current liabilities	103,236	103,315

Included in the trade payables and other payables above are HK\$538,243,000 and HK\$ nil (31 December 2014: HK\$550,765,000 and HK\$19,192,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills have not yet fallen due as at the end of the reporting period (see note 11).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

13. BORROWINGS

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Bank loans	4,132,704	4,668,047
Discounted bills with recourse (note 11)	1,523,099	1,100,872
Bank overdrafts, unsecured	123,430	123,745
Bonds	104,383	–
	<u>5,883,616</u>	<u>5,892,664</u>
Analysed as:		
Secured	2,174,347	2,809,262
Unsecured	3,709,269	3,083,402
	<u>5,883,616</u>	<u>5,892,664</u>
The borrowings are repayable as follows:		
Carrying amount repayable within one year	4,155,278	4,291,183
Carrying amount repayable more than one year, but not exceeding two years	601,585	811,567
Carrying amount repayable more than two years, but not exceeding five years	620,685	523,446
Carrying amount of bank loans that contain a repayment on demand clause		
– repayable within one year from the end of the reporting period	366,568	256,143
– not repayable within one year from the end of the reporting period but shown under current liabilities	139,500	10,325
	5,883,616	5,892,664
Less: Amount due within one year shown under current liabilities	(4,661,346)	(4,557,651)
Amount shown under non-current liabilities	<u>1,222,270</u>	<u>1,335,013</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

13. BORROWINGS (Continued)

During the period, the Group obtained borrowings with recourse amounting to HK\$3,239,145,000 (six months ended 30 June 2014: HK\$2,743,716,000), and the Group repaid borrowings of HK\$3,244,407,000 (six months ended 30 June 2014: HK\$2,850,957,000). These borrowings carry interest at effective interest rates ranging from 1.5% to 7.2% (31 December 2014: 3.03% to 7.2%) per annum.

On 12 January 2015, the Group established a bond issue programme for the issuance from time to time, of bonds with a term of three years in an aggregate principal amount of up to HK\$1,000,000,000. During the period ended 30 June 2015, the Group issued a fixed rate bonds of HK\$104,383,000 which is unsecured, carrying a fixed coupon rate of 6% per annum and payable semi-annually in arrears on 31 May and 30 November. The bonds issued at par, carry interest at effective interest rate of 6.81% per annum.

14. CONVERTIBLE BONDS

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

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

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

Details of the Bonds are set out in the Group's annual financial statements for the year ended 31 December 2014.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

14. 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 2015 are set out as below:

	<i>HK\$'000</i>
At 1 January 2014 (audited)	114,856
Interest charged	7,640
Loss arising on changes of fair value	13,001
Interest paid	(4,596)
Exchange realignment	<u>(3,204)</u>
At 30 June 2014 (unaudited)	<u>127,697</u>
At 1 January 2015 (audited)	123,523
Interest charged	8,044
Loss arising on changes of fair value	5,474
Interest paid	(4,826)
Exchange realignment	<u>(1,956)</u>
At 30 June 2015 (unaudited)	<u>130,259</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

15. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
At 1 January 2014, 30 June 2014, 31 December 2014 and 30 June 2015	<u>1,626,875,000</u>	<u>16,269</u>

16. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of HK\$845,543,000 (31 December 2014: HK\$995,247,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

17. 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 2015 <i>HK\$'000</i> (Unaudited)	31 December 2014 <i>HK\$'000</i> (Audited)
Property, plant and equipment	114,504	196,957
Land use rights	31,899	38,747
Bills receivables	1,523,099	1,100,872
Pledged bank deposits	<u>1,536,993</u>	<u>1,214,683</u>
	<u>3,206,495</u>	<u>2,551,259</u>

- b. At 30 June 2015, the carrying value of plant and equipment included an amount of HK\$2,204,950,000 (31 December 2014: HK\$2,384,288,000) in respect of assets held under finance leases.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

18. RELATED PARTY TRANSACTION

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

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Fees	480	480
Salaries and other benefits	9,756	9,970
Retirement benefits scheme contribution	71	67
	10,307	10,517

19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

19. 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)

Financial assets/ financial (liabilities)	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 June 2015 HK\$'000	31 December 2014 HK\$'000				
Foreign currency forward contracts classified as financial instruments accounted for as fair value through profit or loss ("FVTPL") in the condensed consolidated statement of financial position	Assets - HK\$5,320 and Liabilities - HK\$6,487	Assets - HK\$227 and Liabilities - HK\$27,590	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	HK\$24,315	HK\$19,136	Level 3	Binomial Pricing Model 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, spot price as of the valuation date, exercise price and expected volatility of stock price.	- dividend yield - company specific discounted rate (the "Rate")	- the higher the dividend yield, the lower the fair value - the higher the Rate, the lower the fair value

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

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

Fair value measurements and valuation processes

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

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

20. EVENT AFTER REPORTING PERIOD

On 20 July 2015, the Group entered into an agreement with an executive director to dispose of a property with a consideration of HK\$8,200,000.

Management Discussion and Analysis

BUSINESS REVIEW FOR THE FIRST HALF OF 2015

For the six months ended 30 June 2015, the Group's revenue was increased by 9.8% to HK\$4,062.4 million as compared with the same period in the preceding year of HK\$3,701.2 million. The Group's profit for the period attributable to shareholders was approximately HK\$280.3 million, representing a decrease of 60.5%, as compared with the same period in the preceding year of HK\$709.9 million. Segmental turnover (including inter-segment sales) of intermediate products and finished products were increased by 33.1% and 3.4% respectively, and segmental turnover (including inter-segment sales) of bulk medicine was decreased by 13.9% for the six months ended 30 June 2015, as compared with the same period in preceding year. Segmental profit margin of intermediate products, bulk medicine and finished products were 14.3%, 6.8% and 19.0% respectively for the current period, as compared with segmental profit margin of intermediate products, bulk medicine and finished products were 12.1%, 7.9% and 20.8% respectively for the corresponding period in last year.

In the first half of 2015, the global economic growth was imbalanced, and the economic recovery process continued to diverge. In particular, while the economic recovery of the United States slowed down despite a moderate economic recovery in Europe, the global financial market fluctuated due to the impact of the debt crisis in Greece. In addition, the Japanese economy remained hovering at a relatively lower level. In China, despite of the steady slowdown of the economic growth, the government was resolved to implement various economic reform policies, consolidate the industry context and continue to drive the domestic demand and local consumption. Furthermore, the expedited ageing population, the

significant growth of nationals' disposable income and the remarkable enhancement of healthcare awareness of the general public have helped the government to improve the healthcare and hygiene system. According to an announcement published by the State Council in May 2015, 2015 plays a critical role in comprehensively deepening the reform of the pharmaceutical and healthcare system. In this year, the government will continue to focus on improvement of the universal medical insurance system and provide strong support to the procurement, distribution and delivery of pharmaceuticals and equipment of hospitals. Such moves will better cater to the considerable demand for quality healthcare arising from the improving lifestyle quality of the people and the expanding coverage of medical insurances. The Group is optimistic about the business environment as these initials will help drive the long-term and sustainable development of the pharmaceutical industry and provide impetus to the future growth of the Group.

Upon review the current period result, after being deducted one-off governmental subsidies of approximately HK\$392,375,000 arising from the change of the land use of Chengdu plant, the profit attributable to owners of the Company decreased as compared to the results of the same period of 2014.

The performance of the Group for the current period is analyzed as below:

Decrease in fair value of investment properties in Chengdu

The fair value of the investment properties located in Chengdu as at 30 June 2015 decreased as compared to the same period of the last year because the domestic real estate market in China continued to be sluggish during the period.

Management Discussion and Analysis

Stable production costs of intermediate products and bulk medicine products

Sales of intermediate products and bulk medicine products of the Group achieved good performance during the period. As demand for antibiotics products continued to grow steadily, the selling price of 6-APA, an intermediate product, demonstrated steadily volatile momentum. The price of corn, the primary raw material of our intermediate products, remained stable, effectively controlling the production costs of our products. During the period, the significant promotion in the production capacity utilization rate of 6-APA of the Group's Inner Mongolia plant as compared to that in the corresponding period of the last year helped achieve larger scale of economy and further effectively lower production costs. Sales of intermediate products achieved a synchronized growth and the profits from sales of 6-APA improved substantially.

Sales of finished products driven by insulin and memantine hydrochloride tablets products

As the Chinese Government continued to explore new work direction for pharmaceuticals industry under clearer new medical reform policies, it is necessary to implement the centralized procurement of pharmaceuticals. The promotion and bidding work finished products of the Group continued to steadily advance under the adjustments to the procurement of pharmaceuticals in provinces. In the first half of 2015, the products, such as the recombinant human insulin products, and the memantine hydrochloride products which is used for the treatment of Alzheimer's disease, successfully won the tenders in Zhejiang, Hunan, Anhui, Sichuan and other provinces, further expanding the sales market and better taking the advantages of the sales team in medical institutions at lower levels and

the services provided. During the period, apart from winning tenders, the recombinant human insulin product of Group continued to receive orders from private hospitals, clinics and pharmacies, with sales being especially prominent in Henan, Shandong, Guangdong, Jilin and Heilongjiang provinces.

Research and development, sales and development of new products

During the period, the Group has always proactively expanded the market for the memantine hydrochloride product, a new product for treatment of the Alzheimer's disease. At present, this product has been marketed to 19 provinces across the country and won tenders in 7 provinces and cities such as Shandong, Chongqing and Hubei. In addition, the Group continued to specialize in developing new specifications and formulations of this series in order to further expand its market presence and steadily increase sales contribution.

For other new products business, in March this year, the Group further launched Vitamin C effervescent tablets (blackcurrant), a new product in the Vitamin C family, on the basis of its existing Vitamin C effervescent tablets (orange), providing consumers with more choices of flavor. With the onset of the big health era and the concept of "Internet Plus" being put forward, in order to better market and promote our brands and excellent products via Internet, official flagship stores of United Laboratories has successfully penetrated into a number of e-commerce platforms, such as www.sunning.com, www.jd.com and www.yhd.com, and the Group plans to gradually conduct an Internet sales model in the future and further expand the market coverage.

Management Discussion and Analysis

The Group has always been dedicated to the research and development of pharmaceuticals. The United Laboratories Limited Zhuhai, a subsidiary of the Group, was awarded the “2015 Best Industrial Enterprise in terms of Pharmaceutical Product R&D and Production Line in China” (二零一五年中國醫藥研發產品線最佳工業企業) by the PRC Pharmaceutical Industry Information Centre in July 2015, and ranked 23rd among Top 100 Enterprises in the PRC Pharmaceutical Industry, demonstrating its strong capability highly recognized by the government and the industry. Currently, the Group has 52 new products being developed. In the first half of 2015, one approval document for production and one for clinical trial, and a total of 18 patent registration applications have been approved, respectively. In addition, 9 applications are pending approvals. It is expected that we will further expand our finished products business. The Group hires a strong sales team of nearly 3,000 employees, effectively shortening the time for new products to enter the market and also provides the strongest driving force for the Group’s new products on the market.

For the research and development of biological preparations, the Group has applied to process pre-approval inspection of registered production site for insulin glargine (third generation insulin), and it is expected that the Group will obtain the production approval for insulin glargine (third generation insulin) during the year. Clinical trial for insulin aspart (third generation insulin) 30 injection products was completed successfully at the end of last year, and we are currently preparing to apply for the production approval, which further optimizes the Group’s insulin product line. Meanwhile, the Group is researching various biological preparations, including the third generation insulin aspart, insulin Degludec, and liraglutide. In the future, such products will be gradually launched to the market to benefit more diabetics.

For the research and development of chemical pharmaceuticals, levetiracetam, which is classified under class 3.1 of State Class New Medicine and is used for the treatment of epilepsy, was granted the production approval and the new pharmaceutical certificate from China Food and Drug Administration in May 2015. It is expected that the Group will become the fourth enterprise in China with the manufacturing license for such product. With good clinic efficacy and high safety, the levetiracetam tablets are suitable for adult and children epileptics above the age of four. We believe that this kind of pharmaceuticals will contribute considerable economic benefits to the Group after being approved for production and more epileptics will benefit from them. In addition, the Group is also conducting research and development on new pharmaceuticals such as anti-AIDS and anti-hepatitis B drugs, and is dedicated to diversify its preparation products.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2015, the Group had pledged bank deposits, cash and bank balances amounted to HK\$2,392.1 million (31 December 2014: HK\$2,217.8 million).

As at 30 June 2015, the Group had interest-bearing borrowings of approximately HK\$5,883.6 million (31 December 2014: HK\$5,892.7 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Borrowings of approximately HK\$3,246.3 million are fixed rates loans while the remaining balance of approximately HK\$2,637.3 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 2015, current assets of the Group amounted to approximately HK\$6,688.0 million (31 December 2014: HK\$6,623.8 million). The Group's current ratio was approximately 0.74 as at 30 June 2015 as compared with 0.74 as at 31 December 2014. As at 30 June 2015, the Group had total assets of approximately HK\$18,803.5 million (31 December 2014: HK\$18,918.2 million) and total liabilities of approximately HK\$11,567.6 million (31 December 2014: HK\$11,949.1 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less cash and bank balances, pledged deposits against finance leases and pledged bank deposits to total equity) of 62.1% as at 30 June 2015, as compared with 72.3% as at 31 December 2014.

CURRENCY EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

At 30 June 2015 and 31 December 2014, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2015

Looking forward, the Group will adhere to its business development strategy, constantly maximize scientific research and cost advantages, and cooperate with renowned universities and colleges, institutes, laboratories, etc. to implement cooperative schemes. In addition, the Group will strive to develop new products with high gross profits and high demand, while continuing to diversify the products of the Group. In particular, we will continue to regard the recombinant human insulin products as the key

products of the Group, undertake the tenders won in Zhejiang, Hunan, Anhui and Sichuan provinces, and continue to invest substantial resources in more provinces to capture a larger market share. Apart from insulin, memantine hydrochloride used for the treatment of Alzheimer's disease and levetiracetam used for the treatment of epilepsy, the Group has also proactively expanded the sales of OTC products, Chinese medicine and healthcare products in chain pharmacies. It is expected to further drive the growth of finished products, increase the proportion of sales, and contribute more profits to the Group.

According to the report of Frost & Sullivan, the compound annual growth rate of China's pharmaceutical market for 2014 to 2018 will be 14.0%. Notwithstanding the fast development of China's medical market, according to the estimates for 2014, the amount of China's medical expending as a percentage of the gross domestic product and the proportion of the expenditure per capita on medical expending remain lower than the majority of other major countries. Therefore, there is still huge development space in the future. Moreover, the Chinese government pointed out that by 2020, there will be seven major projects in the medical system amounting to RMB400 billion, with annual average investments of RMB50 billion, and it will strengthen the industrial regulation. The Group believes it will benefit from the rising expenditure on pharmaceuticals and the expedited consolidation of the industry in the future by leading the pack in the pharmaceuticals industry.

On the other hand, the Inner Mongolia Plant commenced its full operation, and the vertical integration resulted in higher production efficiency to satisfy the growth pace in exports and the market expansion of domestic sales. In addition, production and processing techniques continued improving. As a result, production costs were further reduced, increasing the gross profit margin of the

Management Discussion and Analysis

Group. By reinforcing its own advantages, United Laboratories will capitalize on the competitive pricing advantages and extensive sales networks to penetrate into the rural markets and grass-roots level medical organizations, while capturing potential opportunities arising from the enormous medical market in China. Meanwhile, the Group will continue exploring and increasing overseas sales, including promotion of products with international standards (including recombinant human insulin products) to overseas markets. Through the dual development of domestic and overseas sales, the Group will realize higher growth rate.

Amidst deepened medical reforms and industrial upgrades, we are confident that we can seize market opportunities. By utilizing many years of experience and well-established scale of advantages, we will improve our innovation and scientific research capacities to consolidate our competitive strength, while maintaining the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

EMPLOYEES AND REMUNERATION

As at 30 June 2015, the Group had approximately 12,000 (31 December 2014: 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. The Group also operates a share option scheme of which the Board may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

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

As at 30 June 2015, 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 corporation (within the meaning of Part XV of

the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept 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 director	Number of shares	Capacity	Percentage of interests
Mr. Tsoi Hoi Shan	225,000	Personal interest	0.01%
Mr. Leung Wing Hon	657,500	Personal interest	0.04%
Mr. Fang Yu Ping	260,000	Personal interest	0.02%
Ms. Zou Xian Hong	100,000	Personal interest	0.01%
Ms. Zhu Su Yan	150,179	Personal interest	0.01%
Prof. Song Ming	75,000	Personal interest	0.00%

Other Information

Save as disclosed above, none of the directors, chief executive of the Company 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 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

At no time during the six months ended 30 June 2015 were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, chief executive, or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its holding company, or subsidiaries a party to any arrangement to enable the directors or chief executive to acquire such rights in any other corporate.

Long/short positions in the ordinary shares of the Company:

Name	Notes	Number of shares held	Percentage of Interest
Mr. Choy Kam Lok, deceased ("Mr. Choy")	(1)	1,193,127,500 (L)	73.34%
	(2)	118,750,000 (S)	7.30%
Ms. Ning Kwai Chun ("Ms. Ning")	(3)	187,890,000 (L)	11.55%
		118,750,000 (S)	7.30%
Heren Far East Limited ("Heren")		1,006,250,000 (L)	61.85%
Gesell Holdings Limited ("Gesell")	(4)	1,006,250,000 (L)	61.85%
Nautilus Trustees Asia Limited (formerly known as "DBS Trustee H.K. (Jersey) Limited)	(5)	1,006,250,000 (L)	61.85%

L/S: Long position/short position

SHARE OPTION SCHEME

The Company operates a share option scheme for the purposes to enable the directors of the Company to grant options to certain full-time employees (including executive directors, non-executive directors and independent non-executive directors of the Company) of the Group in recognition of their contributions to the Group.

As at 30 June 2015, no share option has been offered and/or granted to any participants under the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2015, the following persons, 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:

Note:

- (1) Mr. Choy is the founder of The Choy Family Trust, which is a discretionary trust and whose discretionary objects include the directors of the Company, Mr. Tsoi Hoi Shan and Ms. Choy Siu Chit, and certain other family members of Mr. Choy (but excluding Mr. Choy himself). For the purpose Part XV of the SFO, Mr. Choy is deemed or taken to be interested in the entire issued share capital of Gesell and Heren which form part of the property of The Choy Family Trust. Mr. Choy is therefore deemed and taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of the SFO. In additions, Mr. Choy personally holds 67,902,500 shares of the Company and 325,000 shares of the Company held by the spouse of Mr. Choy, Ms. Ning which is deemed interests of Mr. Choy. Heren lent 118,750,000 shares to Mr. Choy and Ms. Ning. Hence, Mr. Choy had a long position in the 1,193,127,500 shares.
- (2) Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..
- (3) Ms. Ning is the spouse of Mr. Choy and is accordingly deemed to have interest in 187,890,000 shares of the Company that Mr. Choy has interest in and Mr. Choy and Ms. Ning on-lent the 118,750,000 shares they borrowed from Heren to HSBC Private Bank (Suisse) S.A..
- (4) Gesell is interested in the entire issued share capital of Heren and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purpose of Part XV of the SFO.
- (5) Nautilus Trustees Asia Limited is the trustee of The Choy Family Trust and is deemed to be interested in the 1,006,250,000 shares of the Company which The Choy Family Trust is interested through Heren and Gesell for the purpose of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2015.

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 2015.

CORPORATE GOVERNANCE

The Company is committed to ensure high standards of corporate governance in the interest of its shareholders.

The Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarized below:

– *Code Provision A.2.1*

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the six months ended 30 June 2015, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– *Code Provision A.6.7*

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings. An independent non-executive director was unable to attend the annual general meeting of the Company held on 3 June 2015 due to other important engagement.

Other Information

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 2015.

AUDIT COMMITTEE

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2015. 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.

BOARD OF DIRECTORS

As at the date of this report, 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, Mr. Huang Bao Guang and Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board

TSOI HOI SHAN

Chairman

Hong Kong, 17 August 2015