



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 2014

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Financial Highlights

	Six months ended 30 June		
	2014 HK\$'000	2013 HK\$'000	Increase/ (Decrease)
Revenue	3,701,221	3,745,899	(1.2%)
EBITDA	1,283,137	514,234	149.5%
Profit before taxation	790,413	84,290	837.7%
Profit for the period attributable to owners of the Company	709,906	42,992	1,551.3%
Earnings per share			
– Basic	HK 43.64 cents	HK 2.64 cents	1,553.0%
– Diluted	HK 43.64 cents	HK 2.62 cents	1,565.6%

BOARD OF DIRECTORS

Executive directors

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

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
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Cayman Islands

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Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

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

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 26, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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

20 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
	NOTES		
Revenue	3	3,701,221	3,745,899
Cost of sales		(2,160,269)	(2,599,139)
Gross profit		1,540,952	1,146,760
Other income	4	467,882	51,591
Other gains and losses	5	(15,752)	1,481
Selling and distribution costs		(627,777)	(608,173)
Administrative expenses		(292,206)	(262,794)
Research and development expenditures		(62,794)	(52,987)
Other expenses	8	(14,850)	(49,178)
Impairment loss recognised in respect of property, plant and equipment		(28,747)	(93,833)
Fair value change on investment properties	10	1,258	–
(Loss) gain on fair value change of derivative components of convertible bonds	14	(13,001)	54,486
Finance costs	6	(164,552)	(103,063)
Profit before taxation		790,413	84,290
Taxation	7	(80,507)	(41,298)
Profit for the period attributable to owners of the Company	8	709,906	42,992
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		(242,456)	111,864
Total comprehensive income for the period attributable to the owners of the Company		467,450	154,856
Earning per share (HK cents)	9		
– Basic		43.64	2.64
– Diluted		43.64	2.62

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	9,727,395	9,807,079
Investment properties	10	2,260,986	2,320,316
Prepaid lease payments		109,921	114,275
Goodwill		3,840	3,866
Intangible assets		58,945	60,674
Deposit for land use rights		164,680	169,094
Deposits for acquisition of property, plant and machinery		302,838	464,635
Pledged deposits against finance lease		124,230	100,772
Prepayment		20,179	–
Deferred tax asset		41,321	17,911
		<u>12,814,335</u>	<u>13,058,622</u>
Current assets			
Inventories		1,698,536	1,271,855
Trade and bills receivables, other receivables, deposits and prepayments	11	2,600,834	3,290,653
Derivative financial instruments		20,038	7,917
Prepaid lease payments		2,819	3,632
Pledged bank deposits		1,092,058	886,824
Bank balances and cash		1,188,639	1,080,713
		<u>6,602,924</u>	<u>6,541,594</u>
Current liabilities			
Trade and bills payables and accrued charges	12	3,572,574	4,274,793
Derivative financial instruments		23,317	7,364
Obligations under finance leases – due within one year		710,585	549,357
Tax payables		44,285	32,870
Borrowings – due within one year	13	4,822,394	4,998,359
		<u>9,173,155</u>	<u>9,862,743</u>
Net current liabilities		<u>(2,570,231)</u>	<u>(3,321,149)</u>
Total assets less current liabilities		<u>10,244,104</u>	<u>9,737,473</u>

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	NOTES	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		967,503	983,132
Deferred income in respect of government grant	12	108,997	107,271
Obligations under finance leases – due after one year		741,823	669,145
Borrowings – due after one year	13	1,348,805	1,381,240
Convertible bonds	14	127,697	114,856
		<u>3,294,825</u>	<u>3,255,644</u>
		<u>6,949,279</u>	<u>6,481,829</u>
Capital and reserves			
Share capital	15	16,269	16,269
Reserves		6,933,010	6,465,560
		<u>6,949,279</u>	<u>6,481,829</u>
Equity attributable to owners of the Company			
		<u>6,949,279</u>	<u>6,481,829</u>

The condensed consolidated financial statements on pages 5 to 26 were approved and authorised for issue by the Board of Directors on 20 August 2014 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 2014

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Foreign exchange reserve HK\$'000	Retained profits HK\$'000	
At 1 January 2013 (audited)	16,269	2,656,294	286,032	531,213	-	774,437	1,830,444	6,094,689
Profit for the period	-	-	-	-	-	-	42,992	42,992
Exchange differences arising on translation to presentation currency	-	-	-	-	-	111,864	-	111,864
Total comprehensive income for the period	-	-	-	-	-	111,864	42,992	154,856
At 30 June 2013 (unaudited)	16,269	2,656,294	286,032	531,213	-	886,301	1,873,436	6,249,545
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

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

Included in special reserve is an amount of HK\$208,032,000 and an amount of HK\$77,240,000 which represent the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company and the difference between the carrying amount of the non-controlling interests acquired and the fair value of consideration paid for acquisition of additional interests in subsidiaries, respectively.

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 2014

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Operating activities		
Profit before taxation	790,413	84,290
Depreciation of property, plant and equipment	325,907	324,657
Finance costs	164,552	103,063
(Reversal of) provision of allowance for doubtful debts	(1,211)	5,119
(Reversal of) provision of allowance for inventories	(5,907)	16,300
Fair value change of derivative components of convertible bonds	13,001	(54,486)
Bank interest income	(15,022)	(24,196)
Impairment on property, plant and equipment	28,747	93,833
Impairment on intangible assets	–	1,912
Government grants in relation to cessation of production in Chengdu	(392,375)	–
Other non-cash items	5,393	6,338
Written down of deposit for acquisition of property, plant and equipment	9,938	–
Unrealised exchanged loss	20,884	–
	944,320	556,830
(Increase) decrease in inventories	(461,519)	306,463
Decrease (increase) in trade and bills receivables, other receivables, deposits and prepayments	604,999	(84,229)
Decrease in derivative financial instruments	(142)	–
Decrease in trade and bills payables and accrued charges	(12,639)	(162,379)
	1,075,019	616,685
Cash generated from operations	(107,241)	(52,464)
Net cash from operating activities	967,778	564,221
Investing activities		
Payments for purchase of property, plant and equipment	(301,458)	(1,289,801)
Payment of premium payables for change of use of land	(609,129)	–
Proceeds on disposal of property, plant and equipment	1,313	–
Placement of pledged bank deposits, net	(231,139)	–
Placement of pledged deposit against finance lease	(37,752)	–
Interest received	15,022	24,196
Refund of deposits for acquisition of leasehold lands	–	8,382
Receipt of government grants in relation to cessation of production in Chengdu	392,375	–
Net cash used in investing activities	(770,768)	(1,257,223)
Financing activities		
Interest paid	(222,403)	(159,227)
Proceeds on new finance leases raised	503,360	375,330
Repayment of obligations under finance lease	(241,754)	(118,332)
New borrowings raised	2,743,716	3,660,451
Repayment of borrowings	(2,850,957)	(2,508,829)
Increase (decrease) in bank overdraft, secured	–	(17,730)
Net cash (used in) from financing activities	(68,038)	1,231,663
Net increase in cash and cash equivalents	128,972	538,661
Cash and cash equivalents at beginning of the period	1,080,713	646,125
Effect of foreign exchange rate changes	(21,046)	6,688
Cash and cash equivalents at end of the period, represented by	1,188,639	1,191,474
Bank balances and cash	1,188,639	1,191,474

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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 2014, the Group had net current liabilities of approximately HK\$2,570,231,000. 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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has adopted and applied, for the first time, certain new interpretation and 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 new interpretation and 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 2014

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	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Sales of goods	<u>3,701,221</u>	<u>3,745,899</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 (collectively referred as "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 2014

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 2014 (unaudited)

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Segments' total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	497,773	1,914,528	1,288,920	3,701,221	-	3,701,221
Inter-segment sales	808,435	301,218	-	1,109,653	(1,109,653)	-
	<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>
Segment profit	169,421	195,471	279,144			644,036
Unrealised profit elimination	(11,726)	(19,775)	(11,563)			(43,064)
	<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 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 derivative components of convertible bonds						(13,001)
Finance costs						(164,552)
Profit before taxation						<u>790,413</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

3. REVENUE AND SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2013 (unaudited)

	Intermediate products HK\$'000	Bulk medicine HK\$'000	Finished products HK\$'000	Segments' total HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
TURNOVER						
External sales	807,902	1,728,245	1,209,752	3,745,899	-	3,745,899
Inter-segment sales	665,427	151,188	-	816,615	(816,615)	-
	<u>1,473,329</u>	<u>1,879,433</u>	<u>1,209,752</u>	<u>4,562,514</u>	<u>(816,615)</u>	<u>3,745,899</u>
Segment profit	2,156	67,744	224,495			294,395
Unrealised (loss) profit elimination	(1,577)	1,172	-			(405)
	<u>579</u>	<u>68,916</u>	<u>224,495</u>			293,990
Unallocated other income						27,434
Other gains and losses						1,481
Unallocated expenses						(96,205)
Impairment loss recognised in respect of property, plant and equipment						(93,833)
Gain on fair value change of derivative components of convertible bonds						54,486
Finance costs						(103,063)
Profit before taxation						<u>84,290</u>

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

Inter-segment turnover is charged at prevailing market rates.

Reportable segment profit represents the profit earned by each segment without allocation of subsidy income, bank interest income, (loss) gain on fair value change of 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, 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 2014

4. OTHER INCOME

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Bank interest income	15,022	24,196
Sales of raw materials	11,070	13,584
Subsidy income (note)	429,946	10,573
Sundry income	11,844	3,238
	467,882	51,591

Note: 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.

Included in the amount for the six months ended 30 June 2013 mainly consists of (i) approximately HK\$9,572,000 incentives received by a group entity for the development of environmental friendly manufacturing, pollution prevention and advanced technology which is accounted for as immediate financial support with no future related costs expected to be incurred nor related to any assets; and (ii) approximately HK\$500,000 grants for the purpose of financing certain expenditure on new products development.

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Exchange (losses) gains, net	(21,027)	2,905
Investment income on forward contracts	9,601	–
Fair value change on derivative financial instruments	(3,979)	(3,308)
Others	(347)	1,884
	(15,752)	1,481

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

6. FINANCE COSTS

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interest on borrowings wholly repayable within five years	175,527	142,718
Interest on convertible bonds wholly repayable within five years	7,640	58,064
Interest on finance leases wholly repayable within five years	57,899	20,260
	241,066	221,042
Less: amounts capitalised in property, plant and equipment	(76,514)	(117,979)
	164,552	103,063

7. TAXATION

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	8,622	2,781
People's Republic of China (the "PRC") enterprise income tax ("EIT")	74,914	50,081
PRC withholding tax	16,132	3,054
Overprovision of PRC enterprise income tax in respect of prior years	–	(3,927)
	99,668	51,989
Deferred tax	(19,161)	(10,691)
	80,507	41,298

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2013: 16.5%) of the estimated assessable profit for the period.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation of Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%. Besides, with effect from 1 January 2008, a subsidiary is qualified as high-technology company (under the new PRC Enterprise Income Tax Law) and is eligible to a reduced PRC EIT rate of 15% up to August 2014.

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\$294,000,000 for which no deferred tax asset was previously recognised.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation		
Depreciation of property, plant and equipment	325,907	324,657
Amortisation		
– intangible assets	147	365
– prepaid lease payments	2,118	1,859
	<u>328,172</u>	<u>326,881</u>
Impairment loss in respect of written down of intangible assets	–	1,912
(Reversal of) provision of allowance of doubtful debts	(1,211)	5,119
(Reversal of) provision of allowance for inventories	(5,907)	16,300
Amounts included in other expenses		
– Staff redundancy costs (Note)	–	10,988
– Other direct costs relating to relocation (Note)	–	35,267
– Written down of deposit for acquisition of property, plant and equipment	9,938	–
	<u>9,938</u>	<u>–</u>

Note: During the period ended 30 June 2013, the Group decided to relocate the production of 6-APA in Chengdu site to Inner Mongolia ("Relocation"). Relevant costs attributable to Relocation were recognised as other expenses.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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

The Group acquired approximately HK\$520,773,000 (six months ended 30 June 2013: HK\$1,722,823,000) 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 2014.

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 Plant based on the management's latest revised estimates of their state and condition as at 30 June 2014 and have determined that additional impairment loss of approximately HK\$28,747,000 (2013: HK\$93,833,000) should be recognised in the profit or loss for the period ended 30 June 2014.

The fair value of the Group's investment properties as at 30 June 2014 has been arrived at based on a valuation carried out on that date by Roma Appraisals Limited ("ROMA"), an independent qualified professional valuer, and was determined based on direct comparison approach making references to comparable sales transactions of lands for commercial/residential use as available in the relevant markets and adjusted to reflect the conditions and locations of the subject properties. The resulting increase in fair value of investment properties of approximately HK\$1,258,000 has been recognised directly in the profit or loss for the six months ended 30 June 2014 (six months ended 30 June 2013: nil).

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade and bills receivables	2,054,530	2,751,998
Value-added tax receivables	302,515	286,076
Other receivables, deposits and prepayments	263,103	273,636
Less: allowance for doubtful receivables	(19,314)	(21,057)
	<u>2,600,834</u>	<u>3,290,653</u>

The Group normally allows a credit period of 30 days to 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 average maturity period of 90 days to 180 days.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade receivables		
0 to 30 days	407,039	607,924
31 to 60 days	256,841	393,976
61 to 90 days	105,430	198,875
91 to 120 days	84,143	46,645
121 to 180 days	34,977	41,075
Over 180 days	33,816	11,052
	922,246	1,299,547
Bills receivables		
0 to 30 days	157,393	248,973
31 to 60 days	132,331	253,352
61 to 90 days	140,670	279,729
91 to 120 days	201,126	380,413
121 to 180 days	429,043	280,262
Over 180 days	61,050	2,360
	1,121,613	1,445,089

At 30 June 2014, the Group had HK\$922,037,000 (31 December 2013: HK\$1,368,669,000) of bills receivables discounted to several banks with recourse by providing a credit guarantee over the expected losses of those receivables, of which HK\$57,380,000 (31 December 2013: HK\$220,637,000) bills receivables were issued by the Group's external debtors, and the remaining 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\$922,037,000 (31 December 2013: HK\$1,368,669,000) (see Note 14). In addition, as at 30 June 2014, the Group continues to recognise an amount of HK\$335,098,000 (31 December 2013: HK\$573,756,000) representing bills receivables issued by the Group's external debtors which had been endorsed to the Group's creditors for settlement (see Note 13).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

12. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms up to 180 days 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 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Trade payables		
0 to 90 days	752,799	962,289
91 to 180 days	479,099	45,015
Over 180 days	71,188	33,258
	1,303,086	1,040,562
Bills payables		
0 to 90 days	584,791	710,500
91 to 180 days	132,820	187,380
	717,611	897,880
Other payables and accruals	396,875	530,308
Deferred income in respect of government grants	172,793	147,999
Payables in respect of the acquisition of property, plant and equipment	1,091,206	1,147,861
	3,681,571	3,764,610
Premium payable for change of use of land in Chengdu	–	617,454
Less: Amount due within one year shown under current liabilities	(3,572,574)	(4,274,793)
	108,997	107,271

Included in the trade payables and other payables above are HK\$212,490,000 and HK\$122,608,000 (31 December 2013: HK\$551,736,000 and HK\$22,020,000), respectively with an aggregate of HK\$335,098,000 (31 December 2013: HK\$573,756,000) that have been paid by endorsed bills for which the maturity date has 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 2014

13. BORROWINGS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Bank loans	4,346,688	4,237,151
Discounted bills with recourse (Note 11)	922,037	1,368,669
Bank overdrafts, secured	123,894	–
Bonds	778,580	773,779
	<u>6,171,199</u>	<u>6,379,599</u>
Analysed as:		
Secured	4,183,536	3,502,347
Unsecured	1,987,663	2,887,252
	<u>6,171,199</u>	<u>6,379,599</u>
The borrowings are repayable as follows:		
Carrying amount repayable within one year	4,368,804	4,242,367
Carrying amount repayable more than one year, but not exceeding two years	820,827	593,720
Carrying amount repayable more than two years, but not exceeding five years	527,978	787,520
Carrying amount of bank loans that contain a repayment on demand clause		
– repayable within one year from the end of the reporting period	273,399	514,794
– not repayable within one year from the end of the reporting period but shown under current liabilities	180,191	241,198
	6,171,199	6,379,599
Less: Amounts shown under current liabilities	(4,822,394)	(4,998,359)
Amount shown under non-current liabilities	<u>1,348,805</u>	<u>1,381,240</u>

During the period, the Group obtained new bank loans and discounted bills with recourse amounting to HK\$2,743,716,000 (six months ended 30 June 2013: HK\$3,660,451,000), and the Group repaid borrowings of HK\$2,850,959,000 (six months ended 30 June 2013: HK\$2,508,829,000). These borrowings carry interest at effective interest rates ranging from 3.11% to 7.32% (31 December 2013: 2.08% to 8.53%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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 derivative and early redemption option derivatives. The conversion option is classified as derivative because the conversion will be settled other than by the exchange of a fixed amount of cash or another financial assets for a fixed number of the Company’s own equity instruments and it gives the Company the choice over how it is settled. The Company’s and the holder’s early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option derivative, the Company’s and the bond holder’s early redemption option derivatives are measured at fair value with change in fair value recognised in profit or loss.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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 liability component and embedded derivatives of the Convertible Bonds for the six months ended 30 June 2014 are set out as below:

	<i>HK\$'000</i>
At 1 January 2013 (audited)	943,431
Interest charged	58,064
Gain arising on changes in fair value recognised in profit or loss	(54,486)
Interest paid	(36,972)
Exchange realignment	<u>10,361</u>
At 30 June 2013 (unaudited)	<u><u>920,398</u></u>
At 1 January 2014 (audited)	114,856
Interest charged	7,640
Loss arising on changes in fair value recognised in profit or loss	13,001
Interest paid	(4,596)
Exchange realignment	<u>(3,204)</u>
At 30 June 2014 (unaudited)	<u><u>127,697</u></u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

15. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
At 1 January 2013, 30 June 2013, 31 December 2013 and 30 June 2014	<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\$997,789,000 (31 December 2013: HK\$990,844,000) 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 finance lease companies disclosed elsewhere in the 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 2014 <i>HK\$'000</i> (Unaudited)	31 December 2013 <i>HK\$'000</i> (Audited)
Property, plant and equipment	165,528	172,128
Land use rights	33,557	34,965
Bills receivables	922,037	1,368,669
Pledged bank deposits	<u>1,092,058</u>	<u>886,824</u>
	<u>2,213,180</u>	<u>2,462,586</u>

- b. At 30 June 2014, the carrying value of property, plant and equipment included an amount of HK\$2,283,989,000 (31 December 2013: HK\$1,001,409,000) in respect of assets held under finance leases.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

18. RELATED PARTY TRANSACTION

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

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Fees	480	1,007
Salaries and other benefits	9,970	9,725
Retirement benefits scheme contribution	67	48
	<u>10,517</u>	<u>10,780</u>

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 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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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 2014 HK\$'000	31 December 2013 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\$20,038 and Liabilities – HK\$23,317	Assets – HK\$7,917 and Liabilities – HK\$7,364	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\$28,503	HK\$16,088	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.

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 valuation day 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 management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model and reports the external valuers' findings 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.

BUSINESS REVIEW FOR THE FIRST HALF OF 2014

For the six months ended 30 June 2014, the Group's revenue was slightly decreased by 1.2% to HK\$3,701.2 million as compared with the same period in the preceding year of HK\$3,745.9 million. The Group's profit for the period attributable to shareholders was approximately HK\$709.9 million (2013: HK\$43.0 million), representing an increase of 1,551.3%, as compared with the same period in the preceding year. Segmental turnover (including inter-segment sales) of bulk medicine and finished products were increased by 17.9% and 6.5% respectively, and segmental turnover of intermediate products was decreased by 11.3% for the six months ended 30 June 2014, as compared with the same period in preceding year. Segmental profit margin of intermediate products, bulk medicine and finished products were 12.1%, 7.9% and 20.8% respectively for the current period, as compared with segmental profit margin of intermediate products, bulk medicine and finished products were 0.04%, 3.7% and 18.6% respectively for the corresponding period in last year, in which the segment profit margin of intermediate products and bulk medicine products increased hugely for the current period.

During the first half of 2014, global economy rose steadily. As the American economy showed a gradual improvement with the U.S. Federal Reserve announcing the continual ultra-low interest rate policy after withdrawal, combined with the faster growth of the Eurozone economy since the second quarter of this year and the quantitative easing policy to be rolled out by the European Central Bank, the overall external economy enjoyed a positive atmosphere. China's economic growth was slow yet steady, up 7.5% for the second quarter compared to the same period last year and slightly higher than 7.4% in the first quarter. In light of the unabated domestic medical and pharmaceutical demand fuelled by economic development, urbanization and ageing

population, Li Keqiang, the Premier of the State Council, pointed out at "Two Sessions" this year that it was necessary to strengthen the connection among the medical, medical insurance and pharmaceutical industry and public health services by accelerating public hospital reform, orderly lowering barriers to establish private hospitals, improving the essential medicine system and regulate pharmaceutical circulation, while putting the focus of his medical reform on the private side. Furthermore, The Decision of the Central Committee of The Communist Party of China on Major Issues Concerning Comprehensively Deepening The Reform (《中共中央關於全面深化改革若干重大問題的決定》) intentionally encourages the establishment of private hospitals and allows private healthcare institutions be incorporated into the statutory coverage of medical insurance in its, which will fully expand healthcare services of the country as well as give rise to the need for improving pharmaceutical supply.

Profit attributable to shareholders increased significantly during the period as compared to the results of last year under review, due to the following reasons:

Higher gross profit due to the higher price of intermediate products and bulk medicine products and lower production cost of bulk medicine products

As demand for antibiotics products in China pharmaceutical market continued to increase, prices of intermediate products and bulk medicine products began to grow steadily from the second half of 2013 and this trend carried on in the first half of 2014. During the period, the price of corn, the primary raw material of our intermediate products, remained stable, effectively maintained production cost of products. Moreover, the full production of the Group's Inner Mongolia plant brought its cutting edge of vertically integrated production into play, and the increasingly sophisticated enzymatic amoxicillin production technologies further reduced production costs, all contributing to a higher gross profit.

Management Discussion and Analysis

Increased sales of finished products

The Group's recombinant human insulin products was officially included in the Essential Drugs List (2012 edition) in May 2013, which accelerated the Group's promotion and bidding work in various levels of medical institutions across the country. During the period, the Group received orders from private hospitals, clinics and pharmacies, with sales being especially prominent in Shandong and Henan provinces. Due to limited choices in antibiotic products available to various levels of hospitals and clinics, the demand for antibiotics continued to rise during the period, driving sales of finished products of the Group.

Completion of the change of the land use of Chengdu plant

During the first half of 2013, the Group has decided to relocate its 6-APA production lines in Chengdu plant to the Inner Mongolia production plant. The Group had applied to relevant government authorities to change the usage of the land in Chengdu plant into commercial, service industry facility and residential uses and obtained the approval. During the period, the Group obtained government subsidies of approximately HK\$390,000,000, and the related plant has undergone necessary procedures in respect of its land use and is ready for redevelopment.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had pledged bank deposits, cash and bank balances amounted to HK\$2,280.7 million (31 December 2013: HK\$1,967.5 million).

As at 30 June 2014, the Group had interest-bearing bank borrowings of approximately HK\$6,171.2 million (31 December 2013: HK\$6,379.6 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Bank borrowings of approximately HK\$4,185.9 million are fixed rate loans while the remaining balance of approximately HK\$1,985.3 million is at floating rate. The directors expect that all such bank 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 2014, current assets of the Group amounted to approximately HK\$6,602.9 million (31 December 2013: HK\$6,541.6 million). The Group's current ratio was approximately 0.72 as at 30 June 2014 as compared with 0.66 as at 31 December 2013. As at 30 June 2014, the Group had total assets of approximately HK\$19,417.3 million (31 December 2013: HK\$19,600.2 million) and total liabilities of approximately HK\$12,468.0 million (31 December 2013: HK\$13,118.4 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less cash and bank balances and pledged bank deposits to total equity) of 78.7% as at 30 June 2014, as compared with 88.6% as at 31 December 2013.

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 2014 and 31 December 2013, the Group had no material contingent liabilities.

OUTLOOK FOR SECOND HALF OF 2014

Looking forward, China's pharmaceutical market possesses great potential for the second half of 2014. According to the report of Frost & Sullivan, the compound annual growth rate of China's pharmaceutical market for 2013 to 2017 will be 16%, showing a strong growth fuelling the development of the pharmaceutical industry. In addition, the Ministry of Health of the PRC released a report in September 2012 which pointed out a total of RMB400 billion will be used in the seven major medical system projects before 2020 with an average annual investment amount of RMB50 billion. With population ageing growing more severe and increased occurrence of chronic disease due to urbanization, and improved living standard and larger medical insurance coverage, market demand for medical and healthcare also leverages significantly, and expenses relating to medical will be in an upward trend in future. On the other hand, with the government's increasingly stringent regulation on the pharmaceutical manufacturing industry, the entry barrier of the pharmaceutical industry has continuously increased and integration of the industry is accelerated. The Group is one of the few players which can meet the most stringent standards while capable to maintain stable production and increase output, and therefore it will benefit from the integration of the industry.

The Essential Drugs List (2012 edition) implemented on 1 May 2013 increases drug coverage to 520 types, of which 317 are chemical and biological drugs, which includes the Group's insulin and amoxicillin products. The new drugs list will further enhance the

sales of related products, driving business growth. Leverage on competitive prices and an extensive sales network, the Group has already taken an early advantage and penetrated the rural market and grass-roots level medical organizations. In the future, the Group will continue to expand the sale of OTC products, Chinese medicine and health products, driving the growth of finished products.

The Group continued to strengthen its research and development of finished products. Clinical trials for insulin aspart, the third generation insulin, are underway, which further strengthens the Group's insulin product line. Also, the Group is developing raw materials, oral solutions and tablets for new memantine hydrochloride, which is used in treating Alzheimer's disease. The China Food and Drug Administration has issued the registration documents for the drug, making the Group the first manufacturer in China to receive approval documents to replicate memantine hydrochloride products, thus further expanding the finished products business. The Group is currently developing 43 new products. Insulin glargine (third generation insulin) and memantine hydrochloride will become driving force to future growth and help the Group to gain further market share in the finished product market.

For overseas sales, the Group focused on expanding its export business. Since 2013, all drugs imported into the EU must be produced by factories with EU or GMP certification. The Group has already obtained EU-CEP certification, FDA certification, and GMP certification from Japan and official certification from Mexico. With internationally approved production capabilities and products possessing significant price advantage, the Group is confident that export sales will continue to bring satisfactory contributions to the Group.

Management Discussion and Analysis

For new production capacities, phase V of the Inner Mongolia plant has already been completed and commenced operation in the first half of the year. Not only does the expansion of production capacity of the Inner Mongolia plant lower production cost and raise efficiency, it is also expected that planned production can meet future development needs to effectively accommodate the rate of expansion of the export and domestic markets. As for Chengdu plant, United Laboratories (Chengdu), a wholly-owned subsidiary of the Group, and the Pengzhou Land Bureau executed the contracts to change the use of the land from industrial use to commercial and service industry facility and residential uses in March 2014, and obtained the State-owned Land Use Certificate. The Group believes that the value of the land would be significantly enhanced after the change of land use.

In the future, the Group shall continue to implement its existing business development strategies. We will continue to expand sales networks, strengthen coverage over domestic rural markets and communities, put great efforts to increase overseas sales, and actively explore new markets with growth potentials. The Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand. At the same time, we will continue to regard the recombinant human insulin products as the key product of the Group and invest substantial resources to capture a larger market share. We will consider promoting the sales of related products to overseas markets as the Group's insulin products have reached international standards in terms of quality and production technology. Also, the Group will focus on driving the sales of the newly packaged large-sized amoxicillin and ampicillin, with a view to turning them into new growth engines for finished products sales. Moreover, the Group is developing raw materials, oral solutions and tablets for new memantine hydrochloride, which is used in treating Alzheimer's disease. These will help the Group further increase its market share with continuous market expansion.

Through enhancing its overall competitiveness, the Group is confident that it can benefit from economies of scale and capture the market opportunities to maintain the momentum of sustainable development of the Group, thus maximizing the value for its shareholders, customers and stakeholders.

EMPLOYEES AND REMUNERATION

As at 30 June 2014, the Group had approximately 12,000 (31 December 2013: 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 2014 (2013: Nil).

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

As at 30 June 2014, 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%
Ms. Zou Xian Hong	100,000	Personal interest	0.01%
Ms. Zhu Su Yan	70,179	Personal interest	0.00%
Mr. Fang Yu Ping	460,000	Personal interest	0.03%

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 2014 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:

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 2014, no share option has been offered and/or granted to any participants under the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2014, 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:

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)	1,193,127,500 (L)	73.34%
		119,075,000 (L)	7.31%
		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%
DBS Trustee H.K. (Jersey) Limited	(5)	1,006,250,000 (L)	61.85%

L/S: Long position/short position

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 1,193,127,500 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) DBS Trustee H.K. (Jersey) 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 2014.

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 2014.

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 2013, 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 2014 due to other important engagement.

Other Information

– *Code Provision B.1.3*

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.3 of the CG Code except that the Remuneration Committee should review and make recommendations to the Board on the remuneration packages of executive directors only and not senior management (as opposed to directors and senior management under the code provision).

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 2014.

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 Xian Nan. The Audit Committee has reviewed the unaudited condensed consolidated financial statement for the six months ended 30 June 2014. 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, Ms. Zou Xian Hong, Ms. Zhu Su Yan and Mr. Fang Yu Ping 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, 20 August 2014