The United Laboratories International Holdings Limited
聯邦制藥國際控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 3933)

2017 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2017	2016	**Increase**
	RMB'000	*RMB'000*	**%**
Revenue	**6,826,645**	6,077,944	**12.3%**
EBITDA	**1,125,470**	813,376	**38.4%**
Profit (loss) before taxation	**68,951**	(137,472)	**N/A**
Profit (loss) for the year attributable to owners of the Company	**81,758**	(272,363)	**N/A**
Earning (loss) per share			
Basic	**RMB5.03cents**	RMB(16.74)cents	**N/A**
Diluted	**RMB5.03cents**	RMB(16.74)cents	**N/A**

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017.

In 2017, the world economy rose by 3.6% and gradually entered a new cycle of recovery after stumbling along the bottom for a decade. In particular, China has become an important force stimulating the vitality of world economy. According to the data published by the National Bureau of Statistics, the gross domestic product (GDP) exceeded RMB80 trillion, representing a year-on-year increase of 6.9%, the first turnaround of economic growth of the PRC since 2011, riding on which the Chinese economy picked up amidst stabilisation.

The year 2017 was obviously a "year for policies" in terms of medical policy and drug policy as well as enterprise competition. In the Year, policies on cancelling the mark-up of medicine sales prices, medical representative registration, control of expenses by hospitals and "Two-Invoice System" were successively released. Meanwhile, the acceleration in aspects of evaluation on innovation drugs, consistency evaluation, etc. indicates the State's determination to promote reform at the drug supply side, improve the quality of domestic drugs and align to the international market. In light of the large number of middle and small-sized enterprises existing in the PRC, this round of reform at the supply side is expected to significantly enhance the concentration, resulting in a remarkable increase in the market share of leading enterprises.

The Group's revenue amounted to RMB6,826.6 million during the year, representing an increase of approximately 12.3% over 2016. EBITDA was approximately RMB1,125.5 million, representing an increase of 38.4% as compared with last year. Profit attributable to owners of the Company was approximately RMB81.8 million (2016: Loss of RMB272.4 million). Earning per share amounted to RMB5.03 cents. The Board proposes a final dividend of RMB5 cents per share.

The continuous tightening of national environmental regulation and full launch of supervision over environmental protection by the central government in the Year posed significant pressure and challenges to production enterprises. Upholding the sustainable development idea of "environment priority", the Group constantly increased investment in environmental protection and enhanced environmental protection with the focus placed on the national environmental protection strategy. The continuously tightened national environmental regulation has brought about new development opportunities to a certain extent. During the Year, the Group maintained stable and normal production and the capacity utilisation rate of the intermediate product 6-APA reached the ideal level. Meanwhile, the price of products represented by 6-APA and amoxicillin went up stably.

During the year, the Group's finished products business maintained stable growth and insulin series continued to be the main driving force of the Group's growth. A total of approximately 12.3 million vials of recombinant human insulin products were sold with sales revenue of RMB503 million. In addition, in early 2017, the Group gained the production approval for "United Laboratories USLEN" insulin glargin injection, which was officially launched to the market in May of the year and recorded a sales revenue of RMB21.9 million throughout the year. Currently, "United Laboratories USLEN" has won the tender through bidding in Fujian, Chongqing, Heilongjiang, Henan, Hebei, Guangdong, Shanxi and Tibet and the Group will also continue to participate in the bidding in other provinces actively.

The Group's antibiotics products still recorded satisfactory sales. During the year, sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection amounted to RMB408 million, and sales revenue from The United Laboratories Amoxicillin branded capsules amounted to RMB405 million. In addition, the high-end carbapenems antibiotics preparations including the Imipenem and Cilastatin Sodium for Injection and the Meropenem for Injection continued to saw high-speed growth in terms of sales, with a sales revenue of RMB118 million recorded in the year. The Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

The National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 version) was promulgated in the Year and 49 finished products of the Group were included in the National Reimbursement Drug List. In addition, the World Health Organization ("WHO") issued the newly revised WHO Model List of Essential Medicines for 2017, which groups antibiotics into three categories: Access, Watch and Reserve. Among antibiotics in the Access group, amoxicillin, the main ingredient used by the Group to manufacture The United Laboratories Amoxicillin, is selected a widely-used antibiotic to treat infections such as pneumonia. As a well-known product of the Group, The United Laboratories Amoxicillin brand and its efficacy are highly recognized by the market.

The Group has been long committed to research and development. We currently have 39 new products under development. Currently, we have 26 patents which have been successfully registered and 15 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. As for the research and development of biological preparations, we aim to further optimize our offerings of insulin products. The Group has applied for production of 30 injections including insulin aspart injection and insulin aspart in November 2017 and applied for clinical trial for liraglutide at the beginning of 2018 in the field of diabetes are worthy of the wait. With regard to the research and development of chemical pharmaceuticals, the Group has coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics.

China Food and Drug Administration (the "CFDA") officially issued the announcement on the consistency evaluation of the quality and efficacy of generic drugs in 2016, which marks the thorough implementation of the evaluation on quality and efficacy of generic drugs in the PRC and signals the new start of the long cycle of pharmaceutical industry of the PRC. Excellent pharmaceutical enterprises with a solid industrial foundation, certain profits and many items, which value consistency assessment and have achieved smooth progress, will ultimately benefit from the structural opportunities of industrial reform. Therefore, the Group will contribute more resources to consistency assessment. Currently, the consistency evaluation on the Group's products such as amoxicillin is carried out smoothly. Benefiting from consistency evaluation, the United Laboratories is expected to further consolidate and increase its existing market share to achieve breakthrough of this item.

With regard to finance, the Group continued to proactively optimise the financial structure to ensure adequate working capital. Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances will be used for repayment of bank loans and as general working capital. In addition, in October 2017, the Company entered into a facility agreement with China Development Bank Hong Kong Branch for HK$300,000,000 and HK$200,000,000 (equivalent in Euro 21,390,000) term loan facility, the cost of which is relatively low. The loans under the facility shall be repaid in full after the expiry of a 36 months term from the first utilisation date.

As at 31 December 2017, the Group records net current assets of approximately RMB975.6 million (as at 31 December 2016: net current liabilities of RMB968.4 million). The current ratio improved continuously from 0.86 at 31 December 2016 to 1.20 at 31 December 2017.

Looking forward, the pharmaceutical industry of the PRC is in rapid development and national economy maintained medium-high speed growth. With the increase in per capita disposable income of residents and upgrade of consumption structure, the construction of a healthy China is advanced stably. The further improvement of medical insurance system, aging of population and overall implementation of the two-child policy will continue to drive the rapid development of pharmaceutical market. As shown in the Research Report on the Prospects and Investment Opportunities of the Pharmaceutical Industry in China (2018-2023) issued by Zhongshang Industry Institute, it is estimated that the market size of pharmaceutical industry in the PRC increased by approximately 10.8% year-on-year in 2017 and will reach RMB3,375.4 billion in 2018. Meanwhile, as China further deepens its reform in the pharmaceutical industry including promotion of consistency evaluation on quality and efficacy of generic drugs, more stringent environmental protection standards, intensified supervision and examination, etc., we believe the pharmaceutical industry will achieve sustainable and healthy development and see a very tremendous room for development in the future.

As the pharmaceutical enterprise which owns both the second and third generation insulin products in China, the Group will still place the strategic focus on insulin series. In particular, the insulin analogue series represented by insulin glargin will speed up the development of the Group. In the meantime, we are applying for production of insulin aspart and will further optimize our offerings of insulin products of the Group. Moreover, the new finished products production lines of the Group will be put into operation in 2018 and are expected to gradually satisfy the market demands for antibiotics products. At the same time, the Group will keep a close eye on the changes in the landscape of market competition caused by the policy of consistency evaluation and quicken the pace of subjecting products to consistency evaluation to gain a head start in the market. Given the continuously strict regulation in respect of environmental protection in the PRC, the market of antibiotic intermediates and bulk medicine will gradually stabilize and the Group keeps an optimistic attitude towards the intermediates and bulk medicine business in 2018. Furthermore, the Group will improve the capacity utilisation rate to reduce production cost and further improve the profitability.

In 2018, after the National People's Congress and the Chinese Political Consultative Conference, the financial credit standards of banks will be elevated, which, together with the tightening of loan policy and increase in interest rate, will form a new challenge for enterprises in respect of funds. Meanwhile, the pharmaceutical industry will also usher in a "year for reform" in 2018. With continuous efforts to enhance our products' competitiveness, we are confident that we can capitalize on industrial transformation to accelerate the cultivation of innovation ability and scientific research ability and maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, clients and stakeholders.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support in 2017, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

2017 ANNUAL RESULTS

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2017 together with the comparative figures for the year 2016 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	**2017** *RMB'000*	2016 *RMB'000*
Revenue	3	**6,826,645**	6,077,944
Cost of sales		**(4,328,428)**	(3,915,320)
Gross profit		**2,498,217**	2,162,624
Other income	4	**133,962**	96,599
Other gains and losses, net	5(a)	**8,904**	(112,562)
Selling and distribution expenses		**(1,067,920)**	(1,063,512)
Administrative expenses		**(603,693)**	(608,732)
Other expenses	5(b)	**(252,866)**	(157,662)
Loss on fair value change on investment properties		**(326,980)**	(120,000)
Loss on fair value change of embedded derivative components of convertible bonds		**(53,938)**	(99,730)
Finance costs	6	**(266,735)**	(234,497)
Profit (loss) before taxation		**68,951**	(137,472)
Tax credit (expense)	7	**12,807**	(134,891)
Profit (loss) for the year attributable to owners of the Company	8	**81,758**	(272,363)
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**12,521**	(5,889)
Total comprehensive income (expense) for the year attributable to owners of the Company		**94,279**	(278,252)
Earnings (loss) per share	10		
Basic		**RMB5.03cents**	RMB(16.74)cents
Diluted		**RMB5.03cents**	RMB(16.74)cents

Consolidated Statement of Financial Position
As at 31 December 2017

	Notes	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*	1 January 2016 *RMB'000*
Non-current assets				
Property, plant and equipment	11	**6,831,488**	7,350,934	7,765,432
Investment properties		**793,297**	1,120,277	1,240,277
Properties held for development		**255,723**	255,723	255,723
Prepaid lease payments		**207,649**	213,267	209,237
Goodwill		**3,031**	3,031	3,031
Intangible assets		**150,797**	144,188	80,861
Deposit for land use rights		**7,262**	7,262	6,385
Deposits for acquisition of property, plant and equipment		**36,269**	25,995	45,761
Pledged deposits against finance leases		**46,737**	75,000	130,000
Available-for-sale investment		**500**	500	500
Deferred tax asset		**14,167**	12,626	31,655
		8,346,920	9,208,803	9,768,682
Current assets				
Inventories		**1,173,082**	963,789	1,189,367
Trade and bills receivables, other receivables, deposits and prepayments	12	**2,453,675**	1,960,822	1,845,028
Prepaid lease payments		**4,954**	4,954	5,061
Pledged bank deposits		**487,738**	969,062	815,529
Pledged deposits against finance leases		**51,709**	75,745	50,000
Bank balances and cash		**1,593,768**	1,782,881	936,743
		5,764,926	5,757,253	4,841,728
Current liabilities				
Trade and bills payables, other payables and accrued charges	13	**3,268,323**	2,927,919	2,712,289
Derivative financial instruments		**-**	85,891	171,175
Obligations under finance leases - due within one year		**285,594**	375,643	587,493
Tax payables		**97,145**	86,489	85,901
Borrowings - due within one year		**1,138,257**	3,249,684	3,454,287
Convertible bonds		**-**	-	98,188
		4,789,319	6,725,626	7,109,333
Net current assets (liabilities)		**975,607**	(968,373)	(2,267,605)
Total assets less current liabilities		**9,322,527**	8,240,430	7,501,077

	Notes	**31 December 2017** **RMB'000**	31 December 2016 RMB'000	1 January 2016 RMB'000
Non-current liabilities				
Deferred tax liabilities		**362,667**	576,580	599,289
Deferred income in respect of government grants	13	**84,947**	62,792	82,448
Obligations under finance leases - due after one year		**115,639**	254,793	426,501
Borrowings - due after one year		**2,279,286**	993,959	767,101
Convertible bonds		**1,038,223**	1,004,820	-
		3,880,762	2,892,944	1,875,339
		5,441,765	5,347,486	5,625,738
Capital and reserves				
Share Capital		**15,237**	15,237	15,237
Reserves		**5,426,528**	5,332,249	5,610,501
Equity attributable to owners of the Company		**5,441,765**	5,347,486	5,625,738

Notes:

1. General

The Company is a limited company incorporated in the Cayman Islands. The Company's parent company and ultimate holding company are Heren Far East Limited and Gesell Holdings Limited, respectively, both are companies incorporated in the British Virgin Islands and are ultimately controlled by The Choy's Family Trust. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The functional currency of the Company and most of its subsidiaries is Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operates.

In prior years, the presentation currency of the consolidated financial statements of the Group was Hong Kong Dollars ("HK$"). Starting from 1 January 2017, the directors of the Company re-assessed the presentation currency for the preparation of its consolidated financial statements and considered that it is more appropriate to present the consolidated financial statements using RMB since investors of the Company based in the People's Republic of China (the "PRC") have been increasing and the Group raised more funds in recent years in RMB, in particular the Group issued fixed rate bonds of RMB1,100,000,000 in March 2017 which was listed on The Shanghai Stock Exchange and most of those bondholders are also based in the PRC.

The effects of the change in the presentation currency have been accounted for retrospectively with comparative figures restated. The comparative amounts in the consolidated financial statements are presented as if RMB had always been the presentation currency of the consolidated financial statements.

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to Hong Kong Accounting Standards ("HKAS") 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKRFSs 2014 - 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

3. Revenue and segment information

Revenue

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

	2017	2016
	RMB'000	*RMB'000*
Sales of pharmaceutical products	**6,826,645**	6,077,944

Segment information

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

The Group is currently organised into three revenue streams - (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 on which the Group reports its primary segment information.

(a) Segment revenue and results:

Year ended 31 December 2017

	Intermediate products	Bulk medicine	Finished products	Segment total	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External sales	**1,473,511**	**2,853,437**	**2,499,697**	**6,826,645**	**-**	**6,826,645**
Inter-segment sales	**1,183,311**	**391,812**	**-**	**1,575,123**	**(1,575,123)**	**-**
TOTAL REVENUE	**2,656,822**	**3,245,249**	**2,499,697**	**8,401,768**	**(1,575,123)**	**6,826,645**
Segment profit	**34,433**	**103,293**	**620,727**			**758,453**
Unallocated other income						**110,615**
Unallocated corporate expenses						**(161,368)**
Other gains and losses, net						**8,904**
Loss on fair value change of embedded derivative components of convertible bonds						**(53,938)**
Loss on fair value change on investment properties						**(326,980)**
Finance costs						**(266,735)**
Profit before taxation						**68,951**

Year ended 31 December 2016

	Intermediate products	Bulk medicine	Finished products	Segment total	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External sales	1,235,107	2,470,497	2,372,340	6,077,944	-	6,077,944
Inter-segment sales	1,038,656	244,541	-	1,283,197	(1,283,197)	-
TOTAL REVENUE	2,273,763	2,715,038	2,372,340	7,361,141	(1,283,197)	6,077,944
Segment (loss) profit	(201,181)	143,360	561,732			503,911
Unallocated other income						55,654
Unallocated corporate expenses						(130,248)
Other gains and losses, net						(112,562)
Loss on fair value change of embedded derivative components of convertible bonds						(99,730)
Loss on fair value change on investment properties						(120,000)
Finance costs						(234,497)
Loss before taxation						(137,472)

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the annual report. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment revenue is charged at prevailing market rates.

Reportable segment results represent the profit earned or loss incurred by each segment without allocation of certain other income, impairment loss recognised in respect of property, plant and equipment, donation of properties, corporate expenses, other gains and losses, gain or loss on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties and finance costs.

(b) Other segment information

Amounts included in the measure of segment profit or loss:

For the year ended 31 December 2017

	Intermediate products *RMB'000*	Bulk medicine *RMB'000*	Finished products *RMB'000*	Unallocated expenses *RMB'000*	Consolidated *RMB'000*
Amortisation of prepaid lease payment	**4,264**	**1,047**	**307**	**-**	**5,618**
Amortisation of intangible assets	**-**	**-**	**9,676**	**-**	**9,676**
Depreciation of property, plant and equipment	**605,551**	**126,496**	**40,350**	**2,093**	**774,490**
(Gain) loss on disposal of property, plant and equipment	**(6,449)**	**11,244**	**13**	**-**	**4,808**
Write-down of long aged deposit and prepayment	**-**	**-**	**-**	**28,445**	**28,445**

For the year ended 31 December 2016

	Intermediate products	Bulk medicine	Finished products	Unallocated expenses	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amortisation of prepaid lease payment	4,553	1,047	308	-	5,908
Amortisation of intangible assets	-	-	3,014	-	3,014
Depreciation of property, plant and equipment	571,944	88,933	43,217	3,335	707,429
Loss on disposal of property, plant and equipment	22,736	8,682	-	-	31,418
Write-down of long aged deposit and prepayment	23,691	-	-	-	23,691

(c) Geographical information

The revenue by geographical market (irrespective of the origin of the goods) based on the location of the customers are presented below:

	Revenue from external customers	
	2017	2016
	RMB'000	*RMB'000*
PRC (country of domicile)	**4,754,285**	4,439,402
Europe	**484,135**	430,762
India	**783,367**	514,853
Hong Kong	**21,654**	43,366
Middle East	**35,406**	32,926
South America	**209,084**	75,605
Other Asian regions	**385,997**	389,093
Other regions	**152,717**	151,937
	6,826,645	6,077,944

4. Other income

	2017	2016
	RMB'000	*RMB'000*
Bank interest income	**26,355**	19,872
Sales of scrap materials	**7,176**	9,318
Other subsidy income	**89,068**	58,826
Sundry income	**11,363**	8,583
	133,962	96,599

5. Other gains and losses, net/other expenses

	2017	2016
	RMB'000	*RMB'000*
(a) Other gains and losses, net		
Loss on derivative financial instrument	**24,646**	1,868
Net loss on disposal of property, plant and equipment	**4,808**	31,418
Net foreign exchange (gain) loss	**(38,352)**	78,008
Others	**(6)**	1,268
	(8,904)	112,562
(b) Other expenses		
Research and development costs	**162,298**	74,157
Temporary production suspension costs	**43,781**	50,802
Write-down of long aged deposits and prepayments	**28,445**	23,691
Demolition expenses (*Note*)	**7,760**	-
Tax penalty	**6,575**	-
Others	**4,007**	9,012
	252,866	157,662

Note: The demolition expense represents the cost for destruction and removal of the property, plant and equipment in site of Chengdu after entering into an agreement with the local government of Pengzhou in 2017.

6. Finance costs

	2017	2016
	RMB'000	*RMB'000*
Interest on borrowings	**156,313**	189,299
Interest on convertible bonds	**84,490**	22,146
Interest on finance leases	**40,553**	39,556
	281,356	251,001
Less: amounts capitalised in property, plant and equipment	**(14,621)**	(16,504)
	266,735	234,497

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.33% (2016: 5.10%) per annum to expenditure on qualifying assets.

7. Tax (credit) expenses

	2017	2016
	RMB'000	*RMB'000*
The tax (credit) charges comprises:		
Current tax		
Hong Kong Profits Tax	**-**	719
PRC Enterprise Income Tax	**147,734**	116,435
PRC withholding tax	**54,913**	20,762
	202,647	137,916
Underprovision in prior years		
Hong Kong	**-**	655
Deferred tax credit	**(215,454)**	(3,680)
	(12,807)	134,891

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

PRC Enterprise Income Tax ("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 are entitled a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for 2017 and 2016.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to PRC Enterprise Income Tax pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%.

8. Profit (loss) for the year

	2017	2016
	RMB'000	*RMB'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**4,571**	4,880
Depreciation and amortisation		
Depreciation of property, plant and equipment	**774,490**	707,429
Less: amount included in temporary production suspension costs in other expenses	**(25,444)**	(39,310)
Less: amount included in research and development expenditures	**(25,206)**	(6,221)
	723,840	661,898
Amortisation		
Intangible assets (included in cost of sales)	**9,676**	3,014
Prepaid lease payments	**5,618**	5,908
	15,294	8,922
Minimum lease payments in respect of rented premises	**1,665**	1,948
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**892,141**	815,931
Retirement benefit costs	**90,922**	83,458
	983,063	899,389
Less: amount included in research and development expenditures	**(34,450)**	(19,683)
Less: amount included in temporary production suspension costs in other expenses	**(3,515)**	(1,476)
	945,098	878,230
Provision of allowances for inventories, net (included in cost of sales)	**19,584**	10,508
Provision of allowance for doubtful debts, net	**6,947**	24,222
Cost of inventories recognised as expenses	**4,328,428**	3,915,320

9. Dividends

Subsequent to the end of the reporting period, the Board recommends payment of final dividend of RMB5 cents (2016: nil) per ordinary share for the year ended 31 December 2017 to the shareholders recorded in the Company's register of members as at 15 June 2018, subject to shareholders' approval at the forthcoming annual general meeting.

10. Earnings (loss) per share

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

Earnings (loss)

	2017	2016
	RMB'000	*RMB'000*
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share being profit (loss) for the year attributable to owners of the Company	**81,758**	(272,363)

Number of shares

	2017	2016
	'000	*'000*
Basic and diluted		
Number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**1,626,875**	1,626,875

The computation of diluted earnings (loss) per share 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 year ended 31 December 2017 and a decrease in loss per share for the year ended 31 December 2016 respectively.

11. Property, plant and equipment

During the year, the Group spent approximately RMB265,322,000 (2016: RMB391,373,000) on the acquisition of property, plant and equipment, in order to upgrade its manufacturing capabilities.

12. Trade and bills receivables, other receivables, deposits and prepayments

	2017	2016
	RMB'000	*RMB'000*
Trade and bills receivables	**2,322,072**	1,807,444
Value added tax receivables	**56,245**	46,029
Other receivables, deposits and prepayments	**126,558**	156,609
Less : allowance for doubtful receivables		
- trade	**(19,212)**	(9,378)
- non-trade	**(31,988)**	(39,882)
	2,453,675	1,960,822

The Group normally allows a credit period of between 30 days and 120 days (2016: between 30 days and 120 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

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

	2017	2016
	RMB'000	*RMB'000*
Trade receivables		
0 to 30 days	**628,482**	489,590
31 to 60 days	**300,223**	234,049
61 to 90 days	**71,975**	108,482
91 to 120 days	**21,440**	32,474
121 to 180 days	**14,479**	12,162
Over 180 days	**11,024**	23,943
	1,047,623	900,700
Bills receivables		
0 to 30 days	**329,005**	210,634
31 to 60 days	**245,459**	205,312
61 to 90 days	**202,961**	131,041
91 to 120 days	**199,464**	159,389
121 to 180 days	**267,709**	189,128
Over 180 days	**10,639**	1,862
	1,255,237	897,366

13. Trade and bills payables, other payables and accrued charges

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

	2017	2016
	RMB'000	*RMB'000*
Trade payables		
0 to 90 days	**852,136**	631,916
91 to 180 days	**251,858**	230,941
Over 180 days	**41,737**	113,576
	1,145,731	976,433
Bills payables		
0 to 90 days	**305,609**	144,870
91 to 180 days	**389,541**	404,344
	695,150	549,214
Other payables and accruals	**984,477**	738,762
Deferred income in respect of government grants	**130,758**	132,007
Payables in respect of the acquisition of property, plant and equipment	**397,154**	594,295
	3,353,270	2,990,711
Less: Amount due within one year shown under current liabilities	**(3,268,323)**	(2,927,919)
Amount shown under non-current liabilities	**84,947**	62,792

Included in the trade payables and other payables above are RMB105,433,000 and RMB72,140,000 (2016: RMB199,487,000 and RMB98,431,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2017, the Group's revenue was approximately RMB6,826.6 million, a increase of 12.3% as compared with last year. The profit attributable to shareholders was approximately RMB81.8 million for the year ended 31 December 2017 while the loss attributable to shareholders was approximately RMB272.4 million in 2016. The profit for 2017 is mainly attributable to a number of factors as below:

- increase in the sales prices of intermediate and bulk medicine products;
- net foreign exchange gain recorded during current year; and
- the decrease in fair value of investment properties being offset.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 16.8%, 19.5% and 5.4% respectively as compared with last year. Segmental result of intermediate products turned from loss of RMB201.2 million in 2016 to profit of RMB34.4 million in 2017. Segmental result of bulk medicine decreased by 27.9% and finished products increased by 10.5% as compared with last year.

Decrease in fair value of investment properties located in Chengdu is due to new development plan during the year and current market reference.

The Group's operations during the year are summarized as follows:

Intermediate products and bulk medicine

During the year, the sales prices of intermediate products and bulk medicine remain stable and gradually increased thus resulting the increase in sales revenue and gross profit of the intermediate products and bulk medicine segments. The Group has continue to enhance its utilisation rate and reduce production costs to improve the profit. Segment revenue of intermediate products amounts to RMB2,656.8 million representing an increase of 16.8% as compared to 2016. Segment results of intermediate products turns from loss to profit from loss of approximately RMB201.2 million to profit of approximately RMB34.4 million. Bulk medicine segment records a segment revenue of approximately RMB3,245.2 million representing an increase of 19.5% increase and segment profit of approximately RMB103.3 million for current year.

Finished products

During the year, the Group's finished products business maintained stable growth and records a segment revenue of approximately RMB2,499.7 million representing an increase of 5.4% increase and segment profit of approximately RMB620.7 million for current year. Insulin series continued to be the main driving force of the Group's growth. In early 2017, the Group gained the production approval for "United Laboratories USLEN" insulin glargin injection, which was officially launched to the market in May of the year. "United Laboratories USLEN" has won the tender through bidding in Fujian, Chongqing, Heilongjiang, Henan, Hebei, Guangdong, Shanxi and Tibet. Annual sales amounted to RMB21.9 million.

Research and development

The Group has been long committed to research and development. The expenditure in R&D for current year amounted to approximately RMB162.3 million, representing 118.8% increase as compared with last year. We currently have 39 new products under development. Currently, we have 26 patents which have been successfully registered and 15 patents which are in the process of applying for registration, which is expected to further enrich our reserve of preparations. The Group has applied for production of 30 injections including insulin aspart injection and insulin aspart in November 2017.

Optimizing financing structure

The Group continue to optimize the financing structure, to seek more mid to long-term financing and to ensure adequate workign capital. Thus, the net current liabilities of the Group will have significant improvement. Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Company, has issued the corporate bonds with principal amount of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. In addition, in October 2017, the Company entered into a facility agreement with China Development Bank Hong Kong Branch for a three-years HK$300,000,000 and HK$200,000,000 (equivalent in Euro 21,390,000) term loan facility. As at 31 December 2017, net current assets were approximately RMB967.6 million compared with net current liabilities of approximately RMB968.4 million as at 31 December 2016. The Group's financial position substantially improved.

Liquidity and Financial Resources

As at 31 December 2017, the Group had pledged bank deposits and cash and bank balances amounted to approximately RMB2,081.5 million (2016: RMB2,751.9 million).

As at 31 December 2017, the Group had interest-bearing borrowings of approximately RMB3,417.5 million (2016: RMB4,243.6 million), which were denominated in Hong Kong dollars, Reminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB1,837.9 million are fixed rates loans while the remaining balance of approximately RMB1,579.6 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 31 December 2017, current assets of the Group amounted to approximately RMB5,764.9 million (2016: RMB5,757.3 million). The Group's current ratio was approximately 1.20 as at 31 December 2017, as compared with 0.86 as at 31 December 2016. As at 31 December 2017, the Group had total assets of approximately RMB14,111.8 million (2016: RMB14,966.1 million) and total liabilities of approximately RMB8,670.1 million (2016: RMB9,618.6 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less pledged deposit against finance leases, pledged bank deposits and cash and bank balances to total equity) of 49.2% as at 31 December 2017, as compared with 55.7% as at 31 December 2016.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly in Renminbi and Hong Kong dollars. The Group's borrowings are denominated in Hong Kong dollars, Reminbi, Euro and United States dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Contingent Liabilities

As at 31 December 2016 and 2017, the Group had no material contingent liabilities.

Capital Commitment

As at 31 December 2017, the Group had capital commitment in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements of RMB332,998,000 (2016: RMB385,725,000).

Outlook for 2018

Looking forward for 2018, the Group has strong confidence on the development of China pharmacy market, the pharmaceutical industry of the PRC is in rapid development. China further deepens its reform in the pharmaceutical industry and the pharmaceutical industry will achieve sustainable and healthy development and see a very tremendous room for development in the future.

As the pharmaceutical enterprise which owns both the second and third generation insulin products in China, the Group will still place the strategic focus on insulin series. In particular, the insulin analogue series represented by insulin glargin will speed up the development of the Group. In the meantime, we are applying for production of insulin aspart and will further optimize our offerings of insulin products of the Group. Moreover, the new finished products production lines of the Group will be put into operation in 2018 and are expected to gradually satisfy the market demands for antibiotics products. The Group keeps an optimistic attitude towards the intermediates and bulk medicine business as the product prices remain stable and gradually increase.

The Group has been long committed to research and development. the Group has coverage over series of products such as antidiabetic drugs, anti-cancer drugs, anti-HBV drugs and high-end antibiotics. We currently have 39 new products under development. Currently, we have 26 patents which have been successfully registered and 15 patents which are in the process of applying for registration. The Group has applied for clinical trial for liraglutide at the beginning of 2018 to enhance the products of diabetes.

Employees and Remuneration

As at 31 December 2017, the Group had approximately 12,000 (2016: 11,700) employees in Hong Kong and the PRC. 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 Directors may, at its discretion, grant options to employees of the Group. No option has been granted since the adoption of the share option scheme.

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 year ended 31 December 2017.

CORPORATE GOVERNANCE

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

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

- Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended 31 December 2017, 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 directors were unable to attend the annual general meeting of the Company held on 8 June 2017 due to their other important engagements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

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 with the management of the Company the consolidated financial statements for the year ended 31 December 2017, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of eligibility to attend and vote at the AGM, the Register of Members of the Company will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018 during which no transfer of shares will be registered. In order to be entitled to attend and vote at the AGM, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 4 June 2018.

For the purpose of determination of entitlement to the final dividend, the Register of Members of the Company will be closed on Thursday, 14 June 2018 and Friday, 15 June 2018 on which no transfer of shares will be registered. In order to qualify for the final dividend, all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 13 June 2018.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises (1) 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 (2) Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board
Tsoi Hoi Shan
Chairman

Hong Kong, 28 March 2018