The United Laboratories International Holdings Limited

聯邦制藥國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

Interim Results Announcement
For the six months ended 30 June 2016

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2016	2015	
	HK$'000	*HK$'000*	Decrease
Revenue	**3,503,506**	4,062,365	(13.8%)
EBITDA	**661,194**	803,364	(17.7%)
Profit before taxation	**100,336**	259,380	(61.3%)
(Loss) profit for the period attributable to owners of the Company	**(15,107)**	280,279	N/A
(Loss) earnings per share	**HK cents**	HK cents	
- Basic	**(0.93)**	17.23	N/A
- Diluted	**(0.93)**	17.23	N/A

The Board of Directors (the "Board") of The United Laboratories International Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Notes	Six months ended 30 June **2016** **(Unaudited)** ***HK$'000***	2015 (Unaudited) *HK$'000*
Revenue	3	**3,503,506**	4,062,365
Cost of sales		**(2,221,082)**	(2,424,283)
Gross profit		**1,282,424**	1,638,082
Other income	4	**42,018**	55,202
Other gains and losses, net	5	**(51,552)**	63,123
Selling and distribution expenses		**(619,689)**	(661,086)
Administrative expenses		**(345,573)**	(370,052)
Research and development expenditures		**(45,456)**	(33,990)
Other expenses		**(28,300)**	(42,230)
Impairment loss recognised in respect of investment properties	11	**-**	(30,131)
Loss on fair value change on investment properties	11	**-**	(174,733)
Gain (loss) on fair value change of embedded derivative components of convertible bonds		**11,251**	(5,474)
Finance costs	6	**(144,787)**	(179,331)
Profit before taxation		**100,336**	259,380
Tax (expense) credit	7	**(115,443)**	20,899
(Loss) profit for the period attributable to owners of the Company	8	**(15,107)**	280,279
Other comprehensive expense:			
Items that will not be subsequently reclassified to profit or loss:			
Exchange differences arising on translation to presentation currency		**(142,132)**	(13,511)
Total comprehensive (expenses) income for the period attributable to the owners of the Company		**(157,239)**	266,768
		HK cents	HK cents
(Loss) earnings per share	9		
- Basic		**(0.93)**	17.23
- Diluted		**(0.93)**	17.23

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Notes	**30 June 2016 (Unaudited) *HK$'000***	31 December 2015 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	11	**8,678,771**	9,263,771
Investment properties	11	**1,451,983**	1,482,789
Properties held for development	11	**290,858**	297,153
Prepaid lease payments		**238,716**	248,950
Goodwill		**3,530**	3,605
Intangible assets		**118,257**	95,994
Deposit for land use rights		**7,438**	7,597
Deposits for acquisition of property, plant and equipment		**69,590**	54,446
Pledged deposits against finance leases		**122,325**	154,674
Available-for-sale investment		**583**	595
Deferred tax assets		**23,512**	37,663
		11,005,563	11,647,237
Current assets			
Inventories		**1,397,579**	1,415,109
Trade and bills receivables, other receivables, deposits and prepayments	12	**2,324,685**	2,195,214
Prepaid lease payments		**5,771**	6,021
Pledged bank deposits		**1,000,128**	970,316
Pledged deposits against finance leases		**81,550**	59,490
Bank balances and cash		**1,335,709**	1,114,537
		6,145,422	5,760,687
Current liabilities			
Trade and bills payables and accrued charges	13	**3,166,782**	3,294,663
Derivative financial instruments		**133,035**	203,665
Obligations under finance leases - due within one year		**618,446**	698,999
Tax payables		**42,675**	33,950
Borrowings - due within one year		**3,782,838**	4,109,911
Convertible bonds		**107,192**	116,824
		7,850,968	8,458,012
Net current liabilities		**(1,705,546)**	(2,697,325)
Total assets less current liabilities		**9,300,017**	8,949,912
Non-current liabilities			
Deferred tax liabilities		**712,754**	713,035
Deferred income in respect of government grants	13	**82,490**	98,096
Obligations under finance leases - due after one year		**476,517**	507,451
Borrowings - due after one year		**1,466,862**	912,697
		2,738,623	2,231,279
		6,561,394	6,718,633
Capital and reserves			
Share capital		**16,269**	16,269
Reserves		**6,545,125**	6,702,364
Equity attributable to owners of the Company		**6,561,394**	6,718,633

NOTES:

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 2016, the Group had net current liabilities of approximately HK$1,705,546,000. 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 except for certain investment properties and financial instruments, which are measured at fair values.

   Except as described below, the accounting policies and method of computations used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

   In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

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	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Sales of goods	**3,503,506**	4,062,365

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

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

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 2016 (unaudited)

	Intermediate products	Bulk medicine	Finished products	Segments total	Elimination	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External sales	**757,366**	**1,388,193**	**1,357,947**	**3,503,506**	**-**	**3,503,506**
Inter-segment sales	**574,675**	**141,923**	**-**	**716,598**	**(716,598)**	**-**
	1,332,041	**1,530,116**	**1,357,947**	**4,220,104**	**(716,598)**	**3,503,506**
RESULT						
Segment (loss) profit	**(7,659)**	**27,339**	**366,486**			**386,166**
Unrealised profit elimination	**(6,817)**	**(28,407)**	**(11,100)**			**(46,324)**
	(14,476)	**(1,068)**	**355,386**			**339,842**
Unallocated other income						**15,259**
Other gains and losses, net						**(51,552)**
Unallocated corporate expenses						**(69,677)**
Gain on fair value change of embedded derivative components of convertible bonds						**11,251**
Finance costs						**(144,787)**
Profit before taxation						**100,336**

For the six months ended 30 June 2015 (unaudited)

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

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 bank interest income, sundry income, certain other expenses relating to relocation, other gains and losses, corporate expenses and staff costs, impairment loss recognised in respect of investment properties, fair value change on investment properties, gain (loss) on fair value change of embedded derivative components of convertible bonds and finance costs.

Total assets and liabilities for reportable segments are not presented in the condensed consolidated financial statements, as the information is not regularly provided to the CODM. Accordingly, the Group has not included total assets or liabilities information as part of segment information.

4. OTHER INCOME

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Bank interest income	**13,958**	24,295
Sales of raw materials	**1,454**	16,175
Subsidy income (Note)	**25,305**	3,879
Sundry income	**1,301**	10,853
	42,018	55,202

Note: Included in the amount for the six months ended 30 June 2016 mainly consists of approximately HK$25,305,000 (30 June 2015: HK$2,483,000) government grants received for the purpose of financing certain expenditure on new products development.

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Exchange (losses) gains, net	**(60,083)**	22,665
Investment (loss) income on forward contracts	**(45,982)**	13,860
Fair value change on derivative financial instruments	**70,373**	26,576
Net loss on disposal of property, plant and equipment	**(15,878)**	(33)
Others	**18**	55
	(51,552)	63,123

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interests on borrowings, convertible bonds and finance leases	**157,582**	198,997
Less: amounts capitalised in property, plant and equipment	**(12,795)**	(19,666)
	144,787	179,331

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.31% (30 June 2015: 6.03%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE (CREDIT)

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The charge (credit) comprises:		
Current tax		
Hong Kong Profits Tax	**3,312**	2,102
People's Republic of China ("PRC") Enterprise Income Tax ("EIT")	**82,148**	86,181
PRC withholding tax	**1,439**	2,151
	86,899	90,434
Deferred tax	**28,544**	(111,333)
	115,443	(20,899)

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2015: 16.5%) of the estimated assessable profit for the period.

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

During the six months ended 30 June 2016, no unused tax losses was utilised. For the six months ended 30 June 2015, the taxation charge for current PRC EIT is calculated after taking into account the utilisation of unused tax losses amounting to approximately HK$18,744,000 for which no deferred tax asset was previously recognised.

During the period ended 30 June 2015, deferred tax liabilities of approximately HK$116,702,000 (30 June 2016: HK$nil) had been reversed in respect of the impairment loss of HK$30,131,000 and fair value loss of HK$174,733,000 (30 June 2016: HK$nil and HK$nil) of the investment properties recognised as disclosed in note 11.

8. (LOSS) PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
(Loss) profit for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments:		
- Salaries and other benefits costs	**472,719**	498,545
- Retirement benefit costs	**59,767**	28,852
	532,486	527,397
Less : amount included in research and development expenditures	**(6,446)**	(19,040)
Less : amount included in temporary production suspension costs in other expenses	**-**	(47)
	526,040	508,310
Depreciation and amortisation:		
Depreciation of property, plant and equipment	**410,549**	360,256
Amortisation		
- intangible assets	**1,775**	2,232
- prepaid lease payments	**3,747**	2,165
	416,071	364,653
(Reversal of) provision of allowance of doubtful debts	**(2,465)**	5,179
Provision of allowance for inventories	**10,580**	-
Amounts included in other expenses:		
- written down of deposits for acquisition of property, plant and equipment	**-**	4,514

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
(Loss) earnings	***HK$'000***	*HK$'000*
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share, being (loss) profit for the period attributable to owners of the Company	**(15,107)**	280,279
Number of shares	**'000**	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	**1,626,875**	1,626,875

The computation of diluted (loss) earnings per share for the period ended 30 June 2016 and 2015 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease/increase in (loss) earnings per share for the period.

10. DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

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

The Group acquired approximately HK$182,892,000 (six months ended 30 June 2015: HK$366,066,000) on property, plant and equipment to expand and upgrade certain production plants and office buildings primarily in Zhuhai and Inner Mongolia, the PRC, during the six months ended 30 June 2016.

An impairment loss of HK$30,131,000 was made on investment property located at Chengdu ("Chengdu Lands") during six months ended 30 June 2015 (six months ended 30 June 2016: HK$nil) as the Group had donated an investment property to the local government at nil consideration during the period.

The fair value of the Group's investment properties as at 30 June 2016 has been arrived at based on a valuation carried out on that date by Roma Appraisals Limited ("ROMA"), an independent qualified professional valuer. There was no comparable recent sales transactions of lands available in the relevant markets and accordingly the valuation of the Chengdu Lands was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the development costs to be incurred to arrive at the residual value. The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin and commercial/residential portion, which would expose the Group to fair value measurement risks.

No change in fair value of investment properties has been recognised directly in the profit or loss for the six months ended 30 June 2016 (six months ended 30 June 2015: decreased by HK$174,733,000).

As at 30 June 2016, the carrying amount of the properties held for development amounted to HK$290,858,000 (31 December 2015: HK$297,153,000). The carrying amount of properties held for development represents land held for development for sales purposes for which no development work has yet been commenced.

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

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade and bills receivables	**2,017,634**	1,986,634
Value-added tax receivables	**77,224**	66,126
Other receivables, deposits and prepayments	**265,683**	181,553
Less: allowance for doubtful receivables		
- trade	**(8,394)**	(11,053)
- non-trade	**(27,462)**	(28,046)
	2,324,685	2,195,214

The Group normally allows a credit period of between 30 days and 120 days (2015: 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, presented based on the invoice date, net of allowance for doubtful receivables, at the end of the reporting period which approximate the respective revenue recognition dates:

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**463,806**	458,121
31 to 60 days	**259,775**	349,407
61 to 90 days	**130,828**	118,582
91 to 120 days	**36,132**	54,836
121 to 180 days	**36,263**	21,748
Over 180 days	**49,696**	19,634
	976,500	1,022,328
Bills receivables		
0 to 30 days	**153,321**	145,306
31 to 60 days	**136,349**	171,957
61 to 90 days	**211,516**	183,048
91 to 120 days	**175,698**	170,406
121 to 180 days	**320,028**	278,173
Over 180 days	**35,828**	4,363
	1,032,740	953,253

At 30 June 2016, the Group had HK$264,440,000 (31 December 2015: HK$71,737,000) of bills receivables discounted to several banks with full recourse, of which HK$184,050,000 (31 December 2015: HK$52,043,000) bills receivables were issued by the Group's debtors, and the remaining HK$80,390,000 (31 December 2015: HK$19,694,000) were issued by certain subsidiaries of the Company for the purposes of settlement or prepayment of inter-group purchase. Accordingly, the Group continues to recognise the full carrying amount of Group's receivables from the external debtors and has recognised the cash received on such discounting arrangement as secured borrowings. In addition, as at 30 June 2016, the Group continues to recognise an amount of HK$313,365,000 (31 December 2015: HK$271,565,000) representing bills receivables issued by the Group's external debtors which had been endorsed to the Group's creditors for settlement (see note 13).

13. TRADE AND BILLS PAYABLES AND ACCRUED CHARGES

The Group normally receives credit terms of up to 120 days and 180 days for trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Trade payables		
0 to 90 days	**617,536**	782,912
91 to 180 days	**385,320**	163,882
Over 180 days	**167,558**	113,163
	1,170,414	1,059,957
Bills payables		
0 to 90 days	**317,813**	257,140
91 to 180 days	**95,566**	366,069
	413,379	623,209
Other payables and accruals	**606,858**	633,080
Deferred income in respect of government grants	**167,878**	188,433
Payables in respect of the acquisition of property, plant and equipment	**890,743**	888,080
	3,249,272	3,392,759
Less : Amount due within one year shown under current liabilities	**(3,166,782)**	(3,294,663)
Amount shown under non-current liabilities	**82,490**	98,096

Included in the trade payables and other payables above are HK$242,106,000 and HK$71,259,000 (31 December 2015: HK$228,720,000 and HK$42,845,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills have not yet fallen due as at the end of the reporting period (see note 12).

14. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of approximately HK$513,974,000 (31 December 2015: HK$613,260,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

15. PLEDGE OF ASSETS

a. Other than deposits made to financing lease companies disclosed elsewhere in the condensed consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	30 June 2016	31 December 2015
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Property, plant and equipment	**193,965**	203,714
Land use rights	**28,946**	30,614
Bills receivables	**264,440**	71,737
Pledged bank deposits	**1,000,128**	970,316
	1,487,479	1,276,381

b. At 30 June 2016, the carrying value of property, plant and equipment included an amount of HK$2,016,216,000 (31 December 2015: HK$2,159,644,000) in respect of assets held under finance leases.

16. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Fees	**480**	480
Salaries and other benefits	**8,877**	9,756
Retirement benefits scheme contribution	**63**	71
	9,420	10,307

MANAGEMENT DISCUSSION AND ANALYSIS

Business review for the first half of 2016

For the six months ended 30 June 2016, the Group's revenue was decreased by 13.8% to HK$3,503.5 million as compared with the same period in the preceding year of HK$4,062.4 million. The Group's loss for the period attributable to shareholders was approximately HK$15.1 million (first half of 2015: profit of HK$280.3 million). Segmental turnover (including inter-segment sales) of intermediate products and bulk medicine were decreased by 23.4% and 19.8% respectively, and segmental turnover (including inter-segment sales) of finished products was increased by 1.9% for the six months ended 30 June 2016, as compared with the same period in preceding year. Segmental loss margin of intermediate products and bulk medicine were 1.1% and 0.1% respectively for the current period as compared with segmental profit margin of 14.3% and 6.8% respectively for the corresponding period in 2015. Segmental profit margin of finished products was 26.2% for the current period, as compared with segmental profit margin of 19.0% for the corresponding period last year.

Global investors worried about market conditions in the first half of 2016. The United Kingdom will withdraw from the European Union, the economy in the US and Europe may slow down, the negative interest rates policies in Europe and Japan may bring adverse side-effects, the US Federal Reserve Board becomes indecisive regarding rate hike, and the corporate debt problem in China remains – these are dominating the economic landscape. During the period, the economic growth indicators in China have stabilized, but the debt-to-GDP ratio has increased, and the strategy of boosting economic growth with credit was mixed. Regarding the industry, due to lots of changes in the market environment and policy environment, the production and operation of enterprises have seen unprecedented challenges. The overall growth of the pharmaceutical industry has slowed down, and the overall industry is consolidating at the bottom. Also, as the State has kept on focusing key aspects, such as new medical reform, carrying out quality and efficacy consistency assessment for generic drugs, and the new National Medical Insurance Drugs Catalogue is expected to be activated, it is believed that the pharmaceutical industry will face both opportunities and challenges in the future.

Falling prices and sales of intermediate products and bulk medicine products

The domestic pharmaceutical market in China is in the adjustment stage of government medical reform, and the sluggish economy in China and the continuous fall of raw material prices have affected the demand from the market, therefore the market showed a wait-and-see attitude regarding the demand for antibiotics products, causing decreases in prices and sales of intermediate products and bulk medicine products. As the sales volume and selling prices of the major intermediate product 6-APA and major bulk medicine product Amoxicillin have recorded declines during the period, the decreasing production volumes have driven up the production costs, and thus the significant fall in the gross profit has affected the performance for the period.

Sales of finished products driven by increasing sales of recombinant human insulin products

During the period, in addition to our success in bidding campaigns, we continued to receive orders for our recombinant human insulin products from the medium-to-large hospitals, basic pharmacy market, OTC market and rural market.

Our performance in Anhui, Shandong, Henan, Guangdong and Jilin provinces was particularly satisfactory, driving up the sales revenue during the period.

Resumption of the Yuen Long production plant

The Yuen Long production plant in Hong Kong resumed in the first half of 2016 after the completion of modification for compliance of Pharmaceutical Inspection Co-operation Scheme (PIC/S GMP), as requested by Pharmacy and Poisons Board of Hong Kong.

Research and development of new products

We currently have 45 new products under development. In the first half of 2016, we received four approvals for clinical trial of our products. As of now, we had 21 patent registration applications approved, with another nine applications pending approval. Our finished products reserve is expected to be further expanded. We have a strong sales team consisting of nearly 3,000 sales representatives, which has obviously shortened the time of product launch, being a strong driving force for the promotion of the Group's new products in the market.

As for the research and development of biological preparations, the Group will further complement our insulin product line. Currently, the Group has passed the three-in-one approval of insulin glargine (third generation insulin), and clinical trial for insulin aspart (third generation insulin) has also been completed successfully, which is now in the stage of preparing for application for production approval. As the first domestic generic drug in this regard, the third generation of insulin aspart has successfully obtained the approval of clinical trial during the period. Meanwhile, the Group is researching a variety of biological preparations, including insulin degludec and liraglutide, which will be gradually put in the market to benefit more diabetics in China in the future.

For the research and development of chemical pharmaceuticals, three chemical pharmaceuticals of the group have obtained approvals for clinical trial during the period, and will gradually commence clinical trials, including Tadalafil tablets, which is for the treatment of erectile dysfunction and benign prostatic hyperplasia and pulmonary hypertension; Imatinib Mesylate capsules and Imatinib Mesylate tablets, which are anti-cancer drugs.

Optimization of financial structure

For financial strategy, the Group seized market opportunities and optimised the financial structure during the period to ensure adequate working capital. In June 2016, the Company as a borrower entered into one facility agreement with China Development Bank Corporation Hong Kong Branch for a HK$600,000,000 unsecured term-loan facility in order to maintain a proper balance between onshore/offshore borrowings. The principal amount under the facility shall be repaid in full after the expiry of a 36 months term from the relevant drawdown date.

Liquidity and Financial Resources

As at 30 June 2016, the Group had pledged bank deposits, cash and bank balances amounted to HK$2,335.8 million (31 December 2015: HK$2,084.9 million).

As at 30 June 2016, the Group had interest-bearing borrowings of approximately HK$5,249.7 million (31 December 2015: HK$5,022.6 million), which were denominated in US dollars, Euro, Hong Kong dollars and Reminbi with maturity within five years. Borrowings of approximately HK$2,425.8 million are fixed rates loans while the remaining balance of approximately HK$2,823.9 million is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2016, current assets of the Group amounted to approximately HK$6,145.4 million (31 December 2015: HK$5,760.7 million). The Group's current ratio was approximately 0.78 as at 30 June 2016 as compared with 0.68 as at 31 December 2015. As at 30 June 2016, the Group had total assets of approximately HK$17,151.0 million (31 December 2015: HK$17,407.9 million) and total liabilities of approximately HK$10,590.0 million (31 December 2015: HK$10,689.3 million), representing a net gearing ratio (calculated as total borrowings, obligations under finance leases and convertible bonds less cash and bank balances, pledged deposits against finance leases and pledged bank deposits to total equity) of 59.6% as at 30 June 2016, as compared with 60.2% as at 31 December 2015.

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 2016 and 31 December 2015, the Group had no material contingent liabilities.

Outlook for second half of 2016

According to the report of Frost & Sullivan, China's pharmaceutical expenditure is expected to further increase from RMB3.9 trillion in 2015 to RMB6.2 trillion at a compound annual growth rate of 9.5%. According to the estimates for 2016, China's pharmaceutical market is rapidly expanding, China is lagging far behind most of the major countries in terms of the amount of medical expenditure and its percentages to GDP and per capita expenditure. Therefore, there is plenty room for development in the future. Besides, China ranked the first among the world with over 1.3 billion population. With expedited ageing population and higher illness rate, the demand for and supple of medical resources are, however, extremely imbalanced. In the foreseeable future, the medical market in China has a huge room for further development.

To enhance industry standards and to ensure safety and efficacy of pharmaceuticals, the State has been putting the assessment on generics in terms of quality and efficacy on its agenda. On 21 to 22 June 2016, China Food and Drug Administration convened the Working Conference of Carrying out Quality and Efficacy Consistency Assessment for Generic Drugs, to implement the Opinions of the State Council on Carrying out Quality and Efficacy Consistency Assessment of Generic Drugs and to carry on the reforming the review and approval system. The conference has concluded that carrying out quality and efficacy consistency assessment for generic drugs is an important move to boost the supply-side reform of the medical and pharmaceutical industry. Improving the quality of generic drug and replacing each other with the principles clinically is beneficial to reduce the overall medical expenditure, to eliminate obsolete production capacities and to lift the competitiveness of domestic generic drugs. The Group believes that an assessment of generic drugs is a clear trend. The enactment of such requirement will lead to consolidation of pharmaceutical industry and industrial upgrading. The Group will actively promote the related development. Looking forward, the Group will strive to strengthen its overall competitiveness and position in the industry on its vertical integration, which is its competitive edge in the industry.

Looking forward, for research and development, the Group will continue to bring its cutting edge in research and development into play to develop products with high margin and demand, and focus in aspects such as therapeutic drug for diabetes, anti-hepatitis, anti-cancer, high-end anti-infective and so on. With the continuous enrichment of its insulin product line, and the third generation insulin aspart being expected to obtain the production approval by the end of the year at the earliest, insulin product will continue to be its key strategic product. For intermediate products and bulk medicine products, during the period, the Group has launched the product Penicillin Potassium industrial salt, and the group will actively explore the market, enrich the product line and fully utilize the existing production capacity of the Inner Mongolia Plant; as the Inner Mongolia Plant enlarged the production capacity of enzymatic bulk amoxicillin, it can further drive the internal digestion of upstream intermediate product 6-APA; at the same time, the Group will also improve the production process of products and realize high-end product customization in response to the demand from different customers.

For finished products, the Group will keep an eye on all favourable policies from the State related to pharmaceuticals for critical diseases such as diabetes and invest more resources in the related field so that we can win the tenders in other provinces and expand its market presence. We will strengthen penetration in large and medium-sized hospitals, essential drugs market, OTC markets and rural market by making good use of our competitive advantage as well as the extensive sales networks. In addition, the Group has also proactively expanded the sales of products such as OTC products in chain pharmacies that has further driven the growth of finished products.

In additions, The United Animal Healthcare (Inner Mongolia) Co., Ltd. received 32 approvals of animal healthcare drugs and 7 approvals of mixed feed additive products for production and will be launched in the second half of this year.

With continuous efforts to enhance our competitiveness, we are confident that we can seize market opportunities, accelerate the cultivation of innovation ability and reinforce our scientific research ability by taking advantage of the great opportunity of industrial transformation and upgrading, and maintain the Group's sustainable growth momentum, hence creating the highest value for our shareholders, clients and stakeholders.

Employees and Remuneration Policies

As at 30 June 2016, the Group had approximately 11,300 (31 December 2015: 11,400) 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.

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 2016.

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 six months ended 30 June 2016, 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. Certain independent non-executive directors were unable to attend the annual general meeting of the Company held on 3 June 2016 due to other important engagement.

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 2016.

AUDIT COMMITTEE

The Audit Committee comprises of four independent non-executive directors, namely Mr. Chong Peng Oon, Mr. Huang Bao Guang, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2016. 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 announcement, the Board comprises Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Ms. Choy Siu Chit, Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as executive directors; and Mr. Chong Peng Oon, 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, 25 August 2016