The United Laboratories International Holdings Limited

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

INTERIM REPORT 2017

Our mission is to
make life more valuable

Contents

Financial Highlights

	Six months ended 30 June		
	2017	2016	
	RMB'000	RMB'000	Increase
Revenue	**3,339,798**	2,964,050	12.7%
EBITDA	**677,650**	558,689	21.3%
Profit before taxation	**152,169**	84,189	80.7%
Profit (loss) for the period attributable to owners of the Company	**109,129**	(13,480)	N/A
Earning (loss) per share	**RMB cents**	RMB cents	
– Basic	**6.71**	(0.83)	N/A
– Diluted	**3.31**	(0.83)	N/A

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

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

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Mr. Leung Wing Hon
Ms. Choy Siu Chit
Prof. Song Ming

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

China

China Merchants Bank Co., Ltd,
Shenzhen Jin Se Jia Yuan Sub-branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
Bank of China Limited, Zhuhai Branch
Huaxia Bank Co., Ltd, Zhuhai Branch
China Resources Bank of Zhuhai Co., Ltd.,
Zhuhai 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

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 31, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

		Six months ended 30 June	
	NOTES	**2017** **RMB'000** **(Unaudited)**	2016 RMB'000 (Unaudited) (Restated)
Revenue	3	**3,339,798**	2,964,050
Cost of sales		**(2,157,439)**	(1,879,785)
Gross profit		**1,182,359**	1,084,265
Other income	4	**34,965**	35,548
Other gains and losses, net	5	**(27,961)**	(43,615)
Selling and distribution expenses		**(541,249)**	(524,272)
Administrative expenses		**(305,415)**	(292,362)
Research and development expenditures		**(43,722)**	(38,457)
Other expenses		**(26,110)**	(23,943)
Loss on fair value change on investment properties	11	**(49,000)**	–
Gain on fair value change of embedded derivative components of convertible bonds	15	**68,333**	9,519
Finance costs	6	**(140,031)**	(122,494)
Profit before taxation		**152,169**	84,189
Tax expense	7	**(43,040)**	(97,669)
Profit (loss) for the period attributable to owners of the Company	8	**109,129**	(13,480)
Other comprehensive income (expense):			
Item that will be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of a foreign operation		**2,297**	(2,239)
Total comprehensive income (expenses) for the period attributable to the owners of the Company		**111,426**	(15,719)
		RMB cents	RMB cents
Earning (loss) per share	9		
– Basic		**6.71**	(0.83)
– Diluted		**3.31**	(0.83)

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	NOTES	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Non-current assets			
Property, plant and equipment	*11*	**7,221,778**	7,350,934
Investment properties	*11*	**1,071,277**	1,120,277
Properties held for development	*11*	**255,723**	255,723
Prepaid lease payments		**210,240**	213,267
Goodwill		**3,031**	3,031
Intangible assets		**149,084**	144,188
Deposit for land use rights		**7,262**	7,262
Deposits for acquisition of property, plant and equipment		**37,923**	25,995
Pledged deposits against finance leases		**95,000**	75,000
Available-for-sale investment		**500**	500
Deferred tax asset		**17,625**	12,626
		9,069,443	9,208,803
Current assets			
Inventories		**1,107,941**	963,789
Trade and bills receivables, other receivables, deposits and prepayments	*12*	**2,096,021**	1,960,822
Prepaid lease payments		**4,954**	4,954
Pledged bank deposits		**942,199**	969,062
Pledged deposits against finance leases		**30,000**	75,745
Bank balances and cash		**1,522,064**	1,782,881
		5,703,179	5,757,253
Current liabilities			
Trade and bills payables, other payables and accrued charges	*13*	**3,040,620**	2,927,919
Derivative financial instruments		**7,477**	85,891
Obligations under finance leases – due within one year		**356,066**	375,643
Tax payables		**43,149**	86,489
Borrowings – due within one year	*14*	**2,028,651**	3,249,684
Bank overdraft		**71,073**	–
		5,547,036	6,725,626
Net current assets (liabilities)		**156,143**	(968,373)
Total assets less current liabilities		**9,225,586**	8,240,430

	NOTES	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Non-current liabilities			
Deferred tax liabilities		**563,766**	576,580
Deferred income in respect of government grants	*13*	**66,479**	62,792
Obligations under finance leases – due after one year		**230,427**	254,793
Borrowings – due after one year	*14*	**1,969,623**	993,959
Convertible bonds	*15*	**936,379**	1,004,820
		3,766,674	2,892,944
		5,458,912	5,347,486
Capital and reserves			
Share capital	*16*	**15,237**	15,237
Reserves		**5,443,675**	5,332,249
Equity attributable to owners of the Company		**5,458,912**	5,347,486

The condensed consolidated financial statements from pages 5 to 31 were approved and authorised for issue by the Board of Directors on 23 August 2017 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 2017

	Attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Capital reserve *RMB'000*	Revaluation reserve *RMB'000*	Foreign exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2016 (Audited) (Restated)	15,237	2,356,763	277,100	642,191	95,616	(3,973)	2,242,804	5,625,738
Loss for the period	–	–	–	–	–	–	(13,480)	(13,480)
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	(2,239)	–	(2,239)
Total comprehensive expense for the period	–	–	–	–	–	(2,239)	(13,480)	(15,719)
Appropriations	–	–	–	27,539	–	–	(27,539)	–
At 30 June 2016	15,237	2,356,763	277,100	669,730	95,616	(6,212)	2,201,785	5,610,019
At 1 January 2017 (Audited) (Restated)	15,237	2,356,763	277,100	691,245	95,616	(9,862)	1,921,387	5,347,486
Profit for the period	–	–	–	–	–	–	109,129	109,129
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	2,297	–	2,297
Total comprehensive income for the period	–	–	–	–	–	2,297	109,129	111,426
Appropriations	–	–	–	61,578	–	–	(61,578)	–
At 30 June 2017 (Unaudited)	**15,237**	**2,356,763**	**277,100**	**752,823**	**95,616**	**(7,565)**	**1,968,938**	**5,458,912**

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

Included in special reserve is an amount of RMB203,263,000 (Restated) which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 (Restated) represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquiring of additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Operating activities		
Profit before taxation	**152,169**	84,189
Adjustments for:		
Provision of allowance for inventories	**1,021**	8,951
Provision (reversal) of allowance for doubtful debts	**5,490**	(2,085)
Amortisation of intangible assets	**3,064**	1,502
Amortisation of prepaid lease payments	**3,027**	3,170
Depreciation of property, plant and equipment	**379,359**	347,334
Fair value loss on investment properties	**49,000**	–
Finance costs	**140,031**	122,494
Bank interest income	**(18,577)**	(11,809)
Subsidy income	**(9,583)**	(21,409)
Net losses on disposal of property, plant and equipment	**8,934**	13,433
Unrealised exchange losses	**11,860**	28,540
Unrealised losses on change in fair value of derivative financial instruments	**1,108**	4,014
Gain on fair value change of embedded derivative components of convertible bonds	**(68,333)**	(9,519)
Operating cash flows before movements in working capital	**658,570**	568,805
Increase in inventories	**(145,822)**	(20,042)
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(150,346)**	(82,910)
Change in derivative financial instruments	**(6,843)**	(24,649)
Increase (decrease) in trade and bills payables, other payables and accrued charges	**101,451**	(92,495)
Cash generated from operations	**457,010**	348,709
Tax paid	**(104,193)**	(65,579)
Net cash from operating activities	**352,817**	283,130

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Investing activities		
Decrease in prepaid lease payments	**–**	500
Payments for purchase of property, plant and equipment	**(238,881)**	(90,847)
Payment for deposits of acquisition of property, plant and equipment	**(26,282)**	(19,212)
Proceeds on disposal of property, plant and equipment	**2,402**	64,987
Withdrawal (placement) of pledged bank deposits, net	**26,387**	(43,453)
Interest received	**18,577**	11,809
Receipt of government grants	**4,936**	7,135
Settlement of forward contracts	**(70,763)**	(37,682)
Additions to intangible assets	**(258)**	(22,328)
Net cash used in investing activities	**(283,882)**	(129,091)
Financing activities		
Interest paid	**(94,332)**	(129,895)
Proceeds from finance leases	**200,000**	250,000
Repayment of obligations under finance leases	**(243,943)**	(324,112)
Placement of pledged deposits against finance leases	**(20,000)**	(25,000)
Release of pledged deposits against finance leases	**45,745**	30,000
New borrowings raised	**2,017,373**	1,477,482
Repayment of borrowings	**(2,304,736)**	(1,221,799)
Net cash (used in) from financing activities	**(399,893)**	56,676
Net (decrease) increase in cash and cash equivalents	**(330,958)**	210,715
Cash and cash equivalents at beginning of the period	**1,782,881**	936,743
Effect of foreign exchange rate changes	**(932)**	(927)
Cash and cash equivalents at end of the period	**1,450,991**	1,146,531
Represented by:		
Bank balances and cash	**1,522,064**	1,146,531
Bank overdraft	**(71,073)**	–
	1,450,991	1,146,531

1. BASIS OF PREPARATION

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 ("Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The functional currency of the Company and its subsidiaries (the "Group") 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 condensed consolidated financial statements and considered that it is more appropriate to present the condensed 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 thus those bondholders are based in PRC also.

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

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of Annual Improvements to HKFRS 2014 – 2016 Cycle

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

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	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Sales of goods	**3,339,798**	2,964,050

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.

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 2017 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER						
External sales	732,104	1,426,721	1,180,973	3,339,798	–	3,339,798
Inter-segment sales	698,512	182,933	–	881,445	(881,445)	–
	1,430,616	1,609,654	1,180,973	4,221,243	(881,445)	3,339,798
RESULT						
Segment profit	25,152	89,361	315,207			429,720
Unrealised profit elimination	(10,342)	(53,630)	(11,668)			(75,640)
	14,810	35,731	303,539			354,080
Unallocated other income						20,131
Other gains and losses, net						(27,961)
Unallocated corporate expenses						(73,383)
Gain on fair value change of embedded derivative components of convertible bonds						68,333
Loss on fair value change on investment properties						(49,000)
Finance costs						(140,031)
Profit before taxation						152,169

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2016 (Unaudited) (Restated)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments' total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	640,750	1,174,445	1,148,855	2,964,050	–	2,964,050
Inter-segment sales	486,189	120,070	–	606,259	(606,259)	–
	1,126,939	1,294,515	1,148,855	3,570,309	(606,259)	2,964,050
RESULT						
Segment (loss) profit	(6,480)	18,359	310,056			321,935
Unrealised profit elimination	(5,767)	(24,033)	(9,391)			(39,191)
	(12,247)	(5,674)	300,665			282,744
Unallocated other income						12,909
Other gains and losses, net						(43,615)
Unallocated corporate expenses						(54,874)
Gain on fair value change of embedded derivative components of convertible bonds						9,519
Finance costs						(122,494)
Profit before taxation						84,189

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

Inter-segment turnover is charged at prevailing market rates.

Reportable segment results represent the profit earned or loss incurred by each segment without allocation of certain other income, gain on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties, other gains and losses, corporate expenses 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.

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Bank interest income	**18,577**	11,809
Sales of raw materials	**5,251**	1,230
Subsidy income *(Note)*	**9,583**	21,409
Sundry income	**1,554**	1,100
	34,965	35,548

Note: The amount represented 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	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Exchange losses, net	**(24,292)**	(50,833)
Unrealised loss on changes in fair value of forwards contracts	**(1,108)**	(4,014)
Realised gain on forwards contracts	**6,843**	24,649
Net losses on disposal of property, plant and equipment	**(8,934)**	(13,433)
Others	**(470)**	16
	(27,961)	(43,615)

6. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Interest on borrowings, convertible bonds and finance leases	**148,335**	133,319
Less: amounts capitalised in property, plant and equipment	**(8,304)**	(10,825)
	140,031	122,494

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 5.26% (30 June 2016: 5.31%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**–**	2,803
PRC enterprise income tax ("EIT")	**58,442**	69,499
PRC withholding tax	**2,411**	1,217
	60,853	73,519
Deferred tax	**(17,813)**	24,150
	43,040	97,669

7. TAX EXPENSE *(Continued)*

Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2016: 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 to a reduced rate of 15% and such qualification is subject to renew for every three years. Certain of group entities in the PRC are entitled to the reduced tax rate of 15% for both periods.

During the six months ended 30 June 2017, no unused tax losses was utilised. For the six months ended 30 June 2016, the taxation charge for PRC EIT is calculated after taking into account the utilisation of unused tax losses amounting to approximately RMB15,858,000 (Restated) for which no deferred tax asset was previously recognised.

During the six months ended 30 June 2017, the deferred tax credit amounting to RMB17,813,000 was mainly arising from the release of the land appreciation tax, PRC EIT and other taxes resulting from the decrease in fair value of the investment properties of approximately RMB49,000,000 (six months ended 30 June 2016: Nil).

8. PROFIT (LOSS) FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Profit (loss) for the period has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments		
Salaries and other benefits costs	**417,375**	399,931
Retirement benefit costs	**46,524**	50,564
	463,899	450,495
Less: amount included in research and development expenditures	**(4,372)**	(5,453)
Less: amount included in temporary production suspension costs in other expenses	**(408)**	–
	459,119	445,042
Depreciation and amortisation		
Depreciation of property, plant and equipment	**379,359**	347,334
Less: amount included in temporary production suspension costs in other expenses	**(21,958)**	(17,297)
	357,401	330,037
Amortisation		
– intangible assets	**3,064**	1,502
– prepaid lease payments	**3,027**	3,170
	363,492	334,709
Provision (reversal) of allowance for doubtful debts	**5,490**	(2,085)
Provision of allowance for inventories	**1,021**	8,951

9. EARNING (LOSS) PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Earning (loss)		
Earning (loss) for the purpose of basic earning (loss) per share, being profit (loss) for the period attributable to the owners of the Company	**109,129**	(13,480)
Effect of dilutive potential ordinary shares:		
– interest on convertible bonds	**42,451**	–
– exchange gain on convertible bonds	**(22,459)**	–
– gain on fair value change of derivative component of convertible bonds	**(68,333)**	–
Earning (loss) for the purpose of diluted earning (loss) per share	**60,788**	(13,480)

9. EARNING (LOSS) PER SHARE *(Continued)*

	Six months ended 30 June	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
		(Restated)
Number of shares		
Weight average number of ordinary shares for the purpose of basic earning (loss) per share	**1,626,875**	1,626,875
Effect of dilutive potential ordinary shares on convertible bonds issued	**207,473**	–
Weighted average number of ordinary shares for the purpose of diluted earning (loss) per share	**1,834,348**	1,626,875

The computation of diluted loss per share for the period ended 30 June 2016 did not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in a decrease in loss per share for the period.

10. DIVIDENDS

The board of directors do not recommend payments of interim dividend for the six months ended 30 June 2017 (30 June 2016: nil).

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

The Group acquired approximately RMB261,539,000 (six months ended 30 June 2016: RMB156,731,000 (Restated)) 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 2017.

As disclosed in the Company's 2016 annual report, the Group has yet to commence development of its investment properties. As of the date of this condensed consolidated financial statements, the Group's development plan remains the same as prior years despite the Group has yet to submit a comprehensive real estate development plan for government's approval. The Group is in progress of applying a further extension of the commencement date of property development, however, failure to do so may lead to the Group be subject to an idle land fee of not more than 20 percent of the lease fees for land use if the real estate development work is not commenced on or before 31 December 2018. Further, the lands will be taken back by the government without compensation if the real estate development work is not commenced on or before 31 December 2019. The management is of the view that exposure to these penalties cannot be reliably measured.

The fair value of the Group's investment properties as at 30 June 2017 has been arrived at based on a valuation carried out on that date by Ravia Global Appraisal Advisory Limited ("Ravia"), an independent qualified professional valuer. There was no comparable recent sales transactions of lands available in the relevant markets and accordingly the valuation of the leasehold land which located in Chengdu ("Chengdu Lands") was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the development costs to be incurred to arrive at the residual value. The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin and commercial/residential portion, which would expose the Group to fair value measurement risks.

For the six months ended 30 June 2017, the fair value loss of Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Ravia was approximately RMB49,000,000 (six months ended 30 June 2016: Nil).

As at 30 June 2017, the carrying amount of the properties held for development amounted to RMB255,723,000 (31 December 2016: RMB255,723,000 (Restated)). 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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Trade and bills receivables	**1,958,637**	1,807,444
Value-added tax receivables	**27,819**	46,029
Other receivables, deposits and prepayments	**164,315**	156,609
Less: allowance for doubtful receivables		
– trade	**(7,286)**	(9,378)
– non-trade	**(47,464)**	(39,882)
	2,096,021	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, credit period may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days to 180 days.

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

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Trade receivables		
0 to 30 days	**524,777**	489,590
31 to 60 days	**199,722**	234,049
61 to 90 days	**96,960**	108,482
91 to 120 days	**52,162**	32,474
121 to 180 days	**11,060**	12,162
Over 180 days	**11,950**	23,946
	896,631	900,703
Bills receivables		
0 to 30 days	**205,924**	210,634
31 to 60 days	**160,016**	205,312
61 to 90 days	**204,753**	131,041
91 to 120 days	**152,899**	159,386
121 to 180 days	**322,725**	189,128
Over 180 days	**8,403**	1,862
	1,054,720	897,363

At 30 June 2017, the Group had RMB66,273,000 (31 December 2016: RMB669,399,000 (Restated)) of bills receivables discounted to several banks with full recourse, of which RMB2,000,000 (31 December 2016: RMB145,732,000 (Restated)) bills receivables were issued by the Group's debtors, and the remaining RMB64,273,000 (31 December 2016: RMB523,667,000 (Restated)) 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 (see note 14). In addition, as at 30 June 2017, the Group continues to recognise an amount of RMB180,181,000 (31 December 2016: RMB297,919,000 (Restated)) 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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Trade payables		
0 to 90 days	**626,586**	631,916
91 to 180 days	**381,439**	230,941
Over 180 days	**163,614**	113,576
	1,171,639	976,433
Bills payables		
0 to 90 days	**201,928**	144,870
91 to 180 days	**207,795**	404,344
	409,723	549,214
Other payables and accruals	**636,795**	538,285
Deferred income in respect of government grants	**127,360**	132,007
Payables in respect of the acquisition of property, plant and equipment	**761,582**	794,772
	3,107,099	2,990,711
Less: Amount due within one year shown under current liabilities	**(3,040,620)**	(2,927,919)
Amount shown under non-current liabilities	**66,479**	62,792

Included in the trade payables and other payables above are RMB28,813,000 and RMB151,368,000 (31 December 2016: RMB199,487,000 and RMB98,432,000 (Restated)), 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. BORROWINGS

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Bank loans	**2,641,589**	3,367,978
Discounted bills with recourse *(Note 12)*	**66,273**	669,399
Bonds	**1,290,412**	206,266
	3,998,274	4,243,643
Analysed as:		
Secured	**1,465,655**	2,762,509
Unsecured	**2,532,619**	1,481,134
	3,998,274	4,243,643
The borrowings are repayable as follows*:		
Carrying amount repayable within one year	**1,882,769**	3,076,290
Carrying amount repayable more than one year, but not exceeding two years	**121,686**	228,825
Carrying amount repayable more than two years, but not exceeding five years	**1,847,937**	765,134
Carrying amount of bank loans that contain a repayment on demand clause		
– repayable within one year from the end of the reporting period	**68,502**	66,862
– not repayable within one year from the end of the reporting period but shown under current liabilities	**77,380**	106,532
	3,998,274	4,243,643
Less: Amount due within one year shown under current liabilities	**(2,028,651)**	(3,249,684)
Amount shown under non-current liabilities	**1,969,623**	993,959

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

14. BORROWINGS *(Continued)*

During the period, the Group obtained borrowings amounting to RMB2,017,373,000 (six months ended 30 June 2016: RMB1,477,482,000 (Restated)), and the Group repaid borrowings of RMB2,304,736,000 (six months ended 30 June 2016: RMB1,221,799,000 (Restated)). These borrowings carry interest at effective interest rates ranging from 0.7% to 6.81% (31 December 2016: 0.7% to 6.81%) per annum.

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

15. CONVERTIBLE BONDS

As disclosed in the Company's 2011 – 2016 Annual Reports, the Company issued RMB denominated USD 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 "RMB denominated Convertible Bonds") on 14 November 2011. The RMB denominated Convertible Bonds was matured on 14 November 2016 (the "Maturity Date") and was redeemed by the Company at par on the Maturity Date.

On 5 December 2016, the Company issued another USD denominated HKD settled 4.5% unsecured convertible bonds at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 and further adjusted to HK$4.86 per share at a fixed exchange rate of HK$7.7563 to USD1.00 (the "USD denominated Convertible Bonds", together with the RMB denominated Bonds referred to as Convertible Bonds). Details of the major terms of the Convertible Bonds are disclosed in the Group's annual financial statements for the year ended 31 December 2016.

As at 30 June 2017, the USD denominated Convertible Bonds in an aggregate principal amount of USD130,000,000 (equivalent to approximately RMB883,480,000) remain outstanding with a maturity date of 5 December 2021 and is classified as a non-current liability.

15. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives was determined by the directors with reference to a valuation report carried out by an independent valuer. The movement of the Convertible Bonds for the six months ended 30 June 2017 are set out as below:

	Debt component RMB'000	**Derivative component** RMB'000
At 1 January 2016 (Audited) (Restated)	88,557	9,631
Interest charged	6,993	–
Gain arising on changes in fair value	–	(9,519)
Interest paid	(3,652)	–
At 30 June 2016 (Unaudited) (Restated)	91,898	112
At 1 January 2017 (Audited) (Restated)	590,045	414,775
Interest charged	42,451	–
Gain arising on changes in fair value	–	(68,333)
Interest paid	(20,100)	–
Exchange gain	(13,737)	(8,722)
At 30 June 2017 (Unaudited)	598,659	337,720

16. SHARE CAPITAL

	Number of shares	**Amount** RMB'000 (Restated)
Ordinary shares of HK$0.01 each		
At 1 January 2016, 30 June 2016, 31 December 2016 and 30 June 2017	3,800,000,000	36,994
Issued and fully paid:		
At 1 January 2016, 30 June 2016, 31 December 2016 and 30 June 2017	1,626,875,000	15,237

17. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of RMB299,251,000 (31 December 2016: RMB385,726,000 (Restated)) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

18. PLEDGE OF ASSETS

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)
Property, plant and equipment	**184,024**	171,798
Land use rights	**24,068**	24,450
Bills receivables	**66,273**	669,399
Pledged bank deposits	**942,199**	969,062
	1,216,564	1,834,709

b. At 30 June 2017, the carrying value of property, plant and equipment included an amount of RMB1,081,668,000 (31 December 2016: RMB1,350,221,000 (Restated)) in respect of assets held under finance leases.

19. RELATED PARTY TRANSACTION

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(Restated)
Fees	**425**	406
Salaries and other benefits	**9,268**	7,510
Retirement benefits scheme contribution	**63**	53
	9,756	7,969

20. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair 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).

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

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

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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited) (Restated)				
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	**Liabilities – RMB7,477**	Liabilities – RMB85,891	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	**Liabilities – RMB337,720**	Liabilities – RMB414,775	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 the following key inputs: – term to maturity: 4.43 years (2016: 4.93 years) – dividend yield: 0% (2016: 0%) – risk-free rate: 1.017% (2016: 1.549%) – spot price as of the valuation date: HK$5.15 (2016: HK$5.28) – exercise price: HK$4.86 (2016: HK$4.86) – expected volatility of stock price: 47.03% (2016: 48.87%).	– dividend yield – volatility of 47.03% (2016: 48.87%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– the higher the dividend yield, the lower the fair value – the higher the volatility in share price, the higher the change in fair value of embedded derivative components of the Convertible Bonds

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.

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

Fair value measurements and valuation processes

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

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

BUSINESS REVIEW FOR THE FIRST HALF OF 2017

In the first half of 2017, the global economy saw a significant pick-up in growth. In China, although the central government strengthened financial regulation and tightened up monetary policy, the economy has registered a stable performance with good momentum for growth in the first half of 2017. According to China's economic data in the first half of 2017 published by the National Bureau of Statistics, the gross domestic product (GDP) achieved a year-on-year increase of 6.9%, exceeding market expectation. China also achieved better than expected development in fixed asset investment, industrial output and retail industry with progress being made and stability being ensured in general.

2017 marks the tenth year for China to conduct new medical reform. After years of development. China has currently become the second largest medical consumption market and the largest bulk medicine exporting country in the world. During the Period, the overall pharmaceutical industry in China faced new opportunities and challenges brought by the introduction of a number of pharmaceutical policies, especially the comprehensive implementation of "two invoices system", the conformance evaluation of the quality and efficacy of generic drugs and the new National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2017 version).

For the six months ended 30 June 2017, the Group's revenue is increased by 12.7% to RMB3,339.8 million as compared with same period in the preceding year of RMB2,964.1 million. The profit for the period attributable to shareholders is approximately RMB109.1 million (first half of 2016: loss of RMB13.5 million). Segmental turnover (including inter-segment sales) of intermediate products, bulk medicine and finished products for the six months ended 30 June 2017 are increased by 26.9%, 24.3% and 2.8% respectively, as compared with the same period in preceding year. Segmental profit margin of intermediate products and bulk medicine are 1.0% and 2.2% respectively for the current period as compared with segmental loss margin of 1.1% and 0.4% respectively for the corresponding period in 2016. Segmental profit margin of finished products is 25.7% for the current period, as compared with segmental profit margin of 26.2% for the corresponding period last year.

Sales of intermediate products and bulk medicine products

The Group marked a turnaround during the Period, driven mostly by the improvement in the capacity utilisation rate and production cost of its main intermediate and bulk medicine products, in particular the 6-APA, and a year-on-year increase in the sales of such products. Currently, the prices of products such as the 6-APA and amoxicillin bulk medicine have also gradually returned to a relatively reasonable level due to the increase in material cost and environmental protection cost, as well as the promotion of supply-side reform by China through environmental protection examination.

Sales of finished products

During the period, 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 4.36 million vials of recombinant human insulin products were sold with sales revenue of RMB167.7 million. Currently, our recombinant human insulin products have won the bids in more than twenty provinces in China which carry out pharmaceutical products procurement through open bidding, and received orders from the medium-to-large hospitals, OTC market, essential drugs market and rural market, among which the sale performance in Anhui, Guangdong, Shandong, Henan and Jilin provinces was particularly satisfactory. In addition, in early 2017, the Group gained the production approval for "United Laboratories USLEN" insulin glargin injection for the specification of refilled pen-type as well as the specification of disposable pen-type from China Food and Drug Administration (the "CFDA"). The product is developed and produced with international advanced purification technology and production facilities. The quality of product is in full compliance with the US Pharmacopoeia standards, while its efficacy and safety are comparable with the original research product. "United Laboratories USLEN" was officially launched to the market in May 2017, and recorded a sales revenue of RMB4.4 million in total during the Period. Currently, "United Laboratories USLEN" has won the tender through bidding in Fujian, Chongqing, Heilongjiang, Henan and Guangdong, and the Group will also continue to participate in the bidding in other provinces actively.

The Group's antibiotics products still recorded satisfactory sales. In addition, the Group also actively sought to increase the sales of OTC products at chain drugstores, enrich the offerings of OTC products, as well as strengthen the cross-regional all-round cooperation with domestic large-scale chain drugstores.

Research and development of new products

The Group has been long committed to drugs research and development. We currently have 39 new products under development. Currently, we have 23 patents which have been successfully registered and 18 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. Clinical trials have been successfully completed for insulin aspart injection 30 and insulin aspart and we are making preparation for application of production approval. The Group is the first manufacturer in China to work on insulin detemir, and has successfully obtained such clinical trial approval in 2016. 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. 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 conformance evaluation of the quality and efficacy of generic drugs in 2016, which requires that the existing generic drugs on the market shall have the quality and efficacy comparable with the original drugs and shall be substitutable for each other clinically. This is conductive to reducing the total medical expenses, phasing out backward capacity and increasing the overall competitiveness of domestic-made generic drugs, and at the same time, will definitely lead to the increase in the cost of drug manufacturing companies and adjustment on product structure at the current stage. The Group will, after comprehensive analysis and rearrangement, carry out the conformance evaluation in batches with priority to be put on the existing core items on the market or items that is subject to the Group's vertical integration of industry chain, and more resources will continue to be devoted to such items. Currently, the conformance evaluation on the Group's products such as amoxicillin is carried out smoothly.

Optimization of financial structure

With regard to finance, the Group continued to seize market opportunities during the period with an aim to optimising financial structure and ensuring adequate working capital. Zhuhai United Laboratories Co., Ltd., a wholly-owned subsidiary of the Group, has issued corporate bonds of RMB1.1 billion with a term of three years (extendable to five years) in March 2017. The proceeds from such issuances are used for the repayment of bank loans and replenishing the working capital of the Group. As at 30 June 2017, the Group records a net current assets of RMB156.1 million as compared with net current liabilities of RMB968.4 million at 31 December 2016. The current ratio improves from 0.86 at 31 December 2016 to 1.03 at 30 June 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had pledged bank deposits, cash and bank balances amounted to RMB2,464.3 million (31 December 2016: RMB2,751.9 million).

As at 30 June 2017, the Group had bank overdraft of approximately RMB71,100,000 (31 December 2016: Nil) and interest-bearing borrowings of approximately RMB3,998.3 million (31 December 2016: RMB4,243.6 million), which were denominated in US dollars, Euro, Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of approximately RMB3,060.7 million (31 December 2016: RMB2,596.9 million) are fixed rates loans while the remaining balance of approximately RMB937.6 million (31 December 2016: RMB1,646.7 million) million is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2017, current assets of the Group amounted to approximately RMB5,703.2 million (31 December 2016: RMB5,757.3 million). The Group's current ratio was approximately 1.03 as at 30 June 2017 as compared with 0.86 as at 31 December 2016. As at 30 June 2017, the Group had total assets of approximately RMB14,772.6 million (31 December 2016: RMB14,966.1 million) and total liabilities of approximately RMB9,313.7 million (31 December 2016: RMB9,618.6 million), representing a net gearing ratio (calculated as total bank overdraft, borrowings, obligations under finance leases and convertible bonds less cash and bank balances, pledged deposits against finance leases and pledged bank deposits to total equity) of 55.0% as at 30 June 2017, as compared with 55.7% as at 31 December 2016.

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

ISSUE OF CONVERTIBLE BONDS

On 5 December 2016, the Company issued US dollars denominated HK dollars settled 4.5% unsecured convertible bonds at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 (subject to adjustments) per share at a fixed exchange rate of HK$7.7563 to USD1.00 (the "Convertible Bonds). An adjustment has been made to the conversion price from HK$5.35 to HK$4.86 on a one-time basis on 13 December 2016 pursuant to the terms and condition as prescribed in the subscription agreement dated 21 November 2016. The Convertible Bonds are listed in the Stock Exchange.

The Convertible Bonds bear interest from (and including) the issued date at the rate of 4.5% per annum calculated by reference to the principal amount thereof and payable semi-annually in arrears on 5 June and 5 December of each year, commencing with the first interest payment date falling on 5 June 2017. The Convertible Bonds will mature on 5 December 2021 and shall be redeemed by the Company at par, together with accrued interest thereon, on December 2021.

Conversion at the option of the bondholder may occur at any time between 15 January 2017 and 27 November 2021. The Company will, at the option of the bondholder, redeem all or some of the Convertible Bonds on 5 December 2019 at their principal amount, with accrued but unpaid interest excluding the date fixed for redemption.

The Company may at any time after 5 December 2019 and prior to 5 December 2021, the date of maturity, redeem the Convertible Bonds in whole, but not in part, at their principal amount, together with accrued but unpaid interest excluding the date fixed for redemption, provided that the closing price of the shares of the Company, translated into US dollars at the prevailing rate applicable to the relevant trading day, for 30 consecutive trading days prior to the date upon which notice of such redemption is published is at least 130% of the conversion price then in effect, translated into US dollars at the fixed exchange rate of HK$7.7563 to USD1.00.

In the event that the Convertible Bonds are fully converted at the adjusted conversion price of HK$4.86, an aggregate of 207,473,045 shares will be issued by the Company, representing approximately 12.75% of the issued ordinary share capital of the Company and approximately 11.31% of the enlarged issued ordinary share capital of the Company.

Details of the Convertible Bonds are set out in the Company's announcements dated 21 November 2016, 5 December 2016 and 13 December 2016 respectively.

Net proceeds from the issue of the Convertible Bonds is approximately USD127,131,000 which have been used as follows:

– approximately USD59,551,000 for repayment of bank borrowings;
– approximately USD24,842,000 for payment of tax;
– approximately USD15,821,000 for payment of trade payables;
– approximately USD3,297,000 for payment of construction costs;
– approximately USD925,000 for research and development expenditures;
– approximately USD2,899,000 for interest expenses; and
– approximately USD19,796,000 for daily operating expenses.

OUTLOOK

As shown in the Report on Investment Strategies Research and Consultation of China's Pharmaceutical Industry (2016-2020) issued by Zhongshang Industry Institute, during the "13th Five-Year" period, the pharmaceutical industry in China will maintain a high growth rate and the market size will grow at a compound annual growth rate of 8% from 2015 to 2020 to 1,791.9 billion in 2020, which is estimated to outperform GDP growth. This shows that the pharmaceutical industry in China still has huge room for future development. Meanwhile, as China further deepens its reform in the pharmaceutical industry, we believe the pharmaceutical industry will achieve sustainable and healthy development

In addition, the World Health Organization ("WHO") issued the newly revised WHO Model List of Essential Medicines for 2017 with the biggest revision in forty years in June 2017, in which new advice on use of antibiotics is provided. WHO experts have grouped 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 will continue to take insulin series as its priority strategic products. Currently, the Group has become the pharmaceutical enterprise which owns both the second and third generation insulin products in China. It is expected that the insulin analogue series, particularly the insulin glargin, will speed up the development of the Group and will also bring considerable return to the Group and its shareholders in future. Meanwhile, the Group will continue to promote the research and development of medicine for treating diabetes mellitus, including insulin aspart, insulin detemir and liraglutid, with an aim to continuously optimize our insulin product offerings, so that the high quality domestic-made insulin products could benefit more diabetics in China. In addition, the Group will also launch chemical medicine of various types and specifications to give impetus to the growth of our sales and profit. As for intermediate and bulk medicine business, the prices of products such as 6-APA and amoxicillin bulk medicine have been gradually returning to a reasonable level. The Group remains optimistic on its intermediate and bulk medicine business in the second half of 2017. Meanwhile, the Group will continue to enhance its capacity utilisation rate and reduce production costs, with an aim to improve the profit.

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 arising from industrial transformation and upgrading, and maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, clients and stakeholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had approximately 11,500 (31 December 2016: 11,700) 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.

DIVIDENDS

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

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

As at 30 June 2017, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	Personal interest	1.00%
Mr. Leung Wing Hon	203,500	Personal interest	0.01%
Ms. Choy Siu Chit	10,523,875	Personal interest	0.65%
Mr. Fang Yu Ping	360,000	Personal interest	0.02%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	434,179	Personal interest	0.03%

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the six months ended 30 June 2017, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under Section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

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

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

L/S: Long position/short position

Notes:

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

(2) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

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

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2017.

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 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 six months ended 30 June 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. Independent non-executive director, Prof. Song Ming was unable to attend the annual general meeting of the Company held on 8 June 2017 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 2017.

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 2017. 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.

On behalf of the Board
TSOI HOI SHAN
Chairman

Hong Kong, 23 August 2017