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## **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 2019**

#### **FINANCIAL HIGHLIGHTS**

	<b>Six months ended 30 June</b>		<b>Increase</b>
	<b>2019</b>	<b>2018</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	
Revenue	<b>4,090,023</b>	3,792,714	7.8%
EBITDA	<b>781,101</b>	627,412	24.5%
Profit before taxation	<b>336,756</b>	149,199	125.7%
Profit for the period attributable to owners of the Company	<b>295,919</b>	91,177	224.6%
Earnings per share	<b>RMB cents</b>	<b>RMB cents</b>	
- Basic	<b>18.05</b>	5.60	222.3%
- Diluted	<b>18.05</b>	5.60	222.3%

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 2019 together with the comparative figures for the corresponding period in 2018 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND  
OTHER COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

	Notes	Six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	4,090,023	3,792,714
Cost of sales		<u>(2,368,989)</u>	<u>(2,206,127)</u>
Gross profit		1,721,034	1,586,587
Other income	4	55,203	50,039
Other gains and losses, net	5	7	(22,918)
Selling and distribution expenses		(762,603)	(572,161)
Administrative expenses		(360,226)	(329,124)
Research and development expenditures		(118,560)	(99,651)
Other expenses		(9,253)	(7,249)
Impairment loss (recognised) reversed for expected credit loss, net		(9,953)	9,697
Loss on fair value change on investment properties	11	(93,332)	(59,275)
Gain (loss) on fair value change of embedded derivative components of convertible bonds		52,396	(280,621)
Finance costs	6	<u>(137,957)</u>	<u>(126,125)</u>
Profit before taxation		336,756	149,199
Tax expense	7	<u>(40,837)</u>	<u>(58,022)</u>
Profit for the period attributable to owners of the Company	8	<u>295,919</u>	<u>91,177</u>
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of a foreign operation		<u>737</u>	<u>(2,299)</u>
Total comprehensive income for the period attributable to owners of the Company		<u><u>296,656</u></u>	<u><u>88,878</u></u>
Earnings per share (RMB cents)	9		
- Basic		18.05	5.60
- Diluted		<u>18.05</u>	<u>5.60</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2019**

	Notes	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	11	6,273,726	6,494,202
Right-of-use assets	11	343,201	-
Investment properties	11	605,092	698,424
Properties held for development		255,723	255,723
Prepaid lease payments		-	223,186
Goodwill		3,031	3,031
Intangible assets		135,880	141,337
Deposit for acquisition of land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		34,339	46,080
Other pledged deposits		18,000	20,028
Financial assets at fair value through profit or loss		500	500
Deferred tax assets		15,552	15,516
		<u>7,692,306</u>	<u>7,905,289</u>
<b>Current assets</b>			
Inventories		1,524,036	1,464,661
Trade and bills receivables, other receivables, deposits and prepayments	12	2,700,493	3,065,886
Prepaid lease payments		-	5,406
Pledged bank deposits		702,393	555,806
Other pledged deposits		20,000	26,709
Bank balances and cash		2,630,396	1,578,540
		<u>7,577,318</u>	<u>6,697,008</u>
<b>Current liabilities</b>			
Trade and bills payables, other payables and accrued charges	13	3,932,470	3,700,672
Dividend payables		98,383	-
Contract liabilities		58,299	68,439
Obligations under finance leases - due within one year		-	108,572
Lease liabilities		35,763	-
Tax payables		59,406	84,338
Borrowings - due within one year		2,923,821	1,625,638
Bank overdraft		99,930	96,644
Convertible bonds		804,841	830,894
		<u>8,012,913</u>	<u>6,515,197</u>
<b>Net current (liabilities) assets</b>		<u>(435,595)</u>	<u>181,811</u>
<b>Total assets less current liabilities</b>		<u>7,256,711</u>	<u>8,087,100</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2019 - Continued**

	Notes	<b>30 June 2019 RMB'000 (Unaudited)</b>	31 December 2018 RMB'000 (Audited)
<b>Non-current liabilities</b>			
Deferred tax liabilities		259,726	296,866
Deferred income in respect of government grants		70,894	77,453
Obligations under finance leases - due after one year		-	7,423
Lease liabilities		953	-
Borrowings - due after one year		604,823	1,583,316
		<u>936,396</u>	<u>1,965,058</u>
		<u>6,320,315</u>	<u>6,122,042</u>
<b>Capital and reserves</b>			
Share capital		15,346	15,346
Reserves		<u>6,304,969</u>	<u>6,106,696</u>
<b>Equity attributable to owners of the Company</b>		<u>6,320,315</u>	<u>6,122,042</u>

## NOTES TO FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 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 2019, the Group had net current liabilities of approximately RMB435,595,000. 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 investment properties and certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from the application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

#### *Application of new and amendments to HKFRSs and an interpretation*

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

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

## **2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease**

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

### **2.1.1 Key changes in accounting policies resulting from application of HKFRS 16**

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

#### Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

#### **As a lessee**

##### Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Except for those that are classified as investment properties and measured under fair value model and properties held for development and measured under cost model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes the amount of the initial measurement of the lease liability and lease payment made at or before commencement date for land use rights.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment properties as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

##### Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements, except for those that are classified and accounted for as investment properties.

##### Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

### Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised by the Group.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

### Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

### **Sales and leaseback transactions**

The Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale by the Group as a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceed as borrowing within the scope of HKFRS 9.

## *2.1.2 Transition and summary of effects arising from initial application of HKFRS 16*

### **Definition of a lease**

The Group has elected the practical expedient to apply HKFRS 16 contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

### **As a lessee**

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;and

- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied by the Group is 6.25%.

	<u>Note</u>	At 1 January 2019 RMB'000 (unaudited)
Operating lease commitments disclosed as at 31 December 2018		476
		400
Lease liabilities discounted at relevant incremental borrowing rate Add: Termination options reasonably certain not to be exercised		2,910
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		3,310
Add: Obligations under finance leases recognised at 31 December 2018	(b)	115,995
Lease liabilities as at 1 January 2019		<u>119,305</u>
Analysed as		
Current		110,119
Non-current		9,186
		<u>119,305</u>

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	<u>Notes</u>	Right-of-use assets RMB'000 (unaudited)
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		3,310
Reclassified from prepaid lease payments	(a)	228,592
Amounts included in property, plant and equipment under HKAS 17		
- Assets previously under finance leases	(b)	275,701
		<u>507,603</u>
By class:		
Leasehold lands		228,592
Plant and machinery		275,701
Motor vehicles		2,673
Leasehold land and buildings		637
		<u>507,603</u>

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB5,406,000 and RMB223,186,000, respectively were reclassified to right-of-use assets.

- (b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB275,701,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB108,572,000 and RMB7,423,000 to lease liabilities as current and non-current liabilities, respectively at 1 January 2019.
- (c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. However, no adjustment is made as the directors of the Company consider that the discounting effect is not significant to the condensed consolidated financial statements upon the application of HKFRS 16.

### Sales and leaseback transactions

In accordance with the transition provisions of HKFRS 16, sales and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the period, the Group entered into a sale and leaseback transaction in relation to certain plant and machinery and the transaction does not satisfy the requirements as a sale. Accordingly, the Group accounts for the transfer proceeds of RMB 275,000,000 as borrowing within the scope of HKFRS 9.

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018 RMB'000 (audited)	Adjustments RMB'000 (unaudited)	Carrying amounts under HKFRS 16 at 1 January 2019 RMB'000 (unaudited)
<b>Non-current Assets</b>				
Property, plant and equipment	(b)	6,494,202	(275,701)	6,218,501
Right-of-use assets		-	507,603	507,603
Prepaid lease payments	(a)	223,186	(223,186)	-
<b>Current Assets</b>				
Prepaid lease payments	(a)	5,406	(5,406)	-
<b>Current Liabilities</b>				
Lease liabilities		-	(110,119)	(110,119)
Obligations under finance leases	(b)	(108,572)	108,572	-
<b>Non-current liabilities</b>				
Lease liabilities		-	(9,186)	(9,186)
Obligations under finance leases	(b)	(7,423)	7,423	-

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

### 3. REVENUE AND SEGMENT INFORMATION

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 2019 (Unaudited)*

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>REVENUE</b>						
External sales	549,900	1,870,389	1,669,734	4,090,023	-	4,090,023
Inter-segment sales	747,411	218,739	-	966,150	(966,150)	-
Revenue from contracts with customers	<u>1,297,311</u>	<u>2,089,128</u>	<u>1,669,734</u>	<u>5,056,173</u>	<u>(966,150)</u>	<u>4,090,023</u>
<b>RESULT</b>						
Segment profit	<u>42,466</u>	<u>137,636</u>	<u>348,906</u>			529,008
Unallocated other income						36,259
Unallocated corporate expenses						(49,625)
Other gains and losses, net						7
Gain on fair value change of embedded derivative components of convertible bonds						52,396
Loss on fair value change on investment properties						(93,332)
Finance costs						<u>(137,957)</u>
Profit before taxation						<u>336,756</u>

#### *For the six months ended 30 June 2018 (Unaudited)*

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>REVENUE</b>						
External sales	779,077	1,608,723	1,404,914	3,792,714	-	3,792,714
Inter-segment sales	813,335	211,800	-	1,025,135	(1,025,135)	-
Revenue from contracts with customers	<u>1,592,412</u>	<u>1,820,523</u>	<u>1,404,914</u>	<u>4,817,849</u>	<u>(1,025,135)</u>	<u>3,792,714</u>
<b>RESULT</b>						
Segment profit	<u>293,031</u>	<u>86,839</u>	<u>287,809</u>			667,679
Unallocated other income						19,490
Unallocated corporate expenses						(49,031)
Other gains and losses, net						(22,918)
Loss on fair value change of embedded derivative components of convertible bonds						(280,621)
Loss on fair value change on investment properties						(59,275)
Finance costs						<u>(126,125)</u>
Profit before taxation						<u>149,199</u>

The performance of the Group is measured based on segment profit that is used by the chief operating decision maker (i.e. executive directors of the Company) (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, corporate expenses, other gains and losses, gain (loss) on fair value change of embedded derivative components of convertible bonds, loss on fair value change on investment properties, 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.

#### 4. OTHER INCOME

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Bank interest income	<b>17,913</b>	11,189
Sales of scrap materials	<b>4,018</b>	7,914
Government grants (Note)	<b>20,683</b>	26,527
Sundry income	<b>12,589</b>	4,409
	<b>55,203</b>	50,039

Note: Government grants include subsidies from the PRC government which are specifically for (i) the capital expenditure incurred for plant and machinery, which is recognised as income over the useful life of the related assets; (ii) the incentive and other subsidies for research and development activities, which are recognised upon meeting the attached conditions; and (iii) the incentive which has no specific conditions attached to the grants.

#### 5. OTHER GAINS AND LOSSES, NET

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Net foreign exchange gains (losses)	<b>16,335</b>	(17,228)
Loss on derivative financial instrument	<b>(1,640)</b>	(5,032)
Net losses on disposal of property, plant and equipment	<b>(13,526)</b>	(724)
Others	<b>(1,162)</b>	66
	<b>7</b>	(22,918)

6. FINANCE COSTS

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Interest on borrowings	<b>90,592</b>	76,044
Interest on convertible bonds	<b>46,091</b>	45,387
Interest on finance leases	-	6,980
Interest on lease liabilities	<b>1,992</b>	-
	<b>138,675</b>	128,411
Less: amounts capitalised in property, plant and equipment	<b>(718)</b>	(2,286)
	<b>137,957</b>	126,125

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 4.57% (six months ended 30 June 2018: 4.55%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Current tax		
Hong Kong Profits Tax	-	3,351
PRC enterprise income tax ("EIT")	<b>75,371</b>	68,678
PRC withholding tax	<b>2,642</b>	42,551
	<b>78,013</b>	114,580
Deferred tax	<b>(37,176)</b>	(56,558)
	<b>40,837</b>	58,022

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

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

8. PROFIT FOR THE PERIOD

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation		
Depreciation of right-of-use assets	<b>29,821</b>	-
Depreciation of property, plant and equipment	<b>270,528</b>	341,791
Less : amount included in research and development expenditures	<b>(15,660)</b>	(8,144)
Less: amount included in temporary production suspension costs in other expenses	<b>(862)</b>	(1,511)
Less: amount capitalised in inventories held at the end of the reporting period	<b>(74,156)</b>	(60,000)
	<b>209,671</b>	272,136
Amortisation		
- intangible assets (included in cost of sales)	<b>6,039</b>	7,058
- prepaid lease payments	-	3,239
	<b>6,039</b>	10,297
Staff costs, including directors' emoluments		
Salaries and other benefits costs	<b>404,942</b>	402,562
Retirement benefit costs	<b>44,812</b>	42,759
	<b>449,754</b>	445,321
Less : amount included in research and development expenditures	<b>(32,977)</b>	(5,521)
Less : amount included in temporary production suspension costs in other expenses	<b>(446)</b>	(324)
	<b>416,331</b>	439,476
Reversal of write-down of inventories, net (included in cost of sales) (Note)	<b>(1,381)</b>	(16,093)
Cost of inventories recognised as expenses	<b>2,368,989</b>	2,206,127

Note: Reversal of write-down of inventories amounting to RMB1,381,000 is recognised in profit or loss as certain products that has been previously written down were sold during the period ended 30 June 2019.



## 11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

The Group incurred approximately RMB196,018,000 (six months ended 30 June 2018: RMB128,988,000) 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 current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB14,244,000 (six months ended 30 June 2018: RMB1,064,000) for cash proceeds of RMB718,000 (six months ended 30 June 2018: RMB340,000), resulting in a loss on disposal of RMB13,526,000 (six months ended 30 June 2018: RMB724,000).

During the current interim period, the Group entered into a new lease agreement for the use of the land for 50 years. On commencement of the lease, the Group recognised RMB8,680,000 of right-of-use asset.

The fair value of the Group's investment properties as at 30 June 2019 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 sale transaction of land with similar size available in the relevant markets and accordingly the valuation of the leasehold land 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, which would expose the Group to fair value measurement risks.

For the six months ended 30 June 2019, the fair value loss of the Chengdu Lands determined by the directors of the Company by reference to a valuation performed by Ravia was approximately RMB93,332,000 (six months ended 30 June 2018: RMB59,275,000).

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

	<b>30 June 2019</b>	31 December 2018
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Trade receivables	<b>1,147,429</b>	1,134,749
Bills receivables	<b>1,346,728</b>	1,854,888
Value-added tax receivables	<b>35,215</b>	27,141
Other receivables, deposits and prepayments	<b>213,003</b>	81,037
Less: allowance for credit losses		
- trade	<b>(31,520)</b>	(25,518)
- non-trade	<b>(10,362)</b>	(6,411)
	<b><u>2,700,493</u></b>	<b><u>3,065,886</u></b>

The Group normally allows a credit period of 60 days on average (2018: 60 days on average) 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 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 credit losses, at the end of the reporting period which approximate the respective revenue recognition dates:

	<b>30 June 2019</b>	31 December 2018
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Trade receivables		
0 to 30 days	<b>328,745</b>	392,207
31 to 60 days	<b>469,206</b>	460,665
61 to 90 days	<b>172,642</b>	176,782
91 to 120 days	<b>117,955</b>	46,778
121 to 180 days	<b>27,361</b>	32,799
	<b><u>1,115,909</u></b>	<b><u>1,109,231</u></b>
Bills receivables		
0 to 30 days	<b>257,650</b>	427,028
31 to 60 days	<b>250,087</b>	316,823
61 to 90 days	<b>266,127</b>	325,024
91 to 120 days	<b>236,643</b>	302,806
121 to 180 days	<b>317,716</b>	460,105
Over 180 days	<b>18,505</b>	23,102
	<b><u>1,346,728</u></b>	<b><u>1,854,888</u></b>

### 13. TRADE AND BILLS PAYABLES, OTHER 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:

	<b>30 June 2019</b>	31 December 2018
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Trade payables		
0 to 90 days	<b>817,838</b>	839,253
91 to 180 days	<b>357,198</b>	440,247
Over 180 days	<b>62,800</b>	27,637
	<b>1,237,836</b>	1,307,137
Bills payables		
0 to 90 days	<b>765,672</b>	563,778
91 to 180 days	<b>580,026</b>	410,836
	<b>1,345,698</b>	974,614
Other payables and accruals	<b>943,964</b>	1,041,738
Deferred income in respect of government grants	<b>123,618</b>	128,302
Payables in respect of the acquisition of property, plant and equipment	<b>352,248</b>	326,334
	<b>4,003,364</b>	3,778,125
Less : Amount due within one year shown under current liabilities	<b>(3,932,470)</b>	(3,700,672)
Amount shown under non-current liabilities	<b>70,894</b>	77,453

Included in the trade payables and other payables and payables in respect of the acquisition of property, plant and equipment above are RMB121,866,000, RMB16,910,000 and RMB87,810,000 (31 December 2018: RMB26,185,000, RMB413,425,000 and RMB82,956,000), 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 (Note 12).

### 14. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of RMB474,520,000 (31 December 2018: RMB633,246,000) 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. In addition to the other pledged 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:

	<b>30 June 2019</b>	31 December 2018
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Audited)
Property, plant and equipment	<b>560,812</b>	576,407
Land use rights	<b>185,452</b>	44,491
Bills receivables	<b>63,326</b>	373,657
Pledged bank deposits	<b>702,393</b>	555,806

- b. At 30 June 2019, the carrying value of right-of-use assets and property, plant and equipment included an amount of RMB106,816,000 and RMB326,792,000 (31 December 2018: included in property, plant and equipment of RMB275,701,000) in respect of assets held under sales and leaseback arrangement.

## 16. 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:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
	<b>RMB'000 (Unaudited)</b>	RMB'000 (Unaudited)
Fees	<b>314</b>	381
Salaries and other benefits	<b>8,338</b>	7,894
Retirement benefits scheme contribution	<b>60</b>	61
	<b>8,712</b>	8,336

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business Review for the first half of 2019**

In the first half of 2019, as affected by the Sino-US trade friction, geopolitical risks, continual increase in debts and other factors, the global economic growth slowed down. In light of the complicated external environment, China's economy is still stably maintained. In the first half of the year, China's GDP grew by 6.3% year-on-year, which remained at a reasonable level. China's economy is still promising in the long run and is gradually transforming into a high-quality development.

In the first half of the year, the General Office of the State Council issued the Key Tasks for Deepening the Reform of the Medical and Healthcare System in 2019, including solid promotion of the national organisation of centralised drug procurement and use of pilots; adoption of strengthening reserves, centralised purchasing, designated production and other ways to guarantee supply of drugs that are clinically necessary, easy to be in shortage, and have few or no alternatives; improvement of the dynamic adjustment mechanism of the National Reimbursement Drug List, etc. In particular, the scope of centralised procurement of drugs for 4+7 cities is expected to further expand nationwide, indicating that the concentration of pharmaceutical industry is expected to increase significantly and merger and acquisition, integration, innovation and upgrading will accelerate in China's generic drug industry.

During the period under review, the Group's revenue amounted to RMB4,090.0 million, representing an increase of approximately 7.8% as compared with the same period last year. EBITDA was approximately RMB781.1 million, representing an increase of 24.5%. Profit attributable to owners of the Company was RMB295.9 million, representing an increase of 224.6% as compared with the same period last year. Earnings per share amounted to RMB18.05 cents. The Board does not propose an interim dividend for the six months ended 30 June 2019.

Segmental sales of intermediate products, bulk medicine and finished products for the six months ended 30 June 2019 amounted to RMB549.9 million, RMB1,870.4 million and RMB1,669.7 million, representing a decrease of 29.4%, an increase of 16.3% and 18.9% as compared with the same period in preceding year, respectively. Segmental profit of intermediate products, bulk medicine and finished products for the current period amounted to RMB42.5 million, RMB137.6 million and RMB348.9 million, respectively.

#### *Finished Products Business*

During the period, the Group's insulin series products recorded a total revenue of RMB372.3 million, representing an increase of 32.6% over the same period last year. In particular, a total of 7,050,200 vials of recombinant human insulin injections (trade name: "United Laboratories USLIN") were sold during the period, up by 14.2% as compared to the same period last year and recording a sales revenue of RMB 287.4 million. In addition, the sales performance of insulin glargine injection (trade name: United Laboratories USLEN) was particularly ideal with a sales volume of 611,290 vials, representing an increase of 188.9% as compared with the same period in preceding year, and a sales revenue of RMB84.9 million. Up to now, insulin glargine products of the Group have won the tender through bidding in 22 provinces across the PRC.

The Group's other finished products also maintained steady growth. During the period, the sales revenue from the Piperacillin Sodium and Tazobactam Sodium for Injection (trade name: 聯邦他唑仙) amounted to RMB352.7 million, representing an increase of 42.4% as compared with last year, and the sales revenue from the amoxicillin capsules (trade name: 聯邦阿莫仙) amounted to RMB253.9 million, representing an increase of 12.0% as compared with same period last year. In addition, memantine hydrochloride series products, a drug to treat Alzheimer's disease, (trade name: 邦得清) recorded a sales revenue of RMB30.8 million during the period, representing an increase of 76.0% as compared with same period last year.

### *Intermediate Products and Bulk Medicine Business*

During the period, the price of 6-APA was lowered due to the recovery of market supply capacity. In order to alleviate the impact of the price reduction of 6-APA, the Group proactively adjusted its sales strategy during the period to increase the external sales of semi-synthetic penicillin bulk medicine, and its external sales increased by 16.7% year-on-year. In respect of export, in the face of the challenges in the international pharmaceutical bulk medicine market, the Group continued to optimise its product mix, deepen its development of global key pharmaceutical markets, and adhered to the international development, resulting in steady growth in export sales. During the period, the Group's overseas export recorded a sales revenue of RMB1,190.6 million, representing an increase of 11.1% over the same period last year. The Group continued to occupy a leading position in the export market of intermediate products and bulk medicine, and was further listed as one of the “China Top Ten Member Exporters of APIs” by China Chamber of Commerce for Import & Export of Medicines & Health Products.

### *Research and Development Progress*

The Group has been committed to conduct research and development on a continual basis. We currently have 32 new products under development. The Group mainly focuses on the research and development of diabetes drugs. In particular, the Group has applied for production of insulin aspart injection and insulin aspart 30 injection; launched clinical trial for liraglutide injection; and applied for clinical trial for insulin aspart 50 injection and insulin degludec injection. In addition, the Group is conducting pre-clinical studies of insulin degludec-insulin aspart mixed injection, insulin degludec-liraglutide mixed injection and semaglutide injection. Based on the increasingly perfect biological R&D platform, the Group will continue to expand its development of relevant products in the fields of internal secretion and autoimmune disease. With regard to the research and development of chemical pharmaceuticals, the Group remains focus on series of diabetic drugs, anti-HBV drugs and eye drops, and will continue to expand into new drugs.

### *Sales Team and Marketing*

In order to effectively improve the management of grassroots diabetes prevention and treatment and promote the implementation of the grading diagnosis and treatment system, during the period, the Group emphasized on support for the “Double-Excellence Action - Grassroots Diabetes Prevention and Treatment Management Training Course” project. Up to now, the project has successfully carried out for fourteen sessions nationwide for more than 5,000 grassroots medical personnel. At the same time, the Group has formulated a county expansion plan for the sales of the preparation products and will gradually implement it. In the future, the Group will accelerate the promotion of terminal coverage and maintain a balanced and healthy development of various markets. The Group will be committed to supporting professional sales and promotion with an academic system, establishing a good corporate brand image and continuing to provide quality products and services to the pharmaceutical market.

### *Optimisation of Financial Structure*

With regard to finance, as at 30 June 2019, the Group's net gearing ratio was further decreased to 38.10%. The Group will continue to optimise its financial structure and improve its liquidity, and actively seek diversified refinancing channels to cope with future debts to ensure adequate working capital.

### **Liquidity and Financial Resources**

As at 30 June 2019, the Group had pledged bank deposits, cash and bank balances amounted to RMB3,332.8 million (31 December 2018: RMB2,134.3 million).

As at 30 June 2019, the Group had bank overdraft of approximately RMB99.9 million (31 December 2018: 96.6 million) and interest-bearing borrowings of approximately RMB3,528.6 million (31 December 2018: RMB3,209.0 million), which were denominated in US dollars, Euro, Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of approximately RMB2,486.7 million (31 December 2018: RMB2,209.9 million) are fixed rates loans while the remaining balance of approximately RMB1,041.9 million (31 December 2018: RMB999.0 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 2019, current assets of the Group amounted to approximately RMB7,577.3 million (31 December 2018: RMB6,697.0 million). The Group's current ratio was approximately 0.95 as at 30 June 2019 as compared with 1.03 as at 31 December 2018. As at 30 June 2019, the Group's net gearing ratio (calculated as total bank overdraft, borrowings, bills payables, obligations under finance leases and convertible bonds less cash and bank balances, pledged bank deposits and other pledged deposits to total equity) decreased from 49.75% as at 31 December 2018 to 38.10%.

### **Currency Exchange Exposures**

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

### **Contingent Liabilities**

As at 30 June 2019 and 31 December 2018, the Group had no material contingent liabilities.

### **Outlook**

Looking forward, the global economy still faces the risks arise from international trade frictions and global fiscal and monetary policies, and China's economic structural transformation is still in process. In the next decade, the aging process will accelerate resulting in a surge in demand in the industry, and China's pharmaceutical industry will be subject to transformation. It is imperative for the country to deepen medical reform to further promote the bulky procurement of drugs. With the further release of effects from policies on stricter environmental protection, supply-side reform, consistency evaluation and bulky procurement, it is believed that the structure of the pharmaceutical industry will be further optimised into a high-quality development stage.

The Group will continue to take insulin series as its core strategic products and proactively promote the continued sales growth of this series of products to increase the market share. The Group will continue to improve its management system, continuously enhance its academic professionalism, and closely monitor the policies in the pharmaceutical market, to make advance preparation to respond to industrial changes and achieve comprehensive, balanced and sustainable development. At the same time, the Group will further optimise its product mix, improve the profitability of the intermediate products and bulk medicine business, and adhere to the international development to deepen its development in global key pharmaceutical markets.

In the second half of 2019, the Group will continue to vigorously accelerate the cultivation of innovation and scientific research capabilities, to enhance the competitiveness of its products and capitalise on the industrial transformation to 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 2019, the Group had approximately 12,600 (31 December 2018: 12,000) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

### **Event after the Reporting Period**

On 7 August 2019, the Group and Evergrande Real Estate Group (Chengdu) Limited, an independent third party, entered into an investment and cooperation agreement in respect to the equity interest of United Laboratories (Chengdu) Limited, an indirect wholly-owned subsidiary of the Company. Details are set out in the Company's announcements dated 9 and 14 August 2019.

## **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 2019.

## **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 summarised 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 2019, 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 the non-executive directors should attend general meetings of the Company. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 4 June 2019 due to their other important engagements.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the 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 2019.

## **AUDIT COMMITTEE**

The Audit Committee comprises of three independent non-executive directors, namely Mr. Chong Peng Oon, 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 2019. 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.

## **APPRECIATION**

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support during the first half of 2019, as well as all staff for their persistent efforts. I hope we can join hands and create a better future together.

On behalf of the Board

**Tsoi Hoi Shan**  
*Chairman*

Hong Kong, 23 August 2019

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, Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.