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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 2020

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Increase (decrease) %
	2020 RMB'000	2019 RMB'000	
Revenue	4,304,591	4,090,023	5.2%
EBITDA	755,797	781,101	(3.2%)
Profit before taxation	325,896	336,756	(3.2%)
Profit for the period attributable to the owners of the Company	202,836	295,919	(31.5%)
Earnings per share	RMB cents	RMB cents	
- Basic	11.97	18.05	(33.7%)
- Diluted	11.97	18.05	(33.7%)

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 2020 together with the comparative figures for the corresponding period in 2019 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Revenue	3	4,304,591	4,090,023
Cost of sales		<u>(2,506,586)</u>	<u>(2,368,989)</u>
Gross profit		1,798,005	1,721,034
Other income	4	105,704	55,203
Other gains and losses, net	5	(7,203)	7
Selling and distribution expenses		(711,254)	(762,603)
Administrative expenses		(327,382)	(360,226)
Research and development expenditures		(162,759)	(118,560)
Other expenses		(16,523)	(9,253)
Impairment loss recognised for expected credit loss, net		(1,988)	(9,953)
Loss on fair value change on investment properties		-	(93,332)
(Loss) gain on fair value change of embedded derivative components of convertible bonds		(223,657)	52,396
Finance costs	6	<u>(127,047)</u>	<u>(137,957)</u>
Profit before taxation		325,896	336,756
Tax expense	7	<u>(123,060)</u>	<u>(40,837)</u>
Profit for the period attributable to owners of the Company	8	<u>202,836</u>	<u>295,919</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of a foreign operation		<u>1,137</u>	<u>737</u>
Total comprehensive income for the period attributable to owners of the Company		<u><u>203,973</u></u>	<u><u>296,656</u></u>
Earnings per share	9	RMB cents	RMB cents
- Basic		11.97	18.05
- Diluted		<u>11.97</u>	<u>18.05</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	6,154,197	6,197,479
Right-of-use assets		228,665	232,637
Goodwill		3,031	3,031
Intangible assets		131,002	137,177
Deposit for acquisition of land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		63,380	56,427
Other pledged deposits		24,000	24,000
Consideration receivables	12	227,536	276,363
Financial assets at fair value through profit or loss		500	500
Deferred tax assets		52,743	51,289
		<u>6,892,316</u>	<u>6,986,165</u>
Current assets			
Inventories		1,539,560	1,575,235
Trade and bills receivables, other receivables, deposits and prepayments	12	3,107,274	3,241,069
Other pledged deposits		-	7,423
Pledged bank deposits		516,350	724,981
Bank balances and cash		3,075,680	3,164,819
		<u>8,238,864</u>	<u>8,713,527</u>
Current liabilities			
Trade and bills payables, other payables and accrued charges	13	3,504,806	3,656,456
Dividend payables		128,140	-
Contract liabilities		65,515	59,733
Lease liabilities		953	1,646
Tax payables		158,203	167,641
Borrowings - due within one year		843,083	2,573,398
		<u>4,700,700</u>	<u>6,458,874</u>
Net current assets		<u>3,538,164</u>	<u>2,254,653</u>
Total assets less current liabilities		<u>10,430,480</u>	<u>9,240,818</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020**

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		102,494	77,803
Deferred income in respect of government grants	13	63,401	68,085
Derivative financial instrument		5,661	-
Lease liabilities		-	117
Borrowings - due after one year		2,237,751	1,414,591
Convertible bonds		181,835	1,008,433
		<u>2,591,142</u>	<u>2,569,029</u>
		<u>7,839,338</u>	<u>6,671,789</u>
Capital and reserves			
Share capital		16,927	15,360
Reserves		<u>7,822,411</u>	<u>6,656,429</u>
Equity attributable to owners of the Company		<u>7,839,338</u>	<u>6,671,789</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.

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 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 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the 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 of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3. REVENUE AND SEGMENT INFORMATION

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.

For the six months ended 30 June 2020 (Unaudited)

	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	691,598	1,862,228	1,750,765	4,304,591	-	4,304,591
Inter-segment sales	623,487	246,883	-	870,370	(870,370)	-
Segment revenue	<u>1,315,085</u>	<u>2,109,111</u>	<u>1,750,765</u>	<u>5,174,961</u>	<u>(870,370)</u>	<u>4,304,591</u>
RESULT						
Segment profit	<u>92,334</u>	<u>166,052</u>	<u>417,448</u>			675,834
Unallocated other income						99,314
Unallocated corporate expenses						(52,240)
Other gains and losses, net						(46,308)
Loss on fair value change of embedded derivative components of convertible bonds						(223,657)
Finance costs						<u>(127,047)</u>
Profit before taxation						<u>325,896</u>

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
REVENUE						
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)	-
Segment revenue	<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>
RESULT						
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>

4. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	20,231	17,913
Imputed interest income from consideration receivables	37,046	-
Sales of scrap materials	3,765	4,018
Subsidy income (note)	35,598	20,683
Sundry income	9,064	12,589
	105,704	55,203

Note: Subsidy income includes government grants 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 incentives and other subsidies for research and development activities, which are recognised upon meeting the attached conditions; and (iii) the incentives which have no specific conditions attached to the grants.

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange (losses) gains	(40,672)	16,335
Net losses on derivative financial instruments (note)	(3,590)	(1,640)
Net gains (losses) on disposal of property, plant and equipment	37,655	(13,526)
Others	(596)	(1,162)
	(7,203)	7

Note: During the periods ended 30 June 2020 and 2019, the Group entered into several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There was one outstanding derivative financial instrument held by the Group as at 30 June 2020 (31 December 2019: Nil).

6. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings	85,050	90,592
Interest on convertible bonds	43,285	46,091
Interest on lease liabilities	45	1,992
	128,380	138,675
Less: amounts capitalised in property, plant and equipment	(1,333)	(718)
	127,047	137,957

Borrowing costs capitalised during the period arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 3.81% (six months ended 30 June 2019: 4.57%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax ("EIT")	94,339	75,371
PRC withholding tax	5,484	2,642
	99,823	78,013
Deferred tax expenses (credit)	23,237	(37,176)
	123,060	40,837

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

PRC EIT is calculated at the applicable rates of tax prevailing in the areas in which the Group operates, based on the existing legislation, interpretations and practices.

During the six months ended 30 June 2020, the taxation charge for current Hong Kong Profits Tax and PRC EIT are calculated after taking into account the utilisation of unused tax losses amounting to approximately RMB4,026,000 (six months ended 30 June 2019: RMB2,335,000) and nil (six months ended 30 June 2019: nil), respectively for which no deferred tax assets were previously recognised.

During the six months ended 30 June 2020, the deferred tax expense amounting to RMB23,237,000 (six months ended 30 June 2019: deferred tax credit of RMB37,176,000) was mainly arising from withholding tax on undistributed profits of the PRC subsidiaries (six months ended 30 June 2019: the net release of withholding tax and the land appreciation tax, PRC EIT and other taxes resulting from the decrease in fair value of the investment properties of approximately RMB93,332,000).

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation and amortisation		
Depreciation of right-of-use assets	3,972	29,821
Depreciation of property, plant and equipment	292,707	275,528
Less : amount included in research and development expenditures	(30,015)	(15,660)
Less: amount included in temporary production suspension costs in other expenses	(2,924)	(862)
	263,740	288,827
Amortisation of intangible assets (included in cost of sales)	6,175	6,039
	269,915	294,866
Staff costs, including directors' emoluments		
Salaries and other benefits costs	405,393	404,942
Retirement benefit costs	31,470	44,812
	436,863	449,754
Less : amount included in research and development expenditures	(32,176)	(32,977)
Less : amount included in temporary production suspension costs in other expenses	(4,948)	(446)
	399,739	416,331
Reversal of write-down of inventories, net (included in cost of sales)	(5,747)	(1,381)
Cost of inventories recognised as expenses	2,506,586	2,368,989

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share, being profit for the period attributable to the owners of the Company	<u>202,836</u>	<u>295,919</u>
	Six months ended 30 June	
	2020	2019
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,694,391</u>	<u>1,639,721</u>

The computation of diluted earnings per share for the period ended 30 June 2020 does not assume the conversion of the Company's outstanding convertible bonds because their exercise would result in an increase in earnings per share.

The computation of diluted earnings per share for the period ended 30 June 2019 does not assume the conversion of the Company's outstanding convertible bonds because their exercise price of the convertible bonds was higher than the average market price for shares for the period ended 30 June 2019.

10. DIVIDENDS

During the current interim period, a final dividend of RMB7 cents per share in respect of the year ended 31 December 2019 (2019: RMB6 cents per share in respect of the year ended 31 December 2018) was declared to be paid to the owners of the Company. The aggregate amount of the 2019 final dividend declared in the current interim period amounted to RMB128,140,000 (2019: RMB98,383,000). The 2019 final dividend was paid on 23 July 2020.

The board of directors does not recommend the payments of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group incurred approximately RMB255,185,000 (six months ended 30 June 2019: RMB196,018,000) on property, plant and equipment to expand and upgrade certain production plants and office buildings primarily in Zhuhai and Inner Mongolia, the PRC, during the six months ended 30 June 2020.

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB7,093,000 (six months ended 30 June 2019: RMB14,244,000) for cash proceeds of RMB44,748,000 (six months ended 30 June 2019: RMB718,000), resulting in a gain on disposal of RMB37,655,000 (six months ended 30 June 2019: loss on disposal of RMB13,526,000).

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	1,343,693	1,241,536
Bills receivables	1,134,495	1,354,984
Consideration receivables	713,843	773,693
Value-added tax receivables	63,053	59,045
Other receivables, deposits and prepayments	121,298	127,758
Less: Allowance for credit losses		
- trade	(25,155)	(23,167)
- non-trade	(16,417)	(16,417)
	<u>3,334,810</u>	<u>3,517,432</u>
Less: Amount shown under current assets	<u>(3,107,274)</u>	<u>(3,241,069)</u>
Amount shown under non-current assets	<u><u>227,536</u></u>	<u><u>276,363</u></u>

The Group normally allows a credit period of 60 days on average (2019: 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, net of allowance for credit losses, presented based on dates of goods receipt, which is the same as revenue recognition date, and an analysis of bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date, at the end of the reporting period:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables		
0 to 30 days	663,435	697,533
31 to 60 days	334,320	306,184
61 to 90 days	200,046	127,859
91 to 120 days	95,560	67,030
121 to 180 days	25,177	19,763
	<u>1,318,538</u>	<u>1,218,369</u>
Bills receivables		
0 to 30 days	197,421	345,572
31 to 60 days	179,664	188,439
61 to 90 days	188,446	216,072
91 to 120 days	201,841	209,528
121 to 180 days	365,443	363,268
Over 180 days	1,680	32,105
	<u>1,134,495</u>	<u>1,354,984</u>

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:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables		
0 to 90 days	980,530	726,116
91 to 180 days	168,223	172,467
Over 180 days	31,197	30,508
	<u>1,179,950</u>	<u>929,091</u>
Bills payables		
0 to 90 days	676,246	797,167
91 to 180 days	472,178	543,136
Over 180 days	-	13,773
	<u>1,148,424</u>	<u>1,354,076</u>
Other payables and accruals	826,076	936,376
Deferred income in respect of government grants	120,660	125,934
Payables in respect of the acquisition of property, plant and equipment	293,097	379,064
	<u>3,568,207</u>	<u>3,724,541</u>
Less : Amount due within one year shown under current liabilities	<u>(3,504,806)</u>	<u>(3,656,456)</u>
Amount shown under non-current liabilities	<u>63,401</u>	<u>68,085</u>

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB95,158,000, RMB78,449,000 and RMB23,535,000 (31 December 2019: RMB153,229,000, RMB38,597,000 and RMB28,872,000), 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 RMB369,040,000 (31 December 2019: RMB369,170,000) 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

Other than plant and machinery with carrying amount of RMB440,636,000 (31 December 2019: RMB 843,228,000) pledged to financing institutions, 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 2020	31 December 2019
	RMB'000 (Unaudited)	RMB'000 (Audited)
Property, plant and equipment	529,511	545,169
Right-of-use assets	180,236	183,013
Bills receivables	28,451	61,793
Pledged bank deposits	516,350	724,981

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:

	Six months ended 30 June	
	2020	2019
	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Fees	328	314
Salaries and other benefits	8,689	8,338
Retirement benefits scheme contribution	16	60
	9,033	8,712

17. EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to the end of reporting period, the Company received notices from bondholders for the conversion of bonds with principal amount of USD16,500,000 (equivalent to approximately RMB115,271,000) into 27,373,928 ordinary shares.
- (b) Subsequent to the end of reporting period, a redemption notice has been made to the bondholders that the Company will redeem all of the outstanding convertible bonds on 17 September 2020 at their principal amount of USD400,000 (equivalent to approximately RMB2,857,000) as at, together with interest accrued but unpaid to, if any, the date of redemption.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2020, tensions between China and the US were mounting and the COVID-19 pandemic was raging around the world, making the global economic trend unpredictable. The impact of the epidemic on society and economy extended to all walks of life, including the global supply chain which was also under greater pressure. Facing the severe test brought by the COVID-19 pandemic and in the complex and volatile domestic and foreign circumstances, China had still made steady progress with the epidemic prevention and control and economic recovery. In the first half of 2020, China's economy showed a downward trend followed by an upward trend, with GDP amounting to RMB45,661.4 billion, representing a year-on-year decrease of 1.6%.

In the first half of the year, the pharmaceutical industry, as the mainstay in the fight against the epidemic, was widely concerned by the society. The overall growth of the industry, nevertheless, slowed down due to limited diagnosis and treatment services at medical institutions as well as the suffered pharmaceutical production and consumption activities during the epidemic. In terms of policies, the reform of national medical and health system was continuously furthered, with relevant measures being introduced in full swing, including further optimisation of the national essential drug list, promotion of the injection consistency evaluation, procuring of the transformation of generic drugs to high-end drugs, and strengthening of drug supervision. With the deepening of the reform, the concentration of pharmaceutical industry is expected to be further increased, so does to the industry structure. In the long run, it will be more conducive to the healthy development of leading enterprises in the industry.

As an enterprise that has been proactively performing its social responsibilities, at the beginning of the year, the Group overcame difficulties and organised efficient and orderly resumption of work with the health and safety of employees guaranteed to ensure a stable supply of medicines. In the first half of 2020, the Group donated funds of over RMB4 million and epidemic prevention materials worth about RMB1 million to support the epidemic prevention and control. The Group will continue to contribute to the containment of the COVID-19 pandemic around the world while maintaining stable operation of the pharmaceutical supply chain.

During the period under review, the Group's revenue amounted to RMB4,304.6 million, representing an increase of approximately 5.2% as compared with the same period last year. EBITDA was approximately RMB755.8 million, representing a decrease of 3.2%. Profit attributable to owners of the Company was RMB202.8 million, representing a decrease of 31.5% as compared with the same period last year. Earnings per share for the period amounted to RMB11.97 cents. The decrease in net profit is mainly due to loss on fair value change of embedded derivative components of convertible bonds of approximately RMB223.7 million during the period. Excluding the fair value changes arising from convertible bonds and investment properties, the operating profit from core business during current period records an increase as compared to same period last year.

The Board does not propose an interim dividend for the six months ended 30 June 2020.

Segmental sales of intermediate products, bulk medicine and finished products for the six months ended 30 June 2020 amounted to RMB691.6 million, RMB1,862.2 million and RMB1,750.8 million, representing an increase of 25.8%, a decrease of 0.4% and an increase of 4.9% respectively 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 RMB92.3 million, RMB166.1 million and RMB417.4 million, respectively.

Finished Products Business

During the COVID-19 pandemic, the National Healthcare Security Administration promulgated and implemented a “long-term prescription” policy to support medical institutions to reasonably increase the dosage of single prescription according to the actual situation of patients and reduce the number of patients’ visits and dispensing; for patients with chronic diseases, it supports a relaxation of prescription dosage to three months. The Group closely monitors and ties in with the national medicine policies by organising resumption of work and production to ensure a stable supply of pharmaceutical products. At the same time, it developed an online application “Diabetes Pharmacy Map” to facilitate the purchase of drugs for patients, satisfying their drug needs.

During the period, the Group’s insulin series products recorded a total revenue of RMB563.2 million, representing an increase of 51.3% over the same period last year. In particular, a total of 9,666,000 vials of recombinant human insulin injections (trade name: “United Laboratories USLIN”) were sold during the period, up by 37.1% as compared to the same period last year and recording a sales revenue of RMB393.2 million. The sales performance of insulin glargine injection (trade name: “United Laboratories USLEN”) was ideal with a sales volume of 1,234,000 vials, representing an increase of 101.9% as compared with the same period in preceding year, and a sales revenue of RMB170.0 million. Up to now, insulin glargine products of the Group have won the tender through bidding in 27 provinces across the PRC.

For other finished products, memantine hydrochloride series, a drug to treat Alzheimer’s disease (trade name: “邦得清”) recorded a sales revenue of RMB59.7 million during the period, representing an increase of 93.8% as compared with same period last year. Vitamin C effervescent tablets series recorded a sales revenue of RMB34.9 million during the period, representing an increase of 128.1% as compared with same period last year. Since diagnosis and treatment services at medical institutions were limited due to the impact of the COVID-19, the sales revenue from the piperacillin sodium and tazobactam sodium for injection (trade name: “聯邦他啞仙”) amounted to RMB262.7 million, representing a decrease of 25.5% as compared with same period last year. The sales revenue from amoxicillin capsules (trade name: “聯邦阿莫仙”) amounted to RMB229.1 million, representing a decrease of 9.8% as compared with same period last year. During the period, the overall revenue from finished products business increased by 4.9% as compared with same period last year.

Intermediate Products and Bulk Medicine Business

During the period, due to the ease off of market competition and the demand driven by the COVID-19 pandemic, market prices of the intermediate product 6-APA gradually rebounded. During the period, the Group’s external sales volume of 6-APA recorded a year-on-year increase of 52.4%. In addition, the sales volume of bulk medicine of oral clavulanate potassium series also recorded a year-on-year increase. Given the tight supply of bulk medicine in the global market caused by the COVID-19 pandemic, the Group has organised the resumption of work and production in a steady and orderly manner, making contributions to maintain stable operation of the international bulk medicine supply chain. During the period, the Group’s overseas export recorded a sales revenue of RMB1,388.2 million, representing an increase of 16.6% over the same period last year. During the period, the overall revenue from intermediate products and bulk medicine business increased by 5.5% as compared with same period last year.

Research and Development Progress

During the period, various drug research and development of the Group progressed well. We currently have 29 new products under development. The Group mainly focuses on the research and development of diabetes drugs. In particular, the Group has applied for production permits of insulin aspart injection and insulin aspart 30 injection, with smooth progress having been made. The Group launched three phases clinical trial for liraglutide injection and was prepared for the clinical trial of insulin degludec 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’s new class 1 drug WXSH0150 which is for the treatment of moderate to severe active rheumatoid arthritis was approved for clinical use during the period. In the future, the Group will continue to expand into new drugs.

Optimisation of Financial Structure

With regard to finance, the Group steps up its efforts to reduce finance costs and continuously optimise its financial structure to improve its liquidity. In November 2019, the Company entered into a syndicated loan agreement for the dual currency 3-year loan facilities in the amount equivalent to up to HK\$2 billion. The loan facilities were mainly used for repayment of bank loans and replenishment of the Group's liquidity. The amounts were withdrawn in full in April 2020. During the period, convertible bonds with principle amount of USD104,051,000 (equivalent to approximately RMB736,337,000) have been converted into ordinary shares of the Company by the bondholders thus broadening the capital base of the Company. During the period, the Group has fully repaid the RMB1,100,000,000 corporate bonds issued in China. As at 30 June 2020, the Group's net gearing ratio was further improved and decreased to 10.14%.

Liquidity and Financial Resources

As at 30 June 2020, the Group had pledged bank deposits, cash and bank balances amounted to RMB3,592.0 million (31 December 2019: RMB3,889.8 million).

As at 30 June 2020, the Group had interest-bearing borrowings of approximately RMB3,080.8 million (31 December 2019: RMB3,988.0 million), which were denominated in Euro, Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of approximately RMB528.5 million (31 December 2019: RMB2,057.2 million) are fixed rates loans while the remaining balance of approximately RMB2,552.3 million (31 December 2019: RMB1,930.8 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 2020, current assets of the Group amounted to approximately RMB8,238.9 million (31 December 2019: RMB8,713.5 million). Net current assets increased from RMB2,254.7 million at 31 December 2019 to RMB3,538.2 million as at 30 June 2020. The Group's current ratio was approximately 1.75 as at 30 June 2020 as compared with 1.35 as at 31 December 2019. As at 30 June 2020, the Group's net gearing ratio (calculated as total bank borrowings, bills payables and convertible bonds less cash and bank balances, pledged bank deposits and other pledged deposits to total equity) decreased from 36.41% as at 31 December 2019 to 10.14%.

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, Hong Kong dollars and United States dollars. 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 2020 and 31 December 2019, the Group had no material contingent liabilities.

Outlook

Looking forward, Sino-U.S. relations will continue to be an important uncertainty in the global economy. Despite gradual easing of the novel coronavirus pneumonia outbreak in China and signs for continued recovery of the economy, the negative impact of the epidemic on various industries is expected to protract in the second half of 2020. Meantime, the General Office of the State Council issued the Key Tasks for Deepening the Reform of the Medical and Healthcare System in the Second Half of 2020, which include strengthening the construction of public healthcare system, further implementing the "Healthy China" initiatives, deepening the comprehensive reform of public hospitals and the reform of medical security system, and improving drug supply guarantee system. It is indicated that the reform of medical care, medical insurance and pharmaceutical industry will be further propelled in the second half of the year, pushing the industry into a high-quality development stage.

In the future, 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 further increase the market share. Meantime, the Group will carry out the transformation of developing the business of finished products via core products. The Group continues to improve its management system, enhance the construction of academic platforms to achieve comprehensive, balanced and sustainable development of product, market and team. As centralised procurement of drugs gradually run into a normal and integration of the industry structure accelerated, the Group will continue to monitor the development of pharmaceutical policies and participate in a timely manner. At the same time, it will increase its development efforts on and coverage over the out-of-hospital market, in cooperation with the ongoing county-level expansion plan of the finished product sales team. The Group will also actively promote the research projects on diabetes drugs and new drugs to further enrich its finished product reserve. Currently, the market prices of intermediate products and bulk medicine have gradually stabilised, which are expected to remain at a relatively ideal level in the second half of the year. In the future, following the industrial trend of integration among intermediate product, bulk medicine and finished products, the Group will keep on optimising its product offerings and capitalise on its industrialised operation strength resulting from vertical integration.

The Group will keep an eye on relevant national pharmaceutical policies, seize market opportunities, improve its comprehensive competitiveness, accelerate the development of scientific research and innovation capabilities, 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 2020, the Group had approximately 13,000 (31 December 2019: 13,000) 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.

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 2020.

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 2020, 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 29 June 2020 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 2020.

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 2020. 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 2020, 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, 25 August 2020

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.