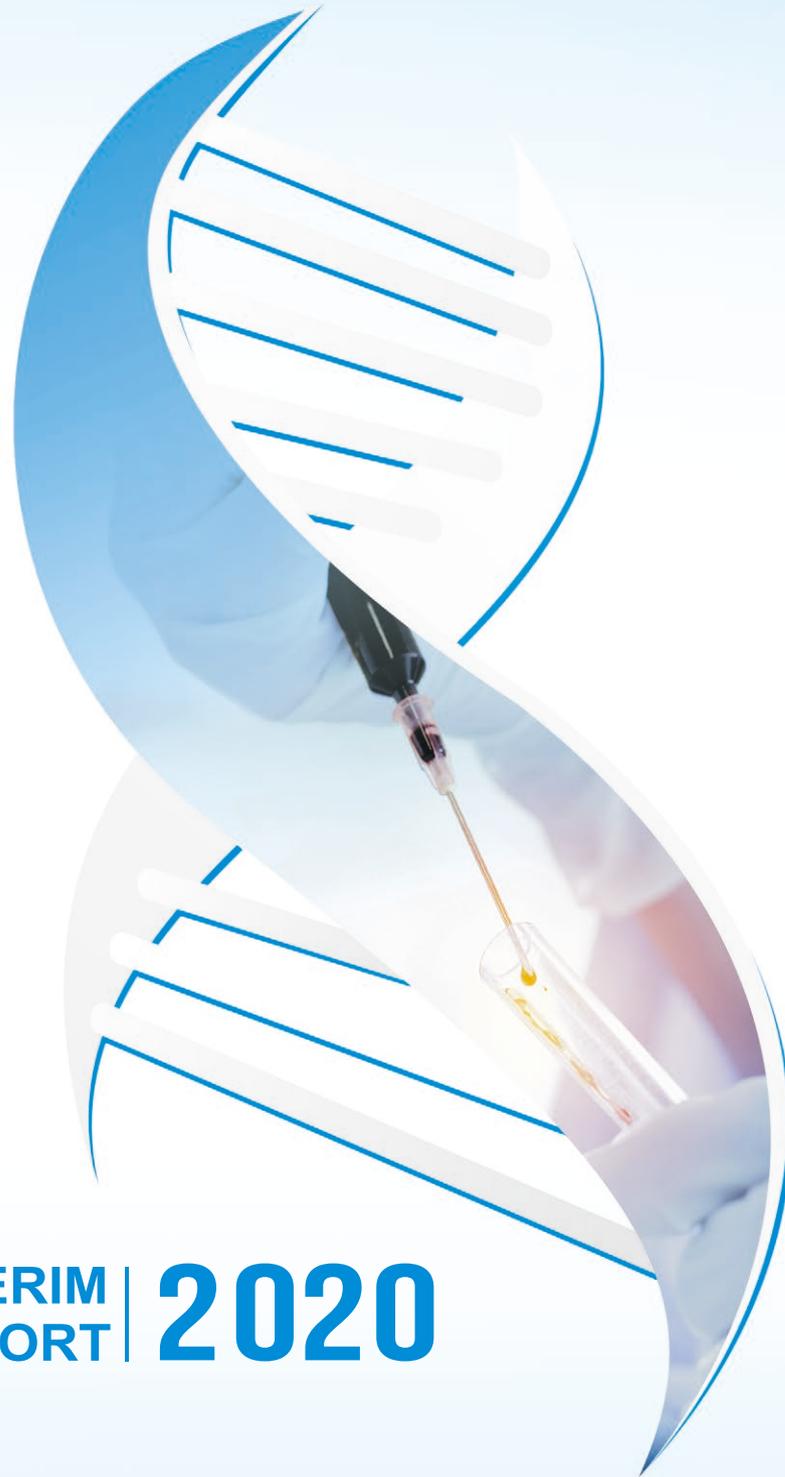


The United Laboratories International Holdings Limited

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



**INTERIM
REPORT | 2020**



Our mission is to
make life more valuable



Contents

- 2** Financial Highlights
- 3** Corporate Information
- 4** Report on Review of Condensed Consolidated Financial Statements
- 5** Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 6** Condensed Consolidated Statement of Financial Position
- 8** Condensed Consolidated Statement of Changes in Equity
- 9** Condensed Consolidated Statement of Cash Flows
- 11** Notes to the Condensed Consolidated Financial Statements
- 36** Management Discussion and Analysis
- 41** Other Information

Financial Highlights

Six months ended 30 June

	2020 RMB'000	2019 RMB'000	Increase (decrease)
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%)

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
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*)
Prof. Song Ming
Ms. Fu Xiao Nan

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

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

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

REGISTERED OFFICE

Cricket Square
Hutchins Drive
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., Zhuhai Branch
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of Communications Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Zhuhai Branch
Guangdong Huaxing Bank Co., Ltd., Zhuhai Branch
Bank of China Limited, Zhuhai Branch
China Resources Bank of Zhuhai Co., Ltd.

Hong Kong

China Development Bank, Hong Kong Branch
Taipei Fubon Commercial Bank Co., Limited,
Hong Kong Branch
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China Everbright Bank Co., Ltd., Hong Kong Branch
Chiyu Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (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

Report on Review of Condensed Consolidated Financial Statements

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 35, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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
25 August 2020

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		(2,506,586)	(2,368,989)
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 ("ECL"), net	13	(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	17	(223,657)	52,396
Finance costs	6	(127,047)	(137,957)
Profit before taxation		325,896	336,756
Tax expense	7	(123,060)	(40,837)
Profit for the period attributable to owners of the Company	8	202,836	295,919
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of a foreign operation		1,137	737
Total comprehensive income for the period attributable to owners of the Company		203,973	296,656
Earnings per share (RMB cents)	9		
– Basic		11.97	18.05
– Diluted		11.97	18.05

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
		6,892,316	6,986,165
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
		8,238,864	8,713,527
Current liabilities			
Trade and bills payables, other payables and accrued charges	14	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	15	843,083	2,573,398
		4,700,700	6,458,874
Net current assets		3,538,164	2,254,653
Total assets less current liabilities		10,430,480	9,240,818

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	<i>NOTES</i>	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	14	63,401	68,085
Derivative financial instrument	16	5,661	–
Lease liabilities		–	117
Borrowings – due after one year	15	2,237,751	1,414,591
Convertible bonds	17	181,835	1,008,433
		2,591,142	2,569,029
		7,839,338	6,671,789
Capital and reserves			
Share capital	18	16,927	15,360
Reserves		7,822,411	6,656,429
Equity attributable to owners of the Company			
		7,839,338	6,671,789

The condensed consolidated financial statements from pages 5 to 35 were approved and authorised for issue by the Board of Directors on 25 August 2020 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 2020

	Attributable to owners of the Company							Total RMB'000
	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	
At 1 January 2019 (Audited)	15,346	2,437,831	277,100	846,217	95,616	3,274	2,446,658	6,122,042
Profit for the period	-	-	-	-	-	-	295,919	295,919
Exchange differences arising on translation of a foreign operation	-	-	-	-	-	737	-	737
Total comprehensive income for the period	-	-	-	-	-	737	295,919	296,656
Dividends recognised as distribution	-	-	-	-	-	-	(98,383)	(98,383)
Appropriations	-	-	-	42,808	-	-	(42,808)	-
At 30 June 2019 (Unaudited)	15,346	2,437,831	277,100	889,025	95,616	4,011	2,601,386	6,320,315
At 1 January 2020 (Audited)	15,360	2,446,154	277,100	934,792	-	1,303	2,997,080	6,671,789
Profit for the period	-	-	-	-	-	-	202,836	202,836
Exchange differences arising on translation of a foreign operation	-	-	-	-	-	1,137	-	1,137
Total comprehensive income for the period	-	-	-	-	-	1,137	202,836	203,973
Dividends recognised as distribution	-	-	-	-	-	-	(128,140)	(128,140)
Issue of ordinary shares upon conversion of convertible bonds	1,567	1,090,149	-	-	-	-	-	1,091,716
Appropriations	-	-	-	46,287	-	-	(46,287)	-
At 30 June 2020 (Unaudited)	16,927	3,536,303	277,100	981,079	-	2,440	3,025,489	7,839,338

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 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 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 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Operating activities		
Profit before taxation	325,896	336,756
Adjustments for:		
Reversal of write-down of inventories, net	(5,747)	(1,381)
Impairment loss recognised for ECL, net	1,988	9,953
Amortisation of intangible assets	6,175	6,039
Depreciation of property, plant and equipment	292,707	270,528
Depreciation of right-of-use assets	3,972	29,821
Loss on fair value change on investment properties	–	93,332
Finance costs	127,047	137,957
Release of government grants	(5,384)	(4,684)
Bank interest income	(20,231)	(17,913)
Imputed interest income from consideration receivables	(37,046)	–
Net (gains) losses on disposal of property, plant and equipment	(37,655)	13,526
Fair value loss on derivative financial instrument	5,661	–
Loss (gain) on fair value change of embedded derivative components of convertible bonds	223,657	(52,396)
Unrealised exchange losses (gains)	3,638	(10,195)
Operating cash flows before movements in working capital	884,678	811,343
Decrease (increase) in inventories	41,422	(57,994)
Decrease (increase) in trade and bills receivables, other receivables, deposits and prepayments	102,241	(18,212)
(Decrease) increase in trade and bills payables, other payables and accrued charges	(242,907)	178,458
Increase (decrease) in contract liabilities	5,782	(10,140)
Cash generated from operations	791,216	903,455
Income taxes paid	(109,261)	(102,945)
Net cash from operating activities	681,955	800,510

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Investing activities		
Payments for purchase of property, plant and equipment	(124,879)	(149,901)
Payment for deposits of acquisition of property, plant and equipment	(51,292)	(8,462)
Payments for right-of-use assets	–	(8,680)
Proceeds on disposal of property, plant and equipment	44,748	718
Placement of pledged bank deposits	(766,280)	(414,141)
Withdrawal of pledged bank deposits	974,911	267,554
Placement of other pledged deposits	–	(18,000)
Withdrawal of other pledged deposits	7,423	26,737
Interest received	20,231	17,913
Receipts of government grants	110	–
Receipt of consideration receivables	100,000	–
Additions to intangible assets	–	(582)
Net cash from (used in) investing activities	204,972	(286,844)
Financing activities		
Interest paid	(92,071)	(85,538)
Repayment of leases liabilities	(810)	(82,589)
New borrowings raised	2,256,748	1,757,316
Repayment of borrowings	(3,140,490)	(1,055,017)
Net cash (used in) from financing activities	(976,623)	534,172
Net (decrease) increase in cash and cash equivalents	(89,696)	1,047,838
Cash and cash equivalents at beginning of the period	3,164,819	1,481,896
Effect of foreign exchange rate changes	557	732
Cash and cash equivalents at end of the period	3,075,680	2,530,466
Represented by:		
Bank balances and cash	3,075,680	2,630,396
Bank overdraft	–	(99,930)
	3,075,680	2,530,466

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

1. BASIS OF PREPARATION

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 the applicable disclosure requirements of Appendix 16 to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs (Continued)

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

(i) Disaggregation of revenue

For the six months ended 30 June 2020 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
6-APA	525,226	–	–	525,226	–	525,226
Antibiotics products	4,113	1,854,964	895,973	2,755,050	–	2,755,050
Insulin Products	–	–	528,532	528,532	–	528,532
Others	162,259	7,264	326,260	495,783	–	495,783
Revenue from contracts with customers	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	1,315,085	2,109,111	1,750,765	5,174,961	(870,370)	4,304,591

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT INFORMATION (Continued)

(i) Disaggregation of revenue (Continued)

For the six months ended 30 June 2019 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
6-APA	360,963	–	–	360,963	–	360,963
Antibiotics products	–	1,868,476	1,081,985	2,950,461	–	2,950,461
Insulin Products	–	–	351,965	351,965	–	351,965
Others	188,937	1,913	235,784	426,634	–	426,634
Revenue from contracts with customers	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>

All of the Group's revenue is recognised at a point in time during the six months ended 30 June 2020 and 2019.

Geographical information

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

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
PRC, including Hong Kong (country of domicile)	2,926,433	2,919,480
Europe	387,299	325,348
India	472,344	382,573
Middle East	40,650	13,712
South America	100,873	121,554
Other Asian regions	228,019	225,942
Other regions	148,973	101,414
	<u>4,304,591</u>	<u>4,090,023</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT INFORMATION (Continued)

(ii) Segment information

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

The Group is currently organised into three revenue streams, 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						(127,047)
Profit before taxation						<u>325,896</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(ii) Segment information *(Continued)*

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	<u>747,411</u>	<u>218,739</u>	<u>–</u>	<u>966,150</u>	<u>(966,150)</u>	<u>–</u>
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>

Measurement

The accounting policies of the reportable segments are the same as disclosed in the Company's 2019 Annual Report. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

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

Inter-segment revenue is charged at prevailing market rates.

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. OTHER INCOME

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (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 (<i>note</i>)	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 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Net foreign exchange (losses) gains	(40,672)	16,335
Net losses on derivative financial instruments (<i>note</i>)	(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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. FINANCE COSTS

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on borrowings	85,050	90,592
Interest on convertible bonds (<i>note 17</i>)	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 RMB'000 (Unaudited)	2019 RMB'000 (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 expense (credit)	23,237	(37,176)
	123,060	40,837

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

7. TAX EXPENSE *(Continued)*

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime are applicable to the Company for its annual reporting periods beginning on or after 1 January 2018. No Hong Kong Profits Tax has been recognised as its subsidiaries incorporated in Hong Kong had no 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.

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.

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to the PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%. As at 30 June 2020 and 31 December 2019, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (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	270,528
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)
	<u>263,740</u>	<u>283,827</u>
Amortisation of intangible assets (included in cost of sales)	6,175	6,039
	<u>269,915</u>	<u>289,866</u>
Staff costs, including directors' emoluments		
Salaries and other benefits costs	405,393	404,942
Retirement benefit costs	31,470	44,812
	<u>436,863</u>	<u>449,754</u>
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)
	<u>399,739</u>	<u>416,331</u>
Reversal of write-down of inventories, net (included in cost of sales)	(5,747)	(1,381)
Cost of inventories recognised as expenses	<u>2,506,586</u>	<u>2,368,989</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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 RMB'000 (Unaudited)	2019 RMB'000 (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 '000 (Unaudited)	2019 '000 (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 do not recommend payments of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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)
	3,334,810	3,517,432
Less: Amount shown under current assets	(3,107,274)	(3,241,069)
Amount shown under non-current assets	227,536	276,363

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

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>

At 30 June 2020, the Group had RMB28,451,000 (31 December 2019: RMB61,793,000) of bills receivables discounted to several banks with full recourse, the Group continues to recognise the full carrying amount of these receivables and has recognised the cash received on such discounting arrangement as secured borrowings (note 15). In addition, as at 30 June 2020, the Group continues to recognise an amount of RMB197,142,000 (31 December 2019: RMB222,698,000) representing bills receivables issued by the Group's debtors which had been endorsed to the Group's creditors for settlement (note 14).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	Six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Impairment loss recognised in respect of		
Trade receivables	(1,988)	(6,002)
Other receivables	–	(3,951)
	<u>(1,988)</u>	<u>(9,953)</u>

Except taking into the consideration of the impact of COVID-19, the basis of determining the inputs and assumptions and the estimation techniques 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.

14. 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	31 December
	2020 RMB'000 (Unaudited)	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>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

14. TRADE AND BILLS PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

(Continued)

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
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	<u>293,097</u>	<u>379,064</u>
	3,568,207	3,724,541
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: RMB155,229,000, 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).

15. BORROWINGS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Bank loans	2,792,054	2,493,743
Discounted bills with recourse (note 12)	28,451	61,793
Bonds	–	1,095,418
Other loans	<u>260,329</u>	<u>337,035</u>
	<u>3,080,834</u>	<u>3,987,989</u>
Analysed as:		
Secured	589,636	1,227,033
Unsecured	<u>2,491,198</u>	<u>2,760,956</u>
	<u>3,080,834</u>	<u>3,987,989</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. BORROWINGS (Continued)

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
The carrying amount of the above borrowings are repayable		
Within one year	654,303	1,477,980
Within a period of more than one year, but not exceeding two years	869,798	567,594
Within a period of more than two years, but not exceeding five years	1,367,953	846,997
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	188,780	1,095,418
	3,080,834	3,987,989
Less: Amount due within one year shown under current liabilities	(843,083)	(2,573,398)
Amount shown under non-current liabilities	2,237,751	1,414,591

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

During the current interim period, the Group obtained borrowings amounting to RMB2,256,748,000 (six months ended 30 June 2019: RMB1,757,316,000), and the Group repaid borrowings of RMB3,140,490,000 (six months ended 30 June 2019: RMB1,055,017,000). The borrowings balances carry interest at effective interest rates ranging from 0.30% to 5.85% (31 December 2019: 0.30% to 6.19%) 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. The Company has the right to adjust the interest rate after the expiration of 3 years of maturity period, and the interest adjustment notice will be issued on the 30th trading day prior to the 3rd years' interest payment date. The bondholders have the option to extend two more years after the issuance of the interest adjustment notice. The Corporate Bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, listed and traded on The Shanghai Stock Exchange. Upon the expiration of 3 years of maturity period, the Company did not received any notice from the bondholders in relation to the extension nor the Company had adjusted the interest rate of the Corporate Bonds. The entire amount of the Corporate Bonds were settled during the current period and no outstanding balance as at 30 June 2020.

During the period ended 30 June 2020, other borrowing of RMB260,329,000 (31 December 2019: RMB337,035,000) has been advanced from other financing institutions, independent third parties not connected to the Group, which is subject to floating interest rate and secured by plant and machinery with carrying amount of RMB440,636,000 (31 December 2019: RMB843,228,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. DERIVATIVE FINANCIAL INSTRUMENT

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Foreign currency swap contract – liability	5,661	–

The Group's derivative financial instrument represents a foreign currency swap contract for hedging a portion of its foreign exchange risk related to its bank borrowings denominated in foreign currencies.

Major terms of the foreign currency swap contract are as follows:

<u>Notional amount</u>	<u>Maturity</u>	<u>Exchange rate</u>
Sell HKD692,000,000	8 November 2022	USD1: HKD7.75
Buy USD89,288,000		

17. CONVERTIBLE BONDS

On 5 December 2016, the Company issued USD denominated HKD settled 4.5% unsecured convertible bonds (the "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. 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 conditions as prescribed in the subscription agreement dated 21 November 2016. Subsequently, an adjustment has been made to the conversion price from HK\$4.86 to HK\$4.72 on a one-time basis on 31 October 2019 pursuant to the terms and conditions as prescribed in the subscription agreement dated 21 November 2016. The Convertible Bonds are listed on the Stock Exchange.

The Convertible Bonds bear interest from (and including) the issue 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 2018. The Convertible Bonds will mature on 5 December 2021 and shall be redeemed by the Company at par, together with accrued interest thereon, on 5 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. As at 5 December 2019, no bondholder has redeemed the Convertible Bonds and the option expired.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. CONVERTIBLE BONDS *(Continued)*

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 interest accrued but unpaid up to the day before 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.

The Company may at any time redeem the outstanding Convertible Bonds in whole, but not in part, at their principal amount together with interest accrued but unpaid up to the day before the date fixed for redemption if, immediately prior to the date of notice, at least 90% of principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled. As at 30 June 2020, the Company has not redeemed the outstanding Convertible Bonds.

The Convertible Bonds contain liability component, conversion option and early redemption option derivatives. The Company's and the holder's early redemption option derivatives are not closely related to the host liability component as the early redemption amount is not closed to the amortised cost of the liability on each exercise date. The conversion option and the Company's and the bond holder's early redemption option derivatives are measured at fair value with changes in fair value recognised in profit or loss.

At the date of issue, the debt component was recognised at fair value, calculated based on the present value of the redemption amount at maturity. In subsequent periods, the debt component is carried at amortised cost using the effective interest method. The effective interest rate of the debt component is 14.6% (30 June 2019: 14.6%).

The derivatives components of the Convertible Bonds are measured at fair values at the date of issue and in subsequent periods with changes in fair value recognised in profit or loss.

In June 2019, no Convertible Bonds were converted into ordinary shares. As at 30 June 2019, the Convertible Bonds in an aggregate principal amount of USD121,951,000 (equivalent to approximately RMB838,279,000) remained outstanding with a maturity date of 5 December 2021, subject to bondholders' redemption right exercisable on 5 December 2019, and is classified as a current liability.

In December 2019, the Convertible Bonds with fixed principal amount of USD1,000,000 (equivalent to approximately RMB7,756,000) were converted into total 1,643,283 ordinary shares of HK\$0.01 each at a conversion price of HK\$4.72 per conversion share (note 18).

As at 31 December 2019, the Convertible Bonds in an aggregate principal amount of USD120,951,000 (equivalent to approximately RMB846,580,000) remained outstanding with a maturity date of 5 December 2021, and is classified as a non-current liability.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. CONVERTIBLE BONDS (Continued)

During the current interim period, the Convertible Bonds with fixed principal amount of USD104,051,000 (equivalent to approximately RMB736,337,000) were converted into total 170,985,319 ordinary shares of HK\$0.01 each at a conversion price of HK\$4.72 per conversion share (note 18). As at 30 June 2020, the Convertible Bonds in an aggregate principal amount of USD16,900,000 (equivalent to approximately RMB119,886,000) remained outstanding with a maturity date of 5 December 2021 and is classified as a non-current liability.

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 2020 and 2019 are set out as below:

	Debt component	Derivative component	Total amount
	RMB'000	RMB'000	RMB'000
At 1 January 2019 (Audited)	645,640	185,254	830,894
Interest charged	46,091	–	46,091
Interest paid	(18,505)	–	(18,505)
Exchange gain	(388)	(855)	(1,243)
Gain arising on changes in fair value	–	(52,396)	(52,396)
	<u>672,838</u>	<u>132,003</u>	<u>804,841</u>
At 30 June 2019 (Unaudited)			
At 1 January 2020 (Audited)	710,962	297,471	1,008,433
Interest charged	43,285	–	43,285
Interest paid	(12,856)	–	(12,856)
Conversion into ordinary shares	(633,451)	(458,265)	(1,091,716)
Exchange loss	8,025	3,007	11,032
Loss arising on changes in fair value	–	223,657	223,657
	<u>115,965</u>	<u>65,870</u>	<u>181,835</u>
At 30 June 2020 (Unaudited)			

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

17. CONVERTIBLE BONDS (Continued)

Binomial model is used for valuation of the embedded derivative components of the Convertible Bonds. Details of the inputs and assumptions of the model are as follows:

	30 June 2020	31 December 2019
Share price of the Company	HK\$6.70	HK\$5.68
Exercise price	HK\$4.72	HK\$4.72
Remaining life	1.43 years	1.93 years
Risk-free rate	0.275%	1.737%
Expected volatility	42.021%	40.811%
Expected dividend yield	1.226%	1.202%

Risk-free rate was determined by using the average of 3-year yield and 5-year yield of HK\$ Hong Kong Sovereign bonds on each of the end of the reporting period.

Expected volatility was determined by using the annualised standard deviation of the continuously compounded rate of return on the daily average adjusted share price of the Company over periods that are commensurate with the time to maturity at the respective valuation date.

Expected dividend yield was determined by the sustainability of the Company's dividend policy.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

18. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Authorised:		
At 1 January 2019, 30 June 2019, 31 December 2019, 1 January 2020 and 30 June 2020	<u>3,800,000,000</u>	<u>38,000</u>
Issued and fully paid:		
At 1 January 2019 and 30 June 2019	1,639,720,770	16,397
Issue of ordinary shares upon conversion of Convertible Bonds (<i>note 17</i>)	<u>1,643,283</u>	<u>16</u>
At 31 December 2019	1,641,364,053	16,413
Issue of ordinary shares upon conversion of Convertible Bonds (<i>note 17</i>)	<u>170,985,319</u>	<u>1,710</u>
At 30 June 2020	<u>1,812,349,372</u>	<u>18,123</u>
		RMB'000
Shown in the consolidated financial statements as:		
At 30 June 2020		<u>16,927</u>
At 31 December 2019		<u>15,360</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. 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.

20. PLEDGE OF OR RESTRICTIONS ON ASSETS

Pledge of assets

Other than property, plant and equipment pledged to financing institutions disclosed in note 15 to 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 2020 RMB'000 (Unaudited)	31 December 2019 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

Restrictions on assets

In addition, lease liabilities of RMB953,000 (31 December 2019: RMB1,763,000) are recognised with related right-of-use assets of RMB909,000 (31 December 2019: RMB1,709,000) as at 30 June 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Furthermore, bills receivables issued by third parties endorsed with recourse for settlement of trade payables, other payables and payables in respect of the acquisition of property, plant and equipment, are disclosed in note 12.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

21. 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 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Fees	328	314
Salaries and other benefits	8,689	8,338
Retirement benefits scheme contribution	16	60
	<u>9,033</u>	<u>8,712</u>

22. 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 value 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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

22. 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)

	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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)				
Financial assets						
Financial asset at fair value through profit or loss ("FVTPL") – unquoted equity investment	RMB500	RMB500	Level 3	Method of comparables is used to evaluate the market value of the unquoted equity investments by using price to book ratio of listed entities in similar industries	– discount for lack of marketability of 32% (31.12.2019: 30%), determined by reference to recent market research	– A significant increase in the discount for lack of marketability would result in a significant decrease in the fair value
Financial liabilities						
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	RMB65,870	RMB297,471	Level 3	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 term to maturity, dividend yield, risk-free rate, stock price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield of 1.226% (31.12.2019: 1.202%) – volatility of 42.02% (31.12.2019: 40.81%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– A significant increase in the dividend yield would result in a significant decrease in the fair value – A slight increase in the volatility in share price would result in a significant increase in the change in fair value
Derivative financial instrument	RMB5,661	Nil	Level 2	Discounted cash flow. Future cash flow is estimated based on swap contract exchange rate (from observable exchange rate at the end of the reporting period) and swap contract exchange rate, discounted at a rate that reflects the credit risk of the counterparty.	Nil	Nil

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

22. 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)

The unrealised fair value loss of embedded derivatives components of the Convertible Bonds is RMB223,657,000 (six months ended 30 June 2019: gain of RMB52,396,000) during the period ended 30 June 2020.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, 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. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

	30.06.2020			31.12.2019		Fair value hierarchy
	Carrying amount RMB'000	Fair value RMB'000	Fair value hierarchy	Carrying amount RMB'000	Fair value RMB'000	
Financial liabilities						
Corporate Bonds (included in borrowings) – fixed rate	–	–		1,095,418,000	1,100,000,000	Level 1

There is no transfer between the different levels of the fair value hierarchy for both periods.

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. For the embedded derivative component of the Convertible Bonds and unlisted equity investment, the third party qualified valuers were 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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

23. EVENTS AFTER THE REPORTING PERIOD

- (a) Subsequent to the end of reporting period, the Company received a notice from a bondholder for the conversion of bonds with principal amount of USD6,000,000 (equivalent to approximately RMB42,398,000) into 9,859,703 ordinary shares of HK\$0.01 each at a conversion price of HK\$4.72 per conversion share.
- (b) An adjustment has been made to the conversion price from HK\$4.72 to HK\$4.65 on a one-time basis on 9 July 2020 pursuant to the terms and conditions as prescribed in the subscription agreement dated 21 November 2016 (the "Conversion Price Adjustment"). Subsequent to the Conversion Price Adjustment, the Company received a notice from a bondholder for the conversion of bonds with principal amount of USD10,500,000 (equivalent to approximately RMB72,873,000) into 17,514,225 ordinary shares of HK\$0.01 each at a conversion price of HK\$4.65 per conversion share.
- (c) 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 year-on-year 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 the same period last year.

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

Management Discussion and Analysis

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. 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 recorded 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 (trade name: “邦得清”) series, a drug to treat Alzheimer’s disease recorded a sales revenue of RMB59.7 million during the period, representing an increase of 93.8% as compared with the 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 pandemic, the sales revenue from the piperacillin sodium and tazobactam sodium (trade name: “聯邦他啞仙”) for injection amounted to RMB262.7 million, representing a decrease of 25.5% as compared with the 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 the same period last year. During the period, the overall revenue from finished products business increased by 4.9% as compared with the same period last year.

Management Discussion and Analysis

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 RMB1,378.2 million, representing an increase of 17.7% 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 the same period last year.

Research and Development Progress

During the period, various drug research and development projects 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 phase III 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 Category 1 new drug WXSH0150 which is for the treatment of moderate to severe active rheumatoid arthritis was approved for clinical trial 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 principal 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%.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group had pledged bank deposits, bank balances and cash 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 borrowings are denominated in Hong Kong dollars, Renminbi, Euro and United States dollars. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in currency exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

CONTINGENT LIABILITIES

As at 30 June 2020 and 31 December 2019, the Group had no material contingent liabilities.

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.

Management Discussion and Analysis

OUTLOOK

Looking forward, Sino-U.S. relations will continue to be an important uncertainty in the global economy. Despite gradual easing of the COVID-19 pandemic 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. In the 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. Meanwhile, 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 products, 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.

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

As at 30 June 2020, the directors of the Company had the following interests 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	0.90%
Mr. Leung Wing Hon	22,000	Personal interest	0.00%
Ms. Choy Siu Chit	117,875	Personal interest	0.01%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	179	Personal interest	0.00%

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' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the period, 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.

Other Information

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020, the following shareholders, other than the directors of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO as being interested in the shares or underlying shares of the Company:

Long position in the ordinary shares of the Company:

Name	Notes	Number of shares held	Percentage of Interest
Heren Far East Limited (“Heren”)		898,250,000	49.56%
Heren Far East #3 Limited	(1)	898,250,000	49.56%
Heren Far East #4 Limited	(1)	898,250,000	49.56%
IQ EQ (NTC) Trustees Asia (Jersey) Limited	(2)	898,250,000	49.56%

Notes:

- (1) 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 898,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.
- (2) IQ EQ (NTC) Trustees Asia (Jersey) Limited (formerly known as Nautilus 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 898,250,000 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 2020.

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.

DISCLOSURE UNDER RULE 13.21 OF THE LISTING RULES

- (a) On 23 September 2019, the Company’s indirect wholly-owned subsidiary The United Laboratories (Inner Mongolia) Co., Ltd., as borrower, entered into a facility agreement with China Development Bank Hong Kong Branch for HK\$300,000,000 term loan facility. The loans under the facility shall be repaid by installments with the final repayment date falling 60 months from the first utilisation date.

The facility agreement imposes, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts collectively to own more than 51% of the entire issued capital of the Company.

Other Information

- (b) On 8 November 2019, the Company, as borrower, entered into a facility agreement with, among others, Bank of Communications Co. Ltd. Hong Kong Branch, Fubon Bank (Hong Kong) Limited, Hang Seng Bank Limited and Taipei Fubon Commercial Bank Co., Ltd., as mandated lead arrangers and bookrunners, for the dual currency term loan facilities in the amount equivalent to up to HK\$2 billion. The loan under the facilities shall be repaid in installments within a 36 months term from the date of the facility agreement.

The facility agreement imposes that, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts (i) individually or collectively do not cease to be the single largest shareholder of the Company; (ii) individually or collectively hold at least 40% of the entire issued capital of the Company; and (iii) do not cease management control over the Company or the Group. Any breach of these obligations will result in the facilities being cancelled and the loans, together with accrued interest and all other amounts outstanding, will become payable within five business days.

- (c) On 12 February 2020, the Company, as borrower, entered into a facility agreement with China Everbright Bank Hong Kong Branch for loan facility of HK\$200,000,000 (or its equivalent amount in euro). The term loan under the facility shall be repaid in 12 months from the date of the facility agreement and extended to 24 months after obtaining bank's consent.

The facility agreement imposes, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts (i) individually or collectively do not cease to be the single largest shareholder of the Company; (ii) individually or collectively hold at least 40% of the entire issued capital of the Company; and (iii) do not cease to be the chairman of the Board and management control over the Company.

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