

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
- 33** Management Discussion and Analysis
- 37** Other Information

Financial Highlights

	Six months ended 30 June		
	2021 RMB'000	2020 RMB'000	Increase
Revenue	4,719,054	4,304,591	9.6%
EBITDA	1,056,821	755,797	39.8%
Profit before taxation	722,204	325,896	121.6%
Profit for the period attributable to the owners of the Company	623,076	202,836	207.2%
Earnings per share	RMB cents	RMB cents	
– Basic	33.86	11.97	182.9%
– Diluted	33.86	11.97	182.9%
Interim dividend	RMB cents	RMB cents	
– Per share	4.0	Nil	N/A

BOARD OF DIRECTORS

Executive directors

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

Independent non-executive directors

Mr. Chong Peng Oon
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
Ping An Bank Co., Ltd., Hengqin Branch
Guangdong Huaxing Bank Co., Ltd., Zhuhai Branch
China Resources Bank of Zhuhai Co., Ltd.
Industrial and Commercial Bank of China Limited,
Zhuhai Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Bank of China Limited, Zhuhai Branch

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
Chiyu Banking Corporation Limited
Nanyang Commercial Bank, Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (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 32, which comprise the condensed consolidated statement of financial position as of 30 June 2021 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
26 August 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2021

	NOTES	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Revenue	3	4,719,054	4,304,591
Cost of sales		(2,623,182)	(2,506,586)
Gross profit		2,095,872	1,798,005
Other income	4	66,407	105,704
Other gains and losses, net	5	(8,508)	(7,203)
Selling and distribution expenses		(753,350)	(711,254)
Administrative expenses		(336,500)	(327,382)
Research and development expenditures		(203,165)	(162,759)
Other expenses		(613)	(16,523)
Impairment loss under expected credit loss model, net of reversal	13	(105,578)	(1,988)
Loss on fair value change of embedded derivative components of convertible bonds		–	(223,657)
Finance costs	6	(32,361)	(127,047)
Profit before taxation		722,204	325,896
Tax expense	7	(97,586)	(123,060)
Profit for the period	8	624,618	202,836
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		474	1,137
Total comprehensive income for the period		625,092	203,973
Profit for the period attributable to:			
Owners of the Company		623,076	202,836
Non-controlling interests		1,542	–
		624,618	202,836
Total comprehensive income for the period attributable to:			
Owners of the Company		623,550	203,973
Non-controlling interests		1,542	–
		625,092	203,973
Earnings per share (RMB cents)	9		
– Basic		33.86	11.97
– Diluted		33.86	11.97

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	NOTES	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	5,918,533	6,147,029
Right-of-use assets		221,586	225,908
Goodwill		3,031	3,031
Intangible assets		129,864	131,280
Deposit for acquisition of land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		53,322	15,775
Other pledged deposits		6,000	24,000
Consideration receivables	12	–	105,679
Financial asset at fair value through profit or loss		–	500
Deferred tax assets	7	102,024	78,253
		6,441,622	6,738,717
Current assets			
Inventories		1,653,156	1,428,502
Trade and bills receivables, other receivables, deposits and prepayments	12	3,518,094	3,359,499
Pledged bank deposits		595,311	440,194
Other pledged deposits		18,000	–
Financial assets at fair value through profit or loss		97,590	–
Bank balances and cash		3,526,158	2,996,802
		9,408,309	8,224,997
Current liabilities			
Trade and bills payables, other payables and accrued charges	14	3,949,162	3,692,715
Dividend payables	10	147,231	–
Contract liabilities		71,386	78,125
Lease liabilities		797	1,686
Tax payables		129,022	180,196
Derivative financial instruments	16	6,474	–
Borrowings – due within one year	15	1,340,855	907,142
		5,644,927	4,859,864
Net current assets		3,763,382	3,365,133
Total assets less current liabilities		10,205,004	10,103,850

Condensed Consolidated Statement of Financial Position

At 30 June 2021

	<i>NOTES</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities	7	142,403	119,582
Deferred income in respect of government grants	14	60,667	65,351
Derivative financial instrument	16	5,057	4,573
Borrowings – due after one year	15	907,181	1,302,509
		1,115,308	1,492,015
		9,089,696	8,611,835
Capital and reserves			
Share capital	17	17,183	17,183
Reserves		9,073,042	8,596,723
Equity attributable to owners of the Company		9,090,225	8,613,906
Equity attributable to non-controlling interests		(529)	(2,071)
Total Equity		9,089,696	8,611,835

The condensed consolidated financial statements on pages 5 to 32 were approved and authorised for issue by the Board of Directors on 26 August 2021 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 2021

	Attributable to owners of the Company							Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Foreign exchange reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000		
At 1 January 2020 (Audited)	15,360	2,446,154	277,100	934,792	1,303	2,997,080	6,671,789	-	6,671,789
Profit for the period	-	-	-	-	-	202,836	202,836	-	202,836
Exchange differences arising on translation of foreign operations	-	-	-	-	1,137	-	1,137	-	1,137
Total comprehensive income for the period	-	-	-	-	1,137	202,836	203,973	-	203,973
Dividends recognised as distribution (note 10)	-	-	-	-	-	(128,140)	(128,140)	-	(128,140)
Issue of ordinary shares upon conversion of convertible bonds	1,567	1,090,149	-	-	-	-	1,091,716	-	1,091,716
Appropriations	-	-	-	46,287	-	(46,287)	-	-	-
At 30 June 2020 (Unaudited)	<u>16,927</u>	<u>3,536,303</u>	<u>277,100</u>	<u>981,079</u>	<u>2,440</u>	<u>3,025,489</u>	<u>7,839,338</u>	<u>-</u>	<u>7,839,338</u>
At 1 January 2021 (Audited)	17,183	3,805,695	277,100	1,035,377	7,207	3,471,344	8,613,906	(2,071)	8,611,835
Profit for the period	-	-	-	-	-	623,076	623,076	1,542	624,618
Exchange differences arising on translation of foreign operations	-	-	-	-	474	-	474	-	474
Total comprehensive income for the period	-	-	-	-	474	623,076	623,550	1,542	625,092
Dividends recognised as distribution (note 10)	-	-	-	-	-	(147,231)	(147,231)	-	(147,231)
Appropriations	-	-	-	70,419	-	(70,419)	-	-	-
At 30 June 2021 (Unaudited)	<u>17,183</u>	<u>3,805,695</u>	<u>277,100</u>	<u>1,105,796</u>	<u>7,681</u>	<u>3,876,770</u>	<u>9,090,225</u>	<u>(529)</u>	<u>9,089,696</u>

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided for 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.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Operating activities		
Profit before taxation	722,204	325,896
Adjustments for:		
Reversal of write-down of inventories, net	(3,252)	(5,747)
Impairment losses under expected credit loss model, net of reversal	105,578	1,988
Gain on disposal of financial assets at fair value through profit or loss	(50)	–
Gain on fair value change of financial assets at fair value through profit or loss	(470)	–
Amortisation of intangible assets	6,342	6,175
Depreciation of property, plant and equipment	291,592	292,707
Depreciation of right-of-use assets	4,322	3,972
Loss on fair value change of derivative financial instruments	6,958	5,661
Finance costs	32,361	127,047
Release of government grants	(4,684)	(5,384)
Bank interest income	(16,713)	(20,231)
Imputed interest income from consideration receivables	(16,901)	(37,046)
Net loss (gain) on disposal of property, plant and equipment	17,057	(37,655)
Loss on fair value change of embedded derivative components of convertible bonds	–	223,657
Unrealised exchange (gain) loss	(24,126)	3,638
Operating cash flows before movements in working capital	1,120,218	884,678
(Increase) decrease in inventories	(221,402)	41,422
(Increase) decrease in trade and bills receivables, other receivables, deposits and prepayments	(374,283)	102,241
Increase (decrease) in trade and bills payables, other payables and accrued charges	497,479	(242,907)
(Decrease) increase in contract liabilities	(6,739)	5,782
Cash generated from operations	1,015,273	791,216
Income taxes paid	(149,710)	(109,261)
Net cash from operating activities	865,563	681,955

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Investing activities		
Payments for purchase of property, plant and equipment	(307,652)	(124,879)
Payment for deposits of acquisition of property, plant and equipment	(41,464)	(51,292)
Receipts of commercial bills receivables	213,905	–
Proceeds from disposal of financial assets at fair value through profit or loss	550	–
Proceeds on disposal of property, plant and equipment	3,130	44,748
Placement of pledged bank deposits	(1,234,031)	(766,280)
Withdrawal of pledged bank deposits	1,078,914	974,911
Withdrawal of other pledged deposits	–	7,423
Interest received	16,713	20,231
Receipts of government grants	1,240	110
Receipt of consideration receivables	–	100,000
Additions to intangible assets	(2,239)	–
Addition of financial assets at fair value through profit or loss	(97,120)	–
Net cash (used in) from investing activities	(368,054)	204,972
Financing activities		
Interest paid	(33,533)	(92,071)
Repayment of leases liabilities	(889)	(810)
New borrowings raised	564,564	2,256,748
Repayment of borrowings	(498,965)	(3,140,490)
Net cash from (used in) financing activities	31,177	(976,623)
Net increase (decrease) in cash and cash equivalents	528,686	(89,696)
Cash and cash equivalents at beginning of the period	2,996,802	3,164,819
Effect of foreign exchange rate changes	670	557
Cash and cash equivalents at end of the period	3,526,158	3,075,680

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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 certain financial instruments, which are measured at fair values.

Other than additional 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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

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

2.1 **Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2"**

Financial instruments

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs (Continued)

2.1 Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 "Interest Rate Benchmark Reform – Phase 2" (Continued)

Financial instruments (Continued)

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform (Continued)

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the current interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2021.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2021 (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	510,246	–	–	510,246	–	510,246
Antibiotics products	–	1,965,013	895,657	2,860,670	–	2,860,670
Insulin Products	–	–	627,727	627,727	–	627,727
Others	311,719	3,197	405,495	720,411	–	720,411
Revenue from contracts with customers	821,965	1,968,210	1,928,879	4,719,054	–	4,719,054
Inter-segment sales	812,616	314,179	–	1,126,795	(1,126,795)	–
Segment revenue	<u>1,634,581</u>	<u>2,282,389</u>	<u>1,928,879</u>	<u>5,845,849</u>	<u>(1,126,795)</u>	<u>4,719,054</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

3. REVENUE AND SEGMENT INFORMATION (Continued)

(i) Disaggregation of revenue from contracts with customers (Continued)

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	<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>

All of the Group's revenue is recognised at a point in time during the six months ended 30 June 2021 and 2020.

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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
PRC, including Hong Kong (country of domicile)	3,522,480	2,926,433
Europe	264,166	387,299
India	393,889	472,344
Middle East	15,267	40,650
South America	150,707	100,873
Other Asian regions	311,703	228,019
Other regions	60,842	148,973
	<u>4,719,054</u>	<u>4,304,591</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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 2021 (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	821,965	1,968,210	1,928,879	4,719,054	-	4,719,054
Inter-segment sales	812,616	314,179	-	1,126,795	(1,126,795)	-
Segment revenue	<u>1,634,581</u>	<u>2,282,389</u>	<u>1,928,879</u>	<u>5,845,849</u>	<u>(1,126,795)</u>	<u>4,719,054</u>
RESULTS						
Segment profit	<u>217,804</u>	<u>140,650</u>	<u>480,934</u>			839,388
Unallocated other income						61,311
Unallocated corporate expenses						(32,048)
Unallocated other gains and losses, net						(114,086)
Finance costs						<u>(32,361)</u>
Profit before taxation						<u>722,204</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

3. REVENUE AND SEGMENT INFORMATION (Continued)

(ii) Segment information (Continued)

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	<u>623,487</u>	<u>246,883</u>	<u>–</u>	<u>870,370</u>	<u>(870,370)</u>	<u>–</u>
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>
RESULTS						
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)
Unallocated 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>

Measurement

The accounting policies of the reportable segments are the same as disclosed in the Company's 2020 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, other gains and losses (net), loss on fair value change of embedded derivative components of convertible bonds and finance costs.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

4. OTHER INCOME

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Bank interest income	16,713	20,231
Imputed interest income from consideration receivables	16,901	37,046
Sales of scrap materials	4,129	3,765
Subsidy income (<i>note</i>)	25,252	35,598
Sundry income	3,412	9,064
	66,407	105,704

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	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Net foreign exchange gain (loss)	9,741	(40,672)
Net loss on derivative financial instruments (<i>note</i>)	(1,074)	(3,590)
Net (loss) gain on disposal of property, plant and equipment	(17,057)	37,655
Gain on fair value change of financial assets at fair value through profit or loss	470	–
Gain on disposal on financial asset at fair value through profit or loss	50	–
Others	(638)	(596)
	(8,508)	(7,203)

Note: During the periods ended 30 June 2021 and 2020, the Group entered into a foreign currency swap contract and 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 were three outstanding derivative financial instruments held by the Group as at 30 June 2021 (31 December 2020: one).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

6. FINANCE COSTS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on borrowings	33,492	85,050
Interest on convertible bonds	–	43,285
Interest on lease liabilities	41	45
	33,533	128,380
Less: Amounts capitalised in property, plant and equipment	(1,172)	(1,333)
	32,361	127,047

Borrowing costs capitalised during the current period arose on the general borrowing pool and are calculated by applying a weighted average capitalisation rate of 2.29% (six months ended 30 June 2020: 3.81%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current tax		
PRC enterprise income tax ("EIT")	95,435	94,339
PRC withholding tax on interest income	3,101	5,484
	98,536	99,823
Deferred tax (credit) charge	(950)	23,237
	97,586	123,060

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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 2017 (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%, which only one entity nominated by a group of "connected" entities will be entitled to select the lower tax rate. 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 2021 and 31 December 2020, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

During the six months ended 30 June 2021, 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 RMB175,502,000 (six months ended 30 June 2020: RMB4,026,000) and RMB11,890,000 (six months ended 30 June 2020: nil). A deferred tax asset of RMB16,488,000 (31 December 2020: nil) in respect of tax losses of RMB109,923,000 (31 December 2020: nil) has been recognised. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB505,682,000 (31 December 2020: RMB802,997,000) due to the unpredictability of future profit streams. All unrecognised tax losses may be carried forward indefinitely.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

7. TAX EXPENSE (Continued)

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior periods:

	Accelerated accounting depreciation RMB'000	Unrealised profit on inventories RMB'000	Withholding tax on undistributed profits of the PRC subsidiaries RMB'000	Tax loss RMB'000	Total RMB'000
At 1 January 2020 (Audited)	36,358	14,931	(77,803)	–	(26,514)
(Charge) credit to profit or loss for the period	<u>(1,365)</u>	<u>2,819</u>	<u>(24,691)</u>	<u>–</u>	<u>(23,237)</u>
At 30 June 2020 (Unaudited)	<u>34,993</u>	<u>17,750</u>	<u>(102,494)</u>	<u>–</u>	<u>(49,751)</u>
At 1 January 2021 (Audited)	52,991	25,262	(119,582)	–	(41,329)
Credit (charge) to profit or loss for the period	<u>7,224</u>	<u>59</u>	<u>(22,821)</u>	<u>16,488</u>	<u>950</u>
At 30 June 2021 (Unaudited)	<u>60,215</u>	<u>25,321</u>	<u>(142,403)</u>	<u>16,488</u>	<u>(40,379)</u>

The following is the analysis of the deferred tax balances of financial reporting purpose:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Deferred tax assets	102,024	78,253
Deferred tax liabilities	(142,403)	(119,582)
	<u>(40,379)</u>	<u>(41,329)</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Depreciation		
Depreciation of right-of-use assets	4,322	3,972
Depreciation of property, plant and equipment	<u>291,592</u>	<u>292,707</u>
Amortisation of intangible assets (included in cost of sales)	<u>6,342</u>	<u>6,175</u>
Staff costs, including directors' emoluments		
Salaries and other benefits costs	559,548	546,944
Contributions to retirement benefit schemes	<u>61,054</u>	<u>43,509</u>
	<u>620,602</u>	<u>590,453</u>
Reversal of write-down of inventories, net (included in cost of sales)	(3,252)	(5,747)
Cost of inventories recognised as expenses	<u>2,623,182</u>	<u>2,506,586</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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	
	2021 RMB'000 (Unaudited)	2020 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>623,076</u>	<u>202,836</u>
	Six months ended 30 June	
	2021 '000 (Unaudited)	2020 '000 (Unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,840,391</u>	<u>1,694,391</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.

As all of the Company's outstanding convertible bonds were converted into ordinary shares during the year ended 31 December 2020, there is no potential ordinary shares in issue for the period ended 30 June 2021.

10. DIVIDENDS

During the current interim period, a final dividend of RMB8 cents per share in respect of the year ended 31 December 2020 (2020: RMB7 cents per share in respect of the year ended 31 December 2019) was declared to be paid to the owners of the Company. The aggregate amount of the 2020 final dividend declared in the current interim period amounted to RMB147,231,000 (six months ended 30 June 2020: 2019 final dividend of RMB128,140,000). The 2020 final dividend was paid on 15 July 2021.

Subsequent to the end of the reporting period, the Board declared an interim dividend of RMB4 cents (six months ended 30 June 2020: nil) per ordinary share, in an aggregate amount of RMB73,616,000 for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group incurred approximately RMB82,109,000 (six months ended 30 June 2020: RMB255,185,000) 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 2021.

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB20,187,000 (six months ended 30 June 2020: RMB7,093,000) for cash proceeds of RMB3,130,000 (six months ended 30 June 2020: RMB44,748,000), resulting in a loss on disposal of RMB17,057,000 (six months ended 30 June 2020: gain on disposal of RMB37,655,000).

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	1,465,741	1,420,450
Bills receivables	1,674,293	1,343,365
Consideration receivables	325,289	308,388
Commercial bills receivables	–	244,110
Value-added tax receivables	85,332	93,924
Other receivables, deposits and prepayments	148,308	160,437
Less: Allowance for credit losses (<i>note 13</i>)	(180,869)	(105,496)
	3,518,094	3,465,178
Less: Amount due within one year shown under current assets	(3,518,094)	(3,359,499)
Amount shown under non-current assets	–	105,679

The Group normally allows a credit period of 60 days on average (2020: 60 days on average) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days (2020: between 90 days and 180 days).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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

The following is an analysis of trade 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables		
0 to 30 days	728,456	806,012
31 to 60 days	376,318	411,407
61 to 90 days	217,870	149,574
91 to 120 days	44,935	21,955
121 to 180 days	66,697	11,805
Over 180 days	10,597	–
	<u>1,444,873</u>	<u>1,400,753</u>
Bills receivables		
0 to 30 days	321,902	358,164
31 to 60 days	228,872	287,311
61 to 90 days	330,497	204,825
91 to 120 days	89,619	149,526
121 to 180 days	693,685	325,678
Over 180 days	9,718	17,861
	<u>1,674,293</u>	<u>1,343,365</u>

At 30 June 2021, the Group had RMB23,405,000 (31 December 2020: RMB26,493,000) 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 2021, the Group continues to recognise an amount of RMB303,693,000 (31 December 2020: RMB341,058,000) representing bills receivables issued by the Group's debtors which had been endorsed to the Group's creditors for settlement (note 14).

As at 30 June 2021, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB340,100,000 (31 December 2020: RMB183,334,000) which are past due as at the reporting date. Out of the past due balances, RMB30,762,000 (31 December 2020: nil) has been past due 90 days or more and is not considered in defaults as the balances were related to customers with sound repayment history and no recent history of default. The Group does not hold any collateral over these balances.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

13. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

The followings are the impairment losses recognised and movements thereon for the current and prior periods:

	Trade receivables RMB'000	Other receivables RMB'000	Commercial bills receivables RMB'000	Consideration receivables RMB'000	Total RMB'000
At 1 January 2020 (Audited)	23,167	1,174	–	15,243	39,584
Impairment losses recognised	1,988	–	–	–	1,988
At 30 June 2020 (Unaudited)	<u>25,155</u>	<u>1,174</u>	<u>–</u>	<u>15,243</u>	<u>41,572</u>
At 1 January 2021 (Audited)	19,697	5,700	35,390	44,709	105,496
Impairment losses recognised (reversed)	1,171	(3,658)	(5,185)	113,250	105,578
Written off	–	–	(30,205)	–	(30,205)
At 30 June 2021 (Unaudited)	<u>20,868</u>	<u>2,042</u>	<u>–</u>	<u>157,959</u>	<u>180,869</u>

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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

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 or bills issuance date at the end of the reporting period:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables		
0 to 90 days	936,729	899,089
91 to 180 days	137,837	125,460
Over 180 days	26,808	21,865
	1,101,374	1,046,414
Bills payables		
0 to 90 days	867,862	583,980
91 to 180 days	629,546	507,538
Over 180 days	–	139,563
	1,497,408	1,231,081
Other payables and accruals	503,404	387,272
Other tax payable	88,634	109,176
License fee payable	33,674	32,100
Accrual of freight expense	38,172	44,803
Accrual of salary, staff welfare and unclaimed annual leave	144,728	144,000
Accrual of water, electricity fee and steam	314,091	241,974
Deferred income in respect of government grants	119,163	122,607
Payables in respect of the acquisition of property, plant and equipment	169,181	398,639
	4,009,829	3,758,066
Less: Amount due within one year shown under current liabilities	(3,949,162)	(3,692,715)
Amount shown under non-current liabilities	60,667	65,351

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB42,468,000, RMB101,232,000 and RMB159,993,000 (31 December 2020: RMB57,673,000, RMB107,539,000 and RMB175,846,000), 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).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

15. BORROWINGS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Bank loans	2,099,869	1,989,683
Discounted bills with recourse (<i>note 12</i>)	23,405	26,493
Other loans	124,762	193,475
	<u>2,248,036</u>	<u>2,209,651</u>
Analysed as:		
Secured	385,310	466,148
Unsecured	1,862,726	1,743,503
	<u>2,248,036</u>	<u>2,209,651</u>
The carrying amount of the above borrowings are repayable		
The carrying amount of the bank loans are repayable:		
– Within one year	1,203,125	742,710
– Within a period of more than one year, but not exceeding two years	677,387	1,031,566
– Within a period of more than two years but not more than five years	219,357	215,407
The carrying amount of the non-bank loans are repayable:		
– Within one year	137,730	164,432
– Within a period of more than one year, but not exceeding two years	10,437	55,536
	2,248,036	2,209,651
Less: Amount due within one year shown under current liabilities	(1,340,855)	(907,142)
Amount shown under non-current liabilities	<u>907,181</u>	<u>1,302,509</u>

During the current interim period, the Group obtained borrowings amounting to RMB587,969,000 (six months ended 30 June 2020: RMB2,256,748,000), and the Group repaid borrowings of RMB498,965,000 (six months ended 30 June 2020: RMB3,140,490,000). The borrowings balances carry interest at effective interest rates ranging from 1.4% to 4.71% (31 December 2020: 2.05% to 5.85%) per annum.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

15. BORROWINGS (Continued)

Included in total borrowings is a balance of other borrowing amounting to RMB124,762,000 (31 December 2020: RMB193,475,000) which 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 RMB637,258,000 (31 December 2020: RMB732,029,000) and other pledged deposits of RMB24,000,000 (31 December 2020: RMB24,000,000).

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Foreign currency swap contract – shown under non-current liabilities	5,057	4,573
Foreign currency forward contracts – shown under current liabilities	6,474	–

The Group's derivative financial instruments represent a foreign currency swap contract and foreign currency forward contracts 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:

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

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Sell USD60,000,000 Buy RMB393,600,000	1 June 2022	USD1: RMB6.56
Sell USD60,000,000 Buy RMB393,600,000	13 June 2022	USD1: RMB6.56

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

17. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each:		
Authorised:		
At 1 January 2020, 30 June 2020, 31 December 2020, 1 January 2021 and 30 June 2021	<u>3,800,000,000</u>	<u>38,000</u>
Issued and fully paid:		
At 1 January 2020	1,641,364,053	16,413
Issue of ordinary shares upon conversion of convertible bonds	<u>170,985,319</u>	<u>1,710</u>
At 30 June 2020	1,812,349,372	18,123
Issue of ordinary shares upon conversion of convertible bonds	<u>28,041,136</u>	<u>281</u>
At 31 December 2020 and 30 June 2021	<u>1,840,390,508</u>	<u>18,404</u>
		RMB'000
Shown in the consolidated financial statements as:		
At 30 June 2021		<u>17,183</u>
At 31 December 2020		<u>17,183</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2021

18. CAPITAL COMMITMENTS

At the end of the current interim period, the Group had commitments for capital expenditure of RMB338,336,000 (31 December 2020: RMB354,725,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

19. PLEDGE OF OR RESTRICTIONS ON ASSETS

Pledge of assets

Other than property, plant and equipment and deposits 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Property, plant and equipment	432,377	446,089
Right-of-use assets	175,659	178,270
Bills receivables	23,405	26,493
Pledged bank deposits	595,311	440,194

Restrictions on assets

In addition, lease liabilities of RMB797,000 (31 December 2020: RMB1,686,000) are recognised with related right-of-use assets of RMB825,000 (31 December 2020: RMB1,758,000) as at 30 June 2021. 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 2021

20. RELATED PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fees	311	328
Salaries and other benefits	8,259	8,689
Contributions to retirement benefits schemes	40	16
	<u>8,610</u>	<u>9,033</u>

21. 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 2021

21. 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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)				
Financial assets						
Financial asset at fair value through profit or loss ("FVTPL") – unquoted equity investment	–	500	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% as at 31 December 2020, 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 asset at fair value through profit or loss ("FVTPL") – financial investment product	97,590	–	Level 1	Quoted bid prices by the bank	N/A	N/A
Financial liabilities						
Foreign currency swap contracts classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	5,057	4,573	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
Foreign currency forward contracts classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	6,474	–	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

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 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 2021

22. MAJOR NON-CASH TRANSACTION

During the current interim period, short term borrowings drawn on discounted bills with recourse and bills receivables endorsed to suppliers with full recourse of RMB26,493,000 (six months ended 30 June 2020: RMB61,793,000) and RMB193,984,000 (six months ended 30 June 2020: RMB220,699,000), respectively, have been derecognised when the related receivables were matured. Discounted bills with recourse amount of RMB23,405,000 (30 June 2020: RMB28,451,000) and bills receivables endorsed to suppliers with full recourse amount of RMB181,170,000 (30 June 2020: RMB197,142,000) have been recognised for which the maturity dates of the related receivables have not yet fallen due at the end of the reporting period.

23. EVENT AFTER THE REPORTING PERIOD

On 27 July 2021, the Group and Zhejiang Apelo Biotechnology Co., Ltd., an independent third party, entered into a cooperation framework agreement with respect to establishment of an entity with a registered capital of RMB300,000,000 by way of contribution in cash. The Group holds 49% equity interest in the entity.

The establishment of the entity is for the purposes of strengthening the market dominance of relevant veterinary medicine products by leveraging the technological, market and other resources of both parties, and to jointly promote synergistic business development in the field of veterinary medicine.

As the entity is still under process of establishment, the directors of the Company are of the opinion that there is no material financial impact from the establishment of the entity.

Management Discussion and Analysis

BUSINESS REVIEW

In the first half of 2021, with the expanding coverage of the COVID-19 vaccination, the global economy began to recuperate, and greater improvement is expected in the second half of the year. During the period, with its production and operation progressing steadily, the Group continued to make persistent contribution to the global campaign against the COVID-19 pandemic and unyielding efforts to maintain the stability of the pharmaceutical supply chain.

In the first half of the year, China continued to promote the supply-side structural reform of pharmaceutical services, with the results of the fifth batch of state-organized centralized drug procurement in large quantities announced in June 2021. There were 218 types of drugs in the first five batches of centralized procurement, accounting for more than 30% of the total amount of chemical drug procurement by public medical institutions. In addition, the announcement of the “2021 National Medical Insurance Drug List Adjustment Work Plan” marks the official launch of a new round of adjustments to the national medical insurance drug list. In general, the supply-side reform of pharmaceutical services has been progressing steadily, with the concentration of the industry further deepened, which will eventually benefit the industry leaders.

During the period under review, the Group’s revenue amounted to RMB4,719.1 million, representing an increase of 9.6% as compared with the same period last year. EBITDA was RMB1,056.8 million, representing a year-on-year increase of 39.8%. Profit attributable to owners of the Company was RMB623.1 million, representing an increase of 207.2% as compared with the same period last year. Excluding the impact of non-recurring items such as fair value change arising from convertible bonds, the Company’s adjusted operating profit from core business was RMB624.6 million, representing a year-on-year increase of 46.5%. Earnings per share were RMB33.86 cents.

The Directors declared the payment of an interim dividend of RMB4 cents per share for the six months ended 30 June 2021.

During the period, segmental sales of intermediate products, bulk medicine and finished products amounted to RMB822.0 million, RMB1,968.2 million and RMB1,928.9 million, representing an increase of 18.9%, 5.7% and 10.2%, respectively, as compared with the same period in the previous year. During the period, segmental profit of intermediate products, bulk medicine and finished products amounted to RMB217.8 million, RMB140.7 million and RMB480.9 million, respectively, representing an increase of 135.9%, a decrease of 15.3% and an increase of 15.2% respectively as compared to last corresponding period.

Management Discussion and Analysis

Finished Products Business

During the period, the Group's finished products recorded a total revenue of RMB1,928.9 million, representing an increase of 10.2% over the same period last year. The Group's diabetes products maintained a steady growth, with the insulin product series recording revenue of RMB664.6 million, representing a year-on-year increase of 18.0%. In particular, the recombinant human insulin injection and glargine insulin injection recorded a sales revenue of RMB419.7 million and RMB244.9 million, with their sales volume recording a year-on-year increase of 6.9% and 44.2%, respectively.

For other finished products, antibiotic products recorded a sales revenue of RMB1,129.9 million for the period, representing a year-on-year increase of 22.7%. In particular, Piperacillin Sodium and Tazobactam Sodium for Injection recorded a sales revenue of RMB293.8 million, representing a year-on-year increase of 11.8%. Amoxicillin capsules recorded a sales revenue of RMB224.6 million, representing a year-on-year decrease of 2.0%.

Intermediate Products and Bulk Medicine Business

During the period, the Group's intermediate products and bulk medicine recorded an external sales revenue of RMB822.0 million and RMB1,968.2 million, representing a year-on-year increase of 18.9% and 5.7% respectively. Among them, the sales price of 6-APA remained stable at a high level. The Group's export sales recorded a sales revenue of RMB1,196.6 million, representing a decrease of 13.2% over the same period of the previous year. The Group secured its position as an industry leader in the domestic and export markets for intermediate products and bulk medicine. In addition, In July 2021, United Laboratories (Inner Mongolia) Limited, a wholly-owned subsidiary of the Company, entered into a cooperation framework agreement on veterinary drugs with Zhejiang Apeloa Biotechnology Co., Ltd., pursuant to which, the two parties are to fully exert their respective strengths, and strive to develop all-round competitiveness in technology, production and market in the field of veterinary drugs.

Research and Development Progress

During the period, the expenditure committed by the Group on R&D amounted to RMB203.2 million, and various drug research and development projects progressed well. The Group currently has 24 new products under development which including 11 Class 1 new drugs. In terms of biological R&D, the Group focuses on the development of diabetes drugs, with projects covering insulin aspart injection, insulin degludec injection, liraglutide injection, insulin degludec-insulin aspart mixed injection, and insulin degludecliraglutide injection. In particular, the insulin aspart injection and insulin aspart 30 injection had passed the drug registration approval of National Medical Products Administration on 12 July 2021, with the first batch of insulin aspart products has been successfully delivered on 21 July 2021, and the Group will continue to ensure that the insulin aspart products are efficiently brought to the market for the benefit of the majority of diabetic patients in China. In addition, insulin aspart 50 injection has been approved to conduct clinical trials and Semaglutide Injection has been applied for clinical trials during the period. Based on the increasingly perfect R&D platform, the Group will continue to expand its development of relevant products in the fields of internal secretion, autoimmune disease and ophthalmology.

Management Discussion and Analysis

During the period, the Group made positive progress in the Quality and Efficacy Consistency Evaluation of Generic Drugs (“Consistency Evaluation”). In January 2021, the Group obtained the Drug Registration Certificate and deemed to have passed the Consistency Evaluation for its oral hypoglycemic drug Glipizide Tablets (specification: 5mg) and Tenofovir Dipivoxil Fumarate Tablets (specification: 300mg) for the treatment of chronic hepatitis B and HIV-1 infection in adults. Following the Amoxicillin Capsule (specification: 0.25g) of Zhuhai United Laboratories Co., Ltd. (Zhongshan Branch), a subsidiary of the Group, became the first amoxicillin capsule passed the Consistency Evaluation in the PRC in 2018, the Amoxicillin Capsule (specification: 0.25g) submitted by The United Laboratories Limited also passed the Consistency Evaluation in April 2021. In addition, Memantine Hydrochloride Tablets (specification: 10 mg), a drug to treat Alzheimer’s disease passed the Consistency Evaluation in May 2021. As of June 30, 2021, there are six products of the Group that have passed the Consistency Evaluation, further enhancing its market competitiveness. In the future, the Group will continue to promote the research and development and Consistency Evaluation on new drugs, so as to provide patients with more safe and high-quality drug choices.

Optimisation of Financial Structure

With regard to finance, the Group steps up its efforts to reduce finance costs by adjusting the borrowings mix between onshore and offshore borrowings and continuously optimise its financial structure to improve its liquidity. During the period, the Group’s finance costs amounted to RMB32.4 million, representing a significant period-on-period decrease of 74.5%. As at 30 June 2021, the Group’s cash and bank balances amounted to RMB3,526.2 million and the financial position remained sound.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group had pledged bank deposits, cash and bank balances amounted to RMB4,121.5 million (31 December 2020: RMB3,437.0 million).

As at 30 June 2021, the Group had interest-bearing borrowings of RMB2,248.0 million (31 December 2020: RMB2,209.7 million), which were denominated in Euro, Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of RMB299.9 million (31 December 2020: RMB81.5 million) are fixed rates loans while the remaining balance of RMB1,948.1 million (31 December 2020: RMB2,128.2 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 2021, current assets of the Group amounted to RMB9,408.3 million (31 December 2020: RMB8,225.0 million). Net current assets increased from RMB3,365.1 million at 31 December 2020 to RMB3,763.4 million as at 30 June 2021. The Group’s current ratio was 1.67 as at 30 June 2021 as compared with 1.69 as at 31 December 2020.

As at 30 June 2021, the Group had total assets of RMB15,849.9 million (31 December 2020: RMB14,963.7 million) and total liabilities of RMB6,760.2 million (31 December 2020: RMB6,351.9 million). Equity attributable to shareholders of the Company increased from RMB8,613.9 million at 31 December 2020 to RMB9,090.2 million at 30 June 2021. As at 30 June 2021, the Group’s net cash and bank balances (after deducting borrowings and bills payables) amounted to RMB400.0 million (31 December 2020: RMB20.3 million).

Management Discussion and Analysis

CONTINGENT LIABILITIES

As at 30 June 2021 and 31 December 2020, the Group had no material contingent liabilities.

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.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had approximately 13,000 (31 December 2020: 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.

OUTLOOK

On January 2021, the General Office of the State Council promulgated the "Opinions on Promoting the Normalized and Institutionalized Development of Centralized and Volumetric Drug Procurement" (《國務院辦公廳關於推動藥品集中帶量採購工作常態化制度化開展的意見》), which clearly stipulated that Centralized and Volumetric Drug Procurement is an important measure to promote the supply-side reform of pharmaceutical services simultaneously. It is expected that the scope of Centralized and Volumetric Drug Procurement will be further expanded in future. In the short term, the industry was under pressure to adjust product prices, however, enterprises with comprehensive competitiveness and diversified product systems were still able to gradually adapt to policy requirements. In the long run, industry concentration will be further improved, which is conducive to the long-term and healthy development of the pharmaceutical industry. The Group will also continue to pay attention to the trend of national pharmaceutical policies, focus its resources and optimize its corporate development strategy as well as explore opportunities amidst reforms.

Under the trend of accelerating industry integration, a combination of core strategic products, potential research pipelines and high-quality talents teams will help companies stand out in market competition. In the future, the Group will be committed to and focus on the field of diabetes, actively expand our market coverage, and strengthen brand promotion and professional services, continuously improve our comprehensive competitiveness and enhance the Group's market status in internal secretion and other specialised fields.

In the context of ever-changing pharmaceutical policies, innovation is the key to the sustainable development of an enterprise. The Group will deepen its efforts to allocate more resources to new drug research and development, expand treatment fields, and develop innovative products with market potential to meet medical needs in China Market. Moreover, it will consolidate and expand the scientific research team, enhance the comprehensive strength in scientific research, and proactively embrace the transformation driven by R&D innovation.

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

As at 30 June 2021, the directors and chief executive of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code")):

Long position in the ordinary shares of the Company:

Name of directors	Number of shares	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	Personal interest	0.89%
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 current 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 current period. 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 2021, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

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

Name	<i>Notes</i>	Number of shares held	Percentage of Interest
Heren Far East Limited ("Heren")		898,250,000(L)	48.81%
Heren Far East #4 Limited	(1)	898,250,000(L)	48.81%
IQ EQ (NTC) Trustees Asia (Jersey) Limited	(2)	898,250,000(L)	48.81%

L/S: Long position/short position

Notes:

- (1) 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 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 beneficially owned by Heren 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 2021.

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 2021.

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 2021, 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 was unable to attend the annual general meeting of the Company held on 22 June 2021 due to his 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 2021.

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.

(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.

Other Information

- (c) On 28 May 2021, the Company, as borrower, entered into a facility letter with Nanyang Commercial Bank, Limited for term loan facility of HK\$150,000,000 (or its equivalent amount in USD or EUR). The term loan under the facility letter shall be repaid by four instalments on the dates falling the 18th, 24th, 30th and 36th month after the date of first drawdown.

The facility letter imposes, among other matters, Mr. Tsoi Hoi Shan, Ms. Choy Siu Chit, Ms. Ning Kwai Chun and their family trusts shall (i) remain as the single largest shareholder of the Company; (ii) hold over 40% of the issued shares of the Company; and (iii) remain the absolute management control over the Company and its group companies.

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 2021. 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.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the interim dividend, the Register of Members of the Company will be closed on Monday, 20 September 2021 and Tuesday, 21 September 2021 on which no transfer of shares will be registered. In order to qualify for the interim dividend (record date being 21 September 2021), all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 17 September 2021.

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 in the first half of 2021, as well as all staff for their efforts and contributions. I hope we can join hands and create a better future together.

On behalf of the Board

Tsoi Hoi Shan

Chairman

Hong Kong, 26 August 2021