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The United Laboratories International Holdings Limited

聯邦制藥國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

Interim Results Announcement

For the six months ended 30 June 2021

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Increase
	2021	2020	
	RMB'000	RMB'000	
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%

The Board of Directors (the “Board”) of The United Laboratories International Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2021 together with the comparative figures for the corresponding period in 2020 as follows:

**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		(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	9	RMB cents	RMB cents
- 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		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	13	3,949,162	3,692,715
Dividend payables		147,231	-
Contract liabilities		71,386	78,125
Lease liabilities		797	1,686
Tax payables		129,022	180,196
Derivative financial instruments		6,474	-
Borrowings - due within one year		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 - continued
AT 30 JUNE 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		142,403	119,582
Deferred income in respect of government grants	13	60,667	65,351
Derivative financial instrument		5,057	4,573
Borrowings - due after one year		907,181	1,302,509
		<u>1,115,308</u>	<u>1,492,015</u>
		<u>9,089,696</u>	<u>8,611,835</u>
Capital and reserves			
Share capital		17,183	17,183
Reserves		9,073,042	8,596,723
		<u>9,090,225</u>	<u>8,613,906</u>
Equity attributable to owners of the Company		9,090,225	8,613,906
Equity attributable to non-controlling interests		(529)	(2,071)
		<u>9,089,696</u>	<u>8,611,835</u>
Total Equity		<u>9,089,696</u>	<u>8,611,835</u>

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for 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:

Amendments 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.

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).

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

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

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>

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>
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>

4. OTHER INCOME

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(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 (note)	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	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain (loss)	9,741	(40,672)
Net loss on derivative financial instruments (note)	(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).

6. FINANCE COSTS

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

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

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.

7. TAX EXPENSE - continued

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.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(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	291,592	292,707
Amortisation of intangible assets (included in cost of sales)	6,342	6,175
Staff costs, including directors' emoluments		
Salaries and other benefits costs	559,548	546,944
Contributions to retirement benefit schemes	61,054	43,509
	620,602	590,453
Reversal of write-down of inventories, net (included in cost of sales)	(3,252)	(5,747)
Cost of inventories recognised as expenses	2,623,182	2,506,586

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	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share, being profit for the period attributable to the owners of the Company	<u>623,076</u>	<u>202,836</u>
	Six months ended 30 June	
	2021	2020
	'000	'000
	(Unaudited)	(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 (2019: 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).

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	<u>(180,869)</u>	<u>(105,496)</u>
	3,518,094	3,465,178
Less: Amount due within one year shown under current assets	<u>(3,518,094)</u>	<u>(3,359,499)</u>
Amount shown under non-current assets	<u>-</u>	<u>105,679</u>

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).

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	<u>10,597</u>	<u>-</u>
	<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	<u>9,718</u>	<u>17,861</u>
	<u>1,674,293</u>	<u>1,343,365</u>

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

The Group normally receives credit terms of up to 120 days and 180 days for trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date 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
	<u>1,101,374</u>	<u>1,046,414</u>
Bills payables		
0 to 90 days	867,862	583,980
91 to 180 days	629,546	507,538
Over 180 days	-	139,563
	<u>1,497,408</u>	<u>1,231,081</u>
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
	<u>4,009,829</u>	3,758,066
Less: Amount due within one year shown under current liabilities	<u>(3,949,162)</u>	<u>(3,692,715)</u>
Amount shown under non-current liabilities	<u>60,667</u>	<u>65,351</u>

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.

14. 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.

15. PLEDGE OF ASSETS

Other than plant and machinery and deposits with carrying amount of RMB637,258,000 and RMB24,000,000 (31 December 2020: RMB732,029,000 and RMB24,000,000) respectively pledged to financing institutions, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	30 June 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	<u>595,311</u>	<u>440,194</u>

16. RELATED PARTY TRANSACTION

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

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

17. 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 approximately RMB4,719.1 million, representing an increase of approximately 9.6% as compared with the same period last year. EBITDA was approximately 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.

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 Apelo 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 degludec/liraglutide 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.

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 series, 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 net 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 approximately 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 approximately RMB299.9 million (31 December 2020: RMB81.5 million) are fixed rates loans while the remaining balance of approximately 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 approximately 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 approximately 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 approximately RMB15,849.9 million (31 December 2020: RMB14,963.7 million) and total liabilities of approximately 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).

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.

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.

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

As at the date of this announcement, the Board comprises Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Ms. Choy Siu Chit, Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as executive directors; and Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.