The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)

(Stock Code:3933)

2019

INTERIM REPORT

Our mission is to make life more valuable

Contents

Financial Highlights

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

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 OFFICE

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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
Bank of Communication Co., Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
Industrial and Commercial Bank of China Limited, 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
Chiyu Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

WEBSITE

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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 41, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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
23 August 2019

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019

	NOTES	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Revenue	3	**4,090,023**	3,792,714
Cost of sales		**(2,368,989)**	(2,206,127)
Gross profit		**1,721,034**	1,586,587
Other income	4	**55,203**	50,039
Other gains and losses, net	5	**7**	(22,918)
Selling and distribution expenses		**(762,603)**	(572,161)
Administrative expenses		**(360,226)**	(329,124)
Research and development expenditures		**(118,560)**	(99,651)
Other expenses		**(9,253)**	(7,249)
Impairment loss (recognised) reversed for expected credit loss ("ECL"), net	13	**(9,953)**	9,697
Loss on fair value change on investment properties	11	**(93,332)**	(59,275)
Gain (loss) on fair value change of embedded derivative components of convertible bonds	16	**52,396**	(280,621)
Finance costs	6	**(137,957)**	(126,125)
Profit before taxation		**336,756**	149,199
Tax expense	7	**(40,837)**	(58,022)
Profit for the period attributable to owners of the Company	8	**295,919**	91,177
Other comprehensive income (expense)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of a foreign operation		**737**	(2,299)
Total comprehensive income for the period attributable to owners of the Company		**296,656**	88,878
Earnings per share (RMB cents)	9		
– Basic		**18.05**	5.60
– Diluted		**18.05**	5.60

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	NOTES	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	*11*	**6,273,726**	6,494,202
Right-of-use assets	*11*	**343,201**	–
Investment properties	*11*	**605,092**	698,424
Properties held for development		**255,723**	255,723
Prepaid lease payments		**–**	223,186
Goodwill		**3,031**	3,031
Intangible assets		**135,880**	141,337
Deposit for acquisition of land use rights		**7,262**	7,262
Deposits for acquisition of property, plant and equipment		**34,339**	46,080
Other pledged deposits		**18,000**	20,028
Financial assets at fair value through profit or loss		**500**	500
Deferred tax assets		**15,552**	15,516
		7,692,306	7,905,289
Current assets			
Inventories		**1,524,036**	1,464,661
Trade and bills receivables, other receivables, deposits and prepayments	*12*	**2,700,493**	3,065,886
Prepaid lease payments		**–**	5,406
Pledged bank deposits		**702,393**	555,806
Other pledged deposits		**20,000**	26,709
Bank balances and cash		**2,630,396**	1,578,540
		7,577,318	6,697,008
Current liabilities			
Trade and bills payables, other payables and accrued charges	*14*	**3,932,470**	3,700,672
Dividend payables		**98,383**	–
Contract liabilities		**58,299**	68,439
Obligations under finance leases – due within one year		**–**	108,572
Lease liabilities		**35,763**	–
Tax payables		**59,406**	84,338
Borrowings – due within one year	*15*	**2,923,821**	1,625,638
Bank overdraft		**99,930**	96,644
Convertible bonds	*16*	**804,841**	830,894
		8,012,913	6,515,197
Net current (liabilities) assets		**(435,595)**	181,811
Total assets less current liabilities		**7,256,711**	8,087,100

Condensed Consolidated Statement of Financial Position

At 30 June 2019

	NOTES	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**259,726**	296,866
Deferred income in respect of government grants	*14*	**70,894**	77,453
Obligations under finance leases – due after one year		**–**	7,423
Lease liabilities		**953**	–
Borrowings – due after one year	*15*	**604,823**	1,583,316
		936,396	1,965,058
		6,320,315	6,122,042
Capital and reserves			
Share capital	*17*	**15,346**	15,346
Reserves		**6,304,969**	6,106,696
Equity attributable to owners of the Company		**6,320,315**	6,122,042

The condensed consolidated financial statements from pages 5 to 41 were approved and authorised for issue by the Board of Directors on 23 August 2019 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 2019

	Attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Capital reserve *RMB'000*	Revaluation reserve *RMB'000*	Foreign exchange reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
At 1 January 2018 (Audited)	15,237	2,356,763	277,100	763,404	95,616	2,659	1,930,986	5,441,765
Profit for the period	–	–	–	–	–	–	91,177	91,177
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	(2,299)	–	(2,299)
Total comprehensive income (expenses) for the period	–	–	–	–	–	(2,299)	91,177	88,878
Dividends recognised as distribution	–	–	–	–	–	–	(84,443)	(84,443)
Issue of shares upon conversion of convertible bonds (Note 16)	109	81,068	–	–	–	–	–	81,177
Appropriations	–	–	–	28,507	–	–	(28,507)	–
At 30 June 2018 (Unaudited)	15,346	2,437,831	277,100	791,911	95,616	360	1,909,213	5,527,377
At 1 January 2019 (Audited)	15,346	2,437,831	277,100	846,217	95,616	3,274	2,446,658	6,122,042
Profit for the period	–	–	–	–	–	–	295,919	295,919
Exchange differences arising on translation of a foreign operation	–	–	–	–	–	737	–	737
Total comprehensive income for the period	–	–	–	–	–	737	295,919	296,656
Dividends recognised as distribution	–	–	–	–	–	–	(98,383)	(98,383)
Appropriations	–	–	–	42,808	–	–	(42,808)	–
At 30 June 2019 (Unaudited)	15,346	2,437,831	277,100	889,025	95,616	4,011	2,601,386	6,320,315

Capital reserve represents the People's Republic of China (the "PRC") statutory reserve which must be provided before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of respective subsidiaries.

Included in special reserve is an amount of RMB203,263,000 which represents the portion of registered capital of two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquiring of additional interests in subsidiaries in prior years.

Revaluation reserve represents the fair value adjustments of certain land use rights of the Group situated in Chengdu, the PRC, attributable to the change of land use from owner-occupied lands to investment properties upon cessation of production together with associated deferred tax charge arising from the fair value change. The excess of fair value over the carrying value of lands is recognised as a revaluation surplus included in revaluation reserve in equity.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Operating activities		
Profit before taxation	**336,756**	149,199
Adjustments for:		
Reversal of inventories, net	**(1,381)**	(16,093)
Impairment loss (recognised) reversed for ECL, net	**9,953**	(9,697)
Amortisation of intangible assets	**6,039**	7,058
Amortisation of prepaid lease payments	**–**	3,239
Depreciation of property, plant and equipment	**270,528**	341,791
Depreciation of right-of-use assets	**29,821**	–
Loss on fair value change on investment properties	**93,332**	59,275
Finance costs	**137,957**	126,125
Release of government grants	**(4,684)**	(4,683)
Bank interest income	**(17,913)**	(11,189)
Net losses on disposal of property, plant and equipment	**13,526**	724
(Gain) loss on fair value change of embedded derivative components of convertible bonds	**(52,396)**	280,621
Unrealised exchange (gains) losses	**(10,195)**	35,232
Operating cash flows before movements in working capital	**811,343**	961,602
Increase in inventories	**(57,994)**	(198,959)
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(18,212)**	(210,252)
Increase in trade and bills payables, other payables and accrued charges	**178,458**	152,394
(Decrease) increase in contract liabilities	**(10,140)**	47,200
Cash generated from operations	**903,455**	751,985
Income taxes paid	**(102,945)**	(173,898)
Net cash from operating activities	**800,510**	578,087

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Investing activities		
Prepaid lease payments made	**–**	(22,572)
Payments for purchase of property, plant and equipment	**(149,901)**	(100,203)
Payment for deposits of acquisition of property, plant and equipment	**(8,462)**	(86,500)
Payments for right-of-use assets	**(8,680)**	–
Proceeds on disposal of property, plant and equipment	**718**	340
Placement of pledged bank deposits	**(414,141)**	(151,060)
Withdrawal of pledged bank deposits	**267,554**	107,671
Placement of other pledged deposits	**(18,000)**	–
Withdrawal of other pledged deposits	**26,737**	–
Interest received	**17,913**	11,189
Additions to intangible assets	**(582)**	(692)
Net cash used in investing activities	**(286,844)**	(241,827)
Financing activities		
Interest paid	**(85,538)**	(86,865)
Repayment of obligations under finance leases	**–**	(133,786)
Repayment of leases liabilities	**(82,589)**	–
New borrowings raised	**1,757,316**	601,493
Repayment of borrowings	**(1,055,017)**	(744,114)
Net cash generated from (used in) financing activities	**534,172**	(363,272)
Net increase (decrease) in cash and cash equivalents	**1,047,838**	(27,012)
Cash and cash equivalents at beginning of the period	**1,481,896**	1,593,768
Effect of foreign exchange rate changes	**732**	(2,390)
Cash and cash equivalents at end of the period	**2,530,466**	1,564,366
Represented by:		
Bank balances and cash	**2,630,396**	1,664,287
Bank overdraft	**(99,930)**	(99,921)
	2,530,466	1,564,366

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.

As at 30 June 2019, the Group had net current liabilities of approximately RMB435,595,000. The directors of the Company are of the opinion that, taking into account the available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements that is for at least the next twelve months commencing from the end of the reporting period. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

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

Application of new and amendments to HKFRSs and an interpretation

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

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

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

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

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

Definition of a lease

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

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

As a lessee

Right-of-use assets

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets *(Continued)*

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

Leasehold land and building

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

Refundable rental deposits

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

Lease liabilities

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities *(Continued)*

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

Taxation

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

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

Sales and leaseback transactions

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

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

Definition of a lease

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee

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

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

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

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

On transition, the Group has made the following adjustments upon application of HKFRS 16:

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease (Continued)

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

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

	Notes	At 1 January 2019 RMB'000 (unaudited)
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		3,310
Reclassified from prepaid lease payments	*(a)*	228,592
Amounts included in property, plant and equipment under HKAS 17		
– Assets previously under finance leases	*(b)*	275,701
		507,603
By class:		
Leasehold lands		228,592
Plant and machinery		275,701
Motor vehicles		2,673
Leasehold land and buildings		637
		507,603

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

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at 1 January 2019 amounting to RMB275,701,000 as right-of-use assets. In addition, the Group reclassified the obligations under finance leases of RMB108,572,000 and RMB7,423,000 to lease liabilities as current and non-current liabilities, respectively at 1 January 2019.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

As a lessee *(Continued)*

(c) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. However, no adjustment is made as the directors of the Company consider that the discounting effect is not significant to the condensed consolidated financial statements upon the application of HKFRS 16.

Sales and leaseback transactions

In accordance with the transition provisions of HKFRS 16, sales and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the period, the Group entered into sales and leaseback transaction in relation to certain plant and machinery and the transaction does not satisfy the requirements as a sale. Accordingly, the Group accounts for the transfer proceeds of RMB275,000,000 as borrowing within the scope of HKFRS 9.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs and an interpretation *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Lease *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

Sales and leaseback transactions *(Continued)*

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

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

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

3. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue

For the six months ended 30 June 2019 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
6-APA	360,963	–	–	360,963	–	360,963
Antibiotics products	–	1,868,476	1,081,985	2,950,461	–	2,950,461
Insulin Products	–	–	351,965	351,965	–	351,965
Others	188,937	1,913	235,784	426,634	–	426,634
Revenue from contracts with customers	549,900	1,870,389	1,669,734	4,090,023	–	4,090,023
Inter-segment sales	747,411	218,739	–	966,150	(966,150)	–
Segment revenue	1,297,311	2,089,128	1,669,734	5,056,173	(966,150)	4,090,023

For the six months ended 30 June 2018 (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	612,324	–	–	612,324	–	612,324
Antibiotics products	–	1,604,374	927,701	2,532,075	–	2,532,075
Insulin Products	–	–	280,684	280,684	–	280,684
Others	166,753	4,349	196,529	367,631	–	367,631
Revenue from contracts with customers	779,077	1,608,723	1,404,914	3,792,714	–	3,792,714
Inter-segment sales	813,335	211,800	–	1,025,135	(1,025,135)	–
Segment revenue	1,592,412	1,820,523	1,404,914	4,817,849	(1,025,135)	3,792,714

All of the Group's revenue is recognised at a point in time during the six months ended 30 June 2019 and 2018.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC (country of domicile)	**2,899,077**	2,721,374
Europe	**325,348**	336,341
India	**382,573**	281,799
Hong Kong	**20,403**	18,059
Middle East	**13,712**	15,882
South America	**121,554**	89,672
Other Asian regions	**225,942**	240,313
Other regions	**101,414**	89,274
	4,090,023	3,792,714

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 (i.e. executive directors of the Company) (the "CODM") 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.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

Segment result

The following is an analysis of the Group's revenue and result by operating segments for the periods under review:

For the six months ended 30 June 2019 (Unaudited)

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

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

Segment result *(Continued)*

For the six months ended 30 June 2018 (Unaudited)

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

The performance of the Group is measured based on segment profit that is used by the CODM for the purposes of resource allocation and assessment of segment performance.

Inter-segment turnover is charged at prevailing market rates.

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

Total assets and liabilities for reportable segments are not presented in the condensed consolidated financial statement, as the information is not regularly provided to the CODM.

4. OTHER INCOME

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

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

5. OTHER GAINS AND LOSSES, NET

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

6. FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings	**90,592**	76,044
Interest on convertible bonds *(Note 16)*	**46,091**	45,387
Interest on finance leases	**–**	6,980
Interest on lease liabilities	**1,992**	–
	138,675	128,411
Less: amounts capitalised in property, plant and equipment	**(718)**	(2,286)
	137,957	126,125

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

7. TAX EXPENSE

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

7. TAX EXPENSE *(Continued)*

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

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

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

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

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to the PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%. As at 30 June 2019 and 31 December 2018, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

During the six months ended 30 June 2019, 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 RMB2,335,000 (six months ended 30 June 2018: RMB2,270,000) and nil (six months ended 30 June 2018: RMB232,932,000), respectively for which no deferred tax assets were previously recognised.

During the six months ended 30 June 2019, the deferred tax credit amounting to RMB37,176,000 (six months ended 30 June 2018: RMB56,558,000) was mainly arising from the net release of withholding tax and the land appreciation tax, PRC EIT and other taxes resulting from the decrease in fair value of the investment properties of approximately RMB93,332,000 (six months ended 30 June 2018: RMB59,275,000).

8. PROFIT FOR THE PERIOD

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

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

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	
	2019	2018
	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	**295,919**	91,177

	Six months ended 30 June	
	2019	2018
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Basic and diluted		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,639,721**	1,627,738

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

The computation of diluted earnings per share for the period ended 30 June 2018 does not assume the conversion of the Company's outstanding convertible bonds since their exercise would result in an increase in earnings per share for the period ended 30 June 2018.

10. DIVIDENDS

During the current interim period, a final dividend of RMB6 cents per share in respect of the year ended 31 December 2018 was declared to be paid to the owners of the Company. The aggregate amount of the 2018 final dividend declared in the current interim period amounted to RMB98,383,000. The 2018 final dividend was paid on 27 July 2019.

The board of directors do not recommend payments of interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

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

The Group incurred approximately RMB196,018,000 (six months ended 30 June 2018: RMB128,988,000) on property, plant and equipment to expand and upgrade certain production plants and office buildings primarily in Zhuhai and Inner Mongolia, the PRC, during the six month ended 30 June 2019.

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

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

The fair value of the Group's investment properties as at 30 June 2019 has been arrived at based on a valuation carried out on that date by Ravia Global Appraisal Advisory Limited ("Ravia"), an independent qualified professional valuer. There was no comparable recent sale transaction of land with similar size available in the relevant markets and accordingly the valuation of the leasehold land located in Chengdu ("Chengdu Lands") was determined using the residual method, i.e. discounted cash flows of expected gross development value of the Chengdu Lands and deducting therefrom, inter alia, the development costs to be incurred to arrive at the residual value. The discounted cash flows involve the use of a number of unobservable inputs, such as expected selling price of completed units, construction period, finance cost, construction cost, developer's profit margin, which would expose the Group to fair value measurement risks.

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

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

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

The Group normally allows a credit period of 60 days on average (2018: 60 days on average) to its trade customers, credit period may be extended to selected customers depending on their trade volume and settlement with the Group. The bills receivables have a general maturity period of between 90 days and 180 days.

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

The following is an analysis of trade and bills receivables by age, presented based on the invoice date, net of allowance for credit losses, at the end of the reporting period which approximate the respective revenue recognition dates:

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

At 30 June 2019, the Group had RMB63,326,000 (31 December 2018: RMB373,657,000) 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 2019, the Group continues to recognise an amount of RMB226,586,000 (31 December 2018: RMB522,566,000) representing bills receivables issued by the Group's debtors which had been endorsed to the Group's creditors for settlement (Note 14).

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Impairment loss (recognised) reversed in respect of		
Trade receivables	**(6,002)**	10,586
Other receivables	**(3,951)**	(889)
	(9,953)	9,697

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 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

During the current interim period, the Group provided impairment allowance of RMB6,002,000 for trade receivables and impairment allowance of RMB3,951,000 for other receivables.

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

The Group normally receives credit terms of up to 120 days and 180 days for trade payables and bills payables, respectively, from its suppliers. The following is an analysis of the trade and bills payables by age, presented based on the invoice date at the end of the reporting period:

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

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB121,866,000, RMB16,910,000 and RMB87,810,000 (31 December 2018: RMB26,185,000, RMB413,425,000 and RMB82,956,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills have not yet fallen due as at the end of the reporting period (Note 12).

15. BORROWINGS

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Bank loans	**2,046,404**	1,687,109
Discounted bills with recourse *(Note 12)*	**63,326**	373,657
Bonds	**1,143,914**	1,148,188
Other loans	**275,000**	–
	3,528,644	3,208,954
Analysed as:		
Secured	**949,112**	1,465,735
Unsecured	**2,579,532**	1,743,219
	3,528,644	3,208,954
The carrying amount of the above borrowings are repayable		
Within one year	**2,923,821**	1,586,793
Within a period of more than one year, but not exceeding two years	**529,823**	490,042
Within a period of more than two years, but not exceeding five years	**75,000**	1,093,274
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	**–**	38,845
	3,528,644	3,208,954
Less: Amount due within one year shown under current liabilities	**(2,923,821)**	(1,625,638)
Amount shown under non-current liabilities	**604,823**	1,583,316

* The amount due is based on scheduled repayment dates set out in the loan agreements.

15. BORROWINGS *(Continued)*

During the period, the Group obtained borrowings amounting to RMB1,757,316,000 (six months ended 30 June 2018: RMB601,493,000), and the Group repaid borrowings of RMB1,055,017,000 (six months ended 30 June 2018: RMB744,114,000). The borrowings balances carry interest at effective interest rates ranging from 0.80% to 6.81% (31 December 2018: 0.70% to 6.81%) per annum.

In March 2017, the Group issued fixed rate bonds of RMB1,100,000,000 carrying a fixed coupon rate of 5.5% per annum. The Company has the right to adjust the interest rate after the expiration of 3 years of maturity period, and the interest adjustment notice will be issued on the 30th trading day prior to the 3rd years' interest payment date. The bondholders have the option to extend two more years after the issuance of the interest adjustment notice. The Corporate Bonds were issued to the PRC domestic independent and qualified investors in accordance with the laws and regulations of the PRC, listed and traded on The Shanghai Stock Exchange. The Group expected to settle the Corporate Bonds within the next twelve months from the end of the period and therefore presents the Corporate Bonds as current liabilities as at 30 June 2019.

16. CONVERTIBLE BONDS

As disclosed in the Company's 2017 Annual Report, the Company issued USD denominated Hong Kong Dollars ("HKD") settled 4.5% unsecured convertible bonds at par with the aggregate principal amount of USD130,000,000 with initial conversion price of HK$5.35 and further adjusted to HK$4.86 per share at a fixed exchange rate of HK$7.7563 to USD1.00 (the "Convertible Bonds") on 5 December 2016. Details of the major terms of the Convertible Bonds are disclosed in the Company's 2017 Annual Reports.

In June 2018, the Convertible Bonds with fixed principal amount of USD8,049,000 (equivalent to approximately RMB51,111,000) were converted into total 12,845,770 ordinary shares of HK$0.01 each at a conversion price of HK$4.86 per conversion share (Note 17).

As at 31 December 2018, the Convertible Bonds in an aggregate principal amount of USD121,951,000 (equivalent to approximately RMB839,511,000) remained outstanding with a maturity date of 5 December 2021, subject to bondholders' redemption right exercisable on 5 December 2019, and is classified as a current liability.

During the period ended 30 June 2019, no Convertible Bonds were converted into ordinary shares. As at 30 June 2019, the Convertible Bonds in an aggregate principal amount of USD121,951,000 (equivalent to approximately RMB838,279,000) remained outstanding with a maturity date of 5 December 2019 and is classified as a current liability.

16. CONVERTIBLE BONDS *(Continued)*

The fair value of the Convertible Bonds with embedded derivatives was determined by the directors with reference to a valuation report carried out by an independent valuer. The movement of the Convertible Bonds for the six months ended 30 June 2019 and 2018 are set out as below:

	Debt component RMB'000	**Derivative component** RMB'000	**Total amount** RMB'000
At 1 January 2018 (Audited)	597,504	440,719	1,038,223
Interest charged	45,387	–	45,387
Loss arising on changes in fair value	–	280,621	280,621
Interest paid	(19,878)	–	(19,878)
Conversion into ordinary shares	(37,526)	(43,651)	(81,177)
Exchange loss	7,489	14,050	21,539
At 30 June 2018 (Unaudited)	592,976	691,739	1,284,715
At 1 January 2019 (Audited)	645,640	185,254	830,894
Interest charged	46,091	–	46,091
Gain arising on changes in fair value	–	(52,396)	(52,396)
Interest paid	(18,505)	–	(18,505)
Exchange gain	(388)	(855)	(1,243)
At 30 June 2019 (Unaudited)	672,838	132,003	804,841

17. SHARE CAPITAL

	Number of shares	**Amount** RMB'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	3,800,000,000	36,994
Issued and fully paid:		
At 1 January 2018 and 30 June 2018	1,626,875,000	15,237
Issue of ordinary shares upon conversion of Convertible Bonds *(Note 16)*	12,845,770	109
At 31 December 2018 and 30 June 2019	1,639,720,770	15,346

18. CAPITAL COMMITMENTS

At the end of the reporting period, the Group had commitments for capital expenditure of RMB474,520,000 (31 December 2018: RMB633,246,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

19. PLEDGE OF ASSETS

(a) In addition to the other pledged deposits made to financing leasing companies disclosed elsewhere in the condensed consolidated financial statements, the Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

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

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

20. 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	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Fees	**314**	381
Salaries and other benefits	**8,338**	7,894
Retirement benefits scheme contribution	**60**	61
	8,712	8,336

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).

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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)				
Financial assets						
Financial asset at fair value through profit or loss ("FVTPL") – unquoted equity investment	**500**	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 30% (2018: 30%), determined by reference to recent market research	– A significant increase in the discount for lack of marketability would result in a significant decrease in the fair value
Financial liabilities						
Embedded derivative components of the Convertible Bonds classified as financial instruments accounted for as FVTPL in the condensed consolidated statement of financial position	**132,003**	185,254	Level 3	Binomial Pricing Model is employed in deriving the fair value of the Convertible Bonds. The value of the embedded derivatives component is the difference between the value of the Convertible Bonds and the fair value of the straight note, which is the present value of the contractually determined stream of future cash flows discounted at a rate that provided substantially the same cash flows, on the same terms, but without the derivatives component. The main inputs include term to maturity, dividend yield, risk-free rate, stock price as of the valuation date, exercise price and expected volatility of stock price.	– dividend yield of 1.629% (2018: 1.474%) – volatility of 40.07% (2018: 42.42%) is applied in the Convertible Bonds by reference to the Company's historical volatility	– A significant increase in the dividend yield would result in a significant decrease in the fair value – A slight increase in the volatility in share price would result in a significant increase in the change in fair value

The unrealised fair value gain of embedded derivatives components of the Convertible Bonds is RMB52,396,000 (six months ended 30 June 2018: loss of RMB280,621,000) during the period ended 30 June 2019.

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

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

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

	30.06.2019			31.12.2018		
	Carrying amount RMB'000 (Unaudited)	**Fair value RMB'000 (Unaudited)**	**Fair value hierarchy**	Carrying amount RMB'000 (Audited)	Fair value RMB'000 (Audited)	Fair value hierarchy
Financial liabilities						
Corporate Bonds (included in borrowings)						
– fixed rate	**1,097,575**	**1,100,000**	**Level 1**	1,093,274	1,100,000	Level 1

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

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For the embedded derivative component of the Convertible Bonds and unlisted equity investment, the third party qualified valuers were engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

22. MAJOR NON-CASH TRANSACTION

During the six months ended 30 June 2019, the Group has reclassified certain plant and machinery under sales and leaseback arrangement amounting to RMB143,261,000 from right-of-use assets into property, plant and equipment by exercising the purchase option at nominal amount at the end of the lease term.

23. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 7 August 2019, the Group and Evergrande Real Estate Group (Chengdu) Limited ("Evergrande (Chengdu)"), an independent third party, entered into an Investment and Cooperation Agreement ("the Agreement") with respect to the equity interest of United Laboratories (Chengdu) Limited ("United Laboratories (Chengdu)"), an indirect wholly-owned subsidiary of the Group. Evergrande (Chendu) has conditionally agreed to subscribe for 67% equity interest in United Labortatories (Chengdu) by way of a capital injection and has conditionally agreed to acquire the remaining 33% equity interest in United Laboratories (Chengdu) for a total consideration of RMB1,030,000,000 (subject to adjustments as agreed in the Agreement). Details of the Agreement are set out in the Group's announcement dated 9 August 2019 and supplemental announcement dated 14 August 2019. As at the date of issuance of the condensed consolidated financial statement, the transaction is not yet completed and still in progress.

BUSINESS REVIEW FOR THE FIRST HALF OF 2019

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

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

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

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

Finished Products Business

During the period, the Group's insulin series products recorded a total revenue of RMB372.3 million, representing an increase of 32.6% over the same period last year. In particular, a total of 7,050,200 vials of recombinant human insulin injections (trade name: "United Laboratories USLIN") were sold during the period, up by 14.2% as compared to the same period last year and recording a sales revenue of RMB287.4 million. In addition, the sales performance of insulin glargine injection (trade name: United Laboratories USLEN) was particularly ideal with a sales volume of 611,290 vials, representing an increase of 188.9% as compared with the same period in preceding year, and a sales revenue of RMB84.9 million. Up to now, insulin glargine products of the Group have won the tender through bidding in 22 provinces across the PRC.

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

Intermediate Products and Bulk Medicine Business

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

Research and Development Progress

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

Sales Team and Marketing

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

Optimisation of Financial Structure

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

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 30 June 2019, the Group had bank overdraft of approximately RMB99.9 million (31 December 2018: 96.6 million) and interest-bearing borrowings of approximately RMB3,528.6 million (31 December 2018: RMB3,209.0 million), which were denominated in US dollars, Euro, Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of approximately RMB2,486.7 million (31 December 2018: RMB2,209.9 million) are fixed rates loans while the remaining balance of approximately RMB1,041.9 million (31 December 2018: RMB999.0 million) is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2019, current assets of the Group amounted to approximately RMB7,577.3 million (31 December 2018: RMB6,697.0 million). The Group's current ratio was approximately 0.95 as at 30 June 2019 as compared with approximately 1.03 as at 31 December 2018. As at 30 June 2019, the Group's net gearing ratio (calculated as total bank overdraft, borrowings, bills payables, obligations under finance leases and convertible bonds less cash and bank balances, pledged bank deposits and other pledged deposits to total equity) decreased from 49.75% as at 31 December 2018 to 38.10%.

CURRENCY EXCHANGE EXPOSURES

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

CONTINGENT LIABILITIES

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

OUTLOOK

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

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

In the second half of 2019, the Group will continue to vigorously accelerate the cultivation of innovation and scientific research capabilities, to enhance the competitiveness of its products and capitalise on the industrial transformation to maintain the Group's sustainable growth momentum, hence creating the maximum value for our shareholders, clients and stakeholders.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had approximately 12,600 (31 December 2018: 12,000) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

EVENT AFTER THE REPORTING PERIOD

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

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

As at 30 June 2019, 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	0.99%
Mr. Leung Wing Hon	22,000	Personal interest	0.00%
Ms. Choy Siu Chit	4,607,875	Personal interest	0.28%
Mr. Fang Yu Ping	142,000	Personal interest	0.01%
Ms. Zou Xian Hong	200,000	Personal interest	0.01%
Ms. Zhu Su Yan	100,179	Personal interest	0.01%

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' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

During the period, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, 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	*Notes*	**Number of shares held**	**Percentage of Interest**
Heren Far East Limited ("Heren")		1,006,250,000(L)	61.37%
	(1)	111,450,000(S)	6.80%
Heren Far East #3 Limited	*(2)*	1,006,250,000(L)	61.37%
		111,450,000(S)	6.80%
Heren Far East #4 Limited	*(2)*	1,006,250,000(L)	61.37%
		111,450,000(S)	6.80%
IQ EQ (NTC) Trustees Asia (Jersey) Limited	*(3)*	1,006,250,000(L)	61.37%
		111,450,000(S)	6.80%

L/S: Long position/short position

Notes:

(1) Heren lent a total of 111,450,000 shares to Credit Suisse Group AG, pursuant to a stock borrowing agreement entered into on 21 November 2016.

(2) Each of Heren Far East #3 Limited and Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 1,006,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

(3) IQ EQ (NTC) Trustees Asia (Jersey) Limited (formerly known as First Names (NTC) Trustees Asia Limited) is the trustee of the respective trusts holding entire interest in each of Heren Far East#2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 1,006,250,000 shares of the Company for the purposes of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 30 June 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Company is committed to ensure high standards of corporate governance in the interest of its shareholders.

The Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report ("CG Code") contained in Appendix 14 of the Listing Rules, except for certain deviations which are summarised below:

– **Code Provision A.2.1**

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the six months ended 30 June 2019, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

– **Code Provision A.6.7**

Code provision A.6.7 of the CG Code stipulates that the non-executive directors should attend general meetings of the Company. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 4 June 2019 due to their other important engagements.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the Board. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

AUDIT COMMITTEE

The Audit Committee comprises of three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2019. The Audit Committee has relied on a review conducted by the Company's external auditor in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and representations from the management.

APPRECIATION

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

On behalf of the Board
Tsoi Hoi Shan
Chairman

Hong Kong, 23 August 2019