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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)

2023 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2023	2022	Increase
	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	13,739,879	11,334,262	21.2%
EBITDA	3,976,692	2,640,792	50.6%
Profit before taxation	3,344,148	2,006,766	66.6%
Profit for the year attributable to owners of the Company	2,701,350	1,581,094	70.9%
	<i>RMB cents</i>	<i>RMB cents</i>	
Earnings per share - Basic	148.67	86.89	71.1%
Dividend per share			
- Interim dividend	12.0	5.0	140.0%
- Final dividend	28.0	14.0	100.0%
- Special dividend	12.0	6.0	100.0%
- Full-year dividend	52.0	25.0	108.0%

CHAIRMAN'S STATEMENT

Dear shareholders and partners,

In 2023, China resisted the pressure from external challenges and internal downturn, achieved a well-organized recovery of the national economy and continued upgrade towards a high-quality development. The pharmaceutical industry being as an important component of the national economy has also presented a momentum of high-quality development, propelled by the national policy guide, market demand drive, proactively innovative research & development of enterprises and other factors.

2023 was a critical year that played a linking role in the 14th Five-years Plan. With the continuous deepening of medical insurance system reform, the pharmaceutical industry embraced more opportunities accompanied with equal challenges. High-quality local generic drugs substituted imported drugs at a faster pace, driven by the joint effect of the national organised centralized procurement of drugs ("national centralized procurement"), national medical insurance negotiation and other policies. At the same time, innovative drugs were faster added to the National Drug List for Basic Medical Insurance, Occupational Injury Insurance and Maternity Insurance ("Medical Insurance List"). This has benefited more patients and provoked incentive to enterprises for research, development and innovation. During the year, ten ministries and commissions, including the National Health Commission, jointly initiated a one-year centralised anti-corruption campaign in the medical sector in China, further advanced the healthcare system reform and boosted the healthy development of the pharmaceutical industry. Pharmaceutical enterprises can realise the long-term and high-quality development only by embracing the new opportunity, strengthening research, development and innovation and becoming more competitive in the market without cease.

Review of 2023

In 2023, we achieved satisfactory operating results thanks to our active efforts to promote R&D, production and supply, and sales services. On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I am pleased to present to our shareholders and partners the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023 (the "Year").

In the course of the year, the Group recorded revenue of approximately RMB13,739,900,000, representing an increase of approximately 21.2% year-on-year. Profit attributable to owners of the Company was RMB2,701,400,000, representing a year-on-year increase of 70.9%. Earnings per share were RMB148.67 cents. The Board recommends the payment of a final dividend of RMB28 cents per share and a special dividend of RMB12 cents per share for the year ended 31 December 2023. The dividend for the full year was RMB52 cents together with the distributed interim dividend of RMB12 cents per share.

Made continuous breakthroughs in new drug research and development

The GLP-1 drug pipeline grew vigorously with emerging new blockbuster drugs, and the coverage of multiple new indications further gave birth to enormous market potential. The Group devised a differentiated product pipeline integrating both innovative drugs and biosimilars focusing on the GLP-1 target. During the year, Class 1 innovative drug UBT251 Injection successively obtain the clinical trial approvals in China and U.S., and the Group became the first enterprise in China and the second in the world to be approved for the clinical trials of a long-acting triple agonist of GLP-1 (glucagon-like peptide-1)/GIP (glucose-dependent insulintropic polypeptide)/GCG (glucagon) prepared by chemical synthetic polypeptide. Meanwhile, the Semaglutide Injection and the Liraglutide Injection also made positive progress. The Group focused on metabolism, autoimmunity, ophthalmology, anti-infection and other fields and kept expanding the ongoing new drug pipeline. During the year, the Group obtain the clinical trial approvals for TUL12101 Eye Drops, a Class 1 new drug for dry eye syndrome, and TUL01101 Tablets, a Class 1 new drug for the medium and severe atopic dermatitis. During the year, the Group earmarked the R&D spending of up to RMB808.3 million, representing an increase of 36.2% year-on-year.

Innovation is the fundamental driving force for our development. Relying on the sound R&D system and mature R&D platforms, the Group will continue to promote the process of new drug R&D and listing, expand the layout of research fields with an international vision, improve the construction of high-end talent teams, and continuously enhance the competitiveness and creativity of the Group.

Intermediate products and bulk medicine segments hit new highs

During the year, the rebounding demand mainly from overseas markets caused market prices of relevant intermediate and bulk medicine to climb. The domestic kept growing steadily and the foreign market grew at a faster pace, presenting an overall good trend. The Group has extended its upstream products to cover near 80 countries and regions on the globe, and serving more than 600 customers in China and worldwide. This has come true by establishing trade relations with the BRICK countries and those along the “Belt and Road” and continuously expanding the global sales network and partner network. We will keep the commitment to building a world-leading producer of antibiotic bulk medicines.

In November 2023, the Group initiated a construction of Zhuhai United Laboratories (Gaolan Port) API Project, which will produce bulk medicine for sterile cephalosporin, sterile enzyme inhibitor and other products. It will build an intensive, automatic, intelligent and large-scale pharmaceutical production base, boost the industrial upgrading and enhance the high-quality development of the Group.

Finished products segment realised steady transformation

During the year, the eighth national centralised procurement was initiated and successively implemented, covering drugs for common diseases and chronic diseases like infection, cardiovascular and cerebrovascular diseases, allergy and mental diseases in which the Group’s piperacillin sodium and tazobactam sodium for injection (specification: 4.5g) has won the bidding. As the national centralised procurement is becoming normalised and mature, it will gradually tend to alleviate the impact on drug prices. Following the policy guide, the Group carried forward R&D, innovation and product upgrade and further enhanced the comprehensive competitive edges. The Group will continue to implement the brand strategy, expedite market development and explore the growth potential from multiple dimensions such as market, academic knowledge and product. Meanwhile, the Group will improve sales team management and perfect the talent pipeline. The Group will assure the fast and healthy development of the finished products segment with multifaceted measures, including diversified product and business portfolio and differentiated competitive edges.

Animal healthcare business leaped forward

China’s veterinary drug industry became increasingly standardized and regularized amid the optimization of regulatory rules. The Group expedited the development of the animal healthcare business by seizing the opportunity derived from the systematic upgrade of the industry and relying on our advantages in brand and industrial chain. During the year, the production base construction projects of The United Animal Healthcare (Inner Mongolia) Co., Ltd. and Zhuhai United Animal Healthcare were officially launched. The production base construction of Henan Lianmu Veterinary Medicine Co., Ltd. is also progressing steadily. All these facilities will provide capacity guarantee for the rapid growth of animal healthcare business. Adhering to the principle of “ensuring animal health and protecting human safety”, the Group will continue to put effort into promotion the development of animal healthcare business in South China, North China and Central Regions, cover and serve all animal husbandry regions in China with a view to developing a leading brand of drugs for animal healthcare.

Marched ahead for one decade, and peak up again in the future

It has been ten years since I took over as the Chairman of the Board in 2013. I have deeply felt a profound responsibility and mission in this decade-long journey full of opportunities and challenges. I have always held fast to the development concept of seeking truth and being pragmatic, open-minded and innovative. Benefiting from the struggle and contribution of all colleagues of the Group as well as the attention and support of all shareholders and partners, The United Laboratories has successively stepped out of the plight and made impressive achievements.

Over the past decade, the Group has doubled its revenue by way of taking a series of measures: We optimized the organizational structure, increased the operating efficiency, adjusted the resource allocation, enriched the product portfolio and strengthened external collaboration. At the same time, the Group has built up the scientific research capacity, expanded study fields and international visions, and formed a R&D system with multi-platform and all-round development. In the midst of business expansion, the Group has actively ushered different types of professionals, perfected the incentive mechanism and professional training system, and fully inspired the innovative vitality of the team. In 2023, the Group announced the adoption of the share award plan for the first time. This has achieved a high level of interest synergy between the core members and the Group and further released the corporate value.

As a Chinese pharmaceutical enterprise, we have always kept it in mind to perform the corporate social responsibility. Over the past decade, we have created 5,000 more job positions for the society and continuously earmarked resources for a number of fields like education, epidemic control, disaster relief, poverty alleviation and community care to pay back to the society with real moves. At the same time, the Group has carried forward the green plant project and helped the state achieve the “carbon peak” and “carbon neutral” objectives. Keeping the corporate objective of “Making Life More Valuable” in mind, the Group will create a green, healthy, friendly and efficient social ecosystem hand in hand with all stakeholders.

Looking forward, in face of complex and volatile external climates, the Group will uphold the market-oriented principle, carry forward research, development and innovation as the drive, and seize new development opportunities. Standing at the new start, the Group will lay a solid foundation of the core competitive strengths, accelerate the research, development and commercialisation pace and expand business cooperation. We will refine the diversified business portfolio, continuously enhance comprehensive competitive strengths, realize a high-quality and sustainable development, and create more values for the shareholders and society.

On behalf of the Board, I would like to take this opportunity to express my gratitude to our shareholders and our partners for their full trust and support in long time, as well as to our staff for their hard work and contributions. I hope we can join hands and create a better future together.

Tsoi Hoi Shan
Chairman

Hong Kong, 26 March 2024

2023 ANNUAL RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2023 together with the comparative figures for the year 2022 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	3	13,739,879	11,334,262
Cost of sales		<u>(7,405,042)</u>	<u>(6,365,272)</u>
Gross profit		6,334,837	4,968,990
Other income	4	212,475	165,817
Other gains and losses, net	5(a)	23,671	(88,571)
Selling and distribution expenses		(1,593,799)	(1,662,435)
Administrative expenses		(789,859)	(703,354)
Other expenses	5(b)	(778,386)	(603,615)
Impairment losses reversed under expected credit loss model, net		1,962	11,718
Share of results of an associate		143	(189)
Finance costs	6	<u>(66,896)</u>	<u>(81,595)</u>
Profit before taxation		3,344,148	2,006,766
Tax expense	7	<u>(643,303)</u>	<u>(425,743)</u>
Profit for the year	8	<u>2,700,845</u>	<u>1,581,023</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		425	1,427
Total comprehensive income for the year		<u>2,701,270</u>	<u>1,582,450</u>
Profit (loss) for the year attributable to:			
Owners of the Company		2,701,350	1,581,094
Non-controlling interests		(505)	(71)
		<u>2,700,845</u>	<u>1,581,023</u>
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		2,701,775	1,582,521
Non-controlling interests		(505)	(71)
		<u>2,701,270</u>	<u>1,582,450</u>
Earnings per share	10	RMB cents	RMB cents
- Basic		<u>148.67</u>	<u>86.89</u>

**Consolidated Statement of Financial Position
At 31 December 2023**

	<i>Notes</i>	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	11	6,483,406	5,932,295
Right-of-use assets		390,701	255,586
Goodwill		3,031	3,031
Intangible assets		133,959	100,338
Interests in an associate		7,304	7,161
Deposit for acquisition of land use rights		-	7,262
Deposits for acquisition of property, plant and equipment		130,278	78,476
Financial asset at fair value through profit or loss		500	500
Deferred tax assets		80,800	80,030
		<u>7,229,979</u>	<u>6,464,679</u>
Current assets			
Inventories		2,238,483	2,163,626
Trade and bills receivables, other receivables, deposits and prepayments	12	6,314,480	4,911,704
Derivative financial instruments		-	1,841
Pledged bank deposits		972,249	694,704
Cash and cash equivalents		4,261,989	4,743,071
		<u>13,787,201</u>	<u>12,514,946</u>
Current liabilities			
Trade and other payables	13	6,052,651	5,317,876
Contract liabilities		115,584	132,484
Derivative financial instruments		25,587	10,087
Lease liabilities		2,509	3,744
Tax payables		232,548	209,478
Borrowings - due within one year		197,853	1,359,358
		<u>6,626,732</u>	<u>7,033,027</u>
Net current assets		<u>7,160,469</u>	<u>5,481,919</u>
Total assets less current liabilities		<u>14,390,448</u>	<u>11,946,598</u>

	<i>Note</i>	2023 RMB'000	2022 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		288,080	194,069
Deferred income in respect of government grants	13	32,237	43,413
Derivative financial instruments		19,191	-
Lease liabilities		4,322	3,896
Borrowings - due after one year		1,299,000	1,095,789
		1,642,830	1,337,167
		12,747,618	10,609,431
Capital and reserves			
Share capital		16,965	16,965
Reserves		12,717,813	10,591,121
Equity attributable to owners of the Company		12,734,778	10,608,086
Non-controlling interests		12,840	1,345
Total equity		12,747,618	10,609,431

Notes:

1. General information

The United Laboratories International Holdings Limited (the “Company”) is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (“Stock Exchange”). The Company’s parent company and ultimate holding company is Heren Far East Limited, a company incorporated in the British Virgin Islands and is ultimately controlled by The Choys’ Family Trusts. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at 6 Fuk Wang Street, Yuen Long Industrial Estate, Yuen Long, New Territories, Hong Kong.

The consolidated financial statements are presented in Renminbi (“RMB”) which is also the functional currency of the Company and most of its subsidiaries (the “Group”), the currency of the primary economic environment in which the principal subsidiaries of the Company operate.

2. Application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”)

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ²
Amendments to HKAS 1	Non-current Liabilities with Covenants ²
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ²
Amendments to HKAS 21	Lack of Exchangeability ³

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after 1 January 2024.

³ Effective for annual periods beginning on or after 1 January 2025.

The directors of the Company anticipate that the application of amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. Revenue and segment information

The Group is currently organised into three revenue streams, including Intermediate products, Bulk medicine and Finished products.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

- 1) Intermediate products - mainly represent sales of 6-APA products and penicillin G potassium products;
- 2) Bulk medicine - mainly represent sales of amoxicillin products; and
- 3) Finished products - mainly represent sales of insulin series products, antibiotics products, nervous system drugs, ophthalmic products and veterinary drugs.

(a) Segment revenue and results

Year ended 31 December 2023

	Intermediate products <i>RMB '000</i>	Bulk medicine <i>RMB '000</i>	Finished products <i>RMB '000</i>	Segment total <i>RMB '000</i>	<u>Elimination</u> <i>RMB '000</i>	<u>Consolidated</u> <i>RMB '000</i>
REVENUE						
External sales	2,316,878	6,399,180	5,023,821	13,739,879	-	13,739,879
Inter-segment sales	3,436,223	993,005	-	4,429,228	(4,429,228)	-
Segment revenue	<u>5,753,101</u>	<u>7,392,185</u>	<u>5,023,821</u>	<u>18,169,107</u>	<u>(4,429,228)</u>	<u>13,739,879</u>
RESULT						
Segment profit (Note)	<u>1,984,461</u>	<u>781,837</u>	<u>588,488</u>			3,354,786
Share of results of an associate						143
Unallocated other income						152,447
Unallocated corporate expenses						(166,674)
Unallocated other gains and losses, net						69,790
Impairment losses reversed under expected credit loss model, net						552
Finance costs						(66,896)
Profit before taxation						<u>3,344,148</u>

Note: Segments profit arrived after the deduction of research and development expenditures amounted to RMB757,248,000 of which included intermediate products of 113,744,000, bulk medicine of RMB187,563,000 and finished products of RMB455,941,000 for the year ended 31 December 2023.

Year ended 31 December 2022

	Intermediate products <i>RMB '000</i>	Bulk medicine <i>RMB '000</i>	Finished products <i>RMB '000</i>	Segment total <i>RMB '000</i>	Elimination <i>RMB '000</i>	Consolidated <i>RMB '000</i>
REVENUE						
External sales	1,599,205	5,174,726	4,560,331	11,334,262	-	11,334,262
Inter-segment sales	2,718,504	870,178	-	3,588,682	(3,588,682)	-
Segment revenue	<u>4,317,709</u>	<u>6,044,904</u>	<u>4,560,331</u>	<u>14,922,944</u>	<u>(3,588,682)</u>	<u>11,334,262</u>
RESULT						
Segment profit (Note)	<u>918,762</u>	<u>385,722</u>	<u>796,191</u>			2,100,675
Share of results of an associate						(189)
Unallocated other income						104,125
Unallocated corporate expenses						(97,343)
Unallocated other gains and losses, net						(22,378)
Impairment losses reversed under expected credit loss model, net						3,471
Finance costs						<u>(81,595)</u>
Profit before taxation						<u>2,006,766</u>

Note: Segments profit arrived after the deduction of research and development expenditures amounted to RMB593,598,000 of which included intermediate products of RMB 102,103,000, bulk medicine of RMB184,351,000 and finished products of RMB307,144,000 for the year ended 31 December 2022.

(b) Geographical information

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

	Revenue from external customers	
	2023 <i>RMB '000</i>	2022 <i>RMB '000</i>
The People's Republic of China ("PRC"), including Hong Kong (country of domicile)	11,124,265	8,962,740
Europe	783,732	631,282
India	673,922	556,336
Middle East	46,834	48,294
South America	340,391	297,594
Other Asian regions	603,726	587,835
Other regions	167,009	250,181
	<u>13,739,879</u>	<u>11,334,262</u>

4. Other income

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Bank interest income	105,415	70,737
Sales of scrap materials	2,898	5,925
Subsidy income (Note)	92,490	75,866
Sundry income	11,672	13,289
	<u>212,475</u>	<u>165,817</u>

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

5. Other gains and losses, net/other expenses

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
(a) Other gains and losses, net		
Net loss (gain) on fair value change of derivative financial instruments (Note)	12,399	(37,730)
Gain on disposal of financial assets at fair value through profit or loss	(72,748)	(17,973)
(Reversal of write-down) write-down of deposits for property, plant and equipment	(5,563)	2,168
Net loss on disposal of property, plant and equipment	3,703	4,390
Written off of property, plant and equipment	47,955	78,176
Net foreign exchange (gain) loss	(9,452)	59,412
Others	35	128
	<u>(23,671)</u>	<u>88,571</u>
(b) Other expenses		
Research and development expenditures	757,248	593,598
Tax penalty	5,424	781
Others	15,714	9,236
	<u>778,386</u>	<u>603,615</u>

Note: During the years ended 31 December 2023 and 2022, the Group had entered into several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There were three (2022: three) outstanding derivative financial instruments held by the Group as at 31 December 2023.

6. Finance costs

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Interest on borrowings	81,974	87,971
Interest on lease liabilities	443	570
	<u>82,417</u>	<u>88,541</u>
Less: amounts capitalised in the cost of qualifying assets	<u>(15,521)</u>	<u>(6,946)</u>
	<u><u>66,896</u></u>	<u><u>81,595</u></u>

Borrowing costs capitalised during the current year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.35% (2022: 3.87%) per annum to expenditure on qualifying assets.

7. Tax expense

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
The tax charge comprises:		
Current tax		
Hong Kong Profit Tax	1,547	-
PRC Enterprise Income Tax ("EIT")	499,827	332,625
PRC withholding tax on interest income	5,908	7,316
PRC withholding tax on royalty income	79	-
PRC withholding tax on distributed profits of PRC subsidiaries	<u>42,701</u>	<u>61,290</u>
	<u>550,062</u>	<u>401,231</u>
Deferred tax charge	<u>93,241</u>	<u>24,512</u>
	<u><u>643,303</u></u>	<u><u>425,743</u></u>

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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 2022 and 2021.

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 31 December 2023 and 2022, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

8. Profit for the year

	2023	2022
	RMB'000	RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	5,210	4,704
Depreciation		
Depreciation of right-of-use assets	11,898	11,109
Depreciation of property, plant and equipment	536,303	521,834
Amortisation of intangible assets (included in cost of sales)	17,447	19,488
Staff costs, including directors' emoluments		
Salaries and other benefits	1,491,162	1,260,225
Share-based compensation expenses	6,365	-
Contributions to retirement benefit schemes	151,218	136,781
	1,648,745	1,397,006
Write-down of inventories, net of reversal (included in cost of sales)	43,188	(1,561)
Cost of inventories recognised as expenses	7,405,042	6,365,272

9. Dividends

	2023	2022
	RMB'000	RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the current year		
- 2023 interim dividend RMB12 cents (2022: 2022 interim dividend RMB5 cents) per share	218,043	90,879
- 2022 final dividend RMB14 cents (2022: 2021 final dividend RMB8 cents) per share	254,384	145,406
- 2022 special dividend RMB6 cents (2022: 2021 special dividend RMB2 cents) per share	109,021	36,351
	581,448	272,636

Subsequent to the end of the reporting period, a final dividend of RMB28 cents (2022: RMB14 cents) per ordinary share and a special dividend of RMB12 cents (2022: RMB6 cents) per ordinary share in respect of the year ended 31 December 2023, in an aggregate amount of RMB726,811,000 (2022: RMB363,405,000), have been proposed by the directors of the Company and are subject to approval by the shareholders in the forthcoming annual general meeting.

10. Earnings per share

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

Earnings

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Earnings for the purposes of basic earnings per share being profit for the year attributable to owners of the Company	<u>2,701,350</u>	<u>1,581,094</u>

Number of shares

	2023 <i>'000</i>	2022 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>1,817,027</u>	<u>1,819,730</u>

No diluted earnings per share for both 2023 and 2022 were presented as there were no potential ordinary shares in issue for both 2023 and 2022.

11. Property, plant and equipment

During the year ended 31 December 2023, the Group spent approximately RMB1,143,439,000 (2022: RMB701,986,000) on the acquisition of property, plant and equipment in order to upgrade its manufacturing capabilities.

12. Trade and bills receivables, other receivables, deposits and prepayments

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables from contracts with customers	2,378,638	2,110,751
Less: allowance for credit losses	(12,459)	(6,839)
Banker's acceptance bills receivables	3,496,731	2,360,224
Less: allowance for credit losses	(193)	(848)
Commercial bills receivables	-	18,909
Less: allowance for credit losses	-	(6,375)
Consideration receivables	339,574	339,574
Less: allowance for credit losses	(339,574)	(339,574)
Value added tax receivables	141,454	115,866
Other receivables, deposits and prepayments	316,253	326,512
Less: allowance for credit losses	(5,944)	(6,496)
	<u>6,314,480</u>	<u>4,911,704</u>

At 1 January 2022, gross carrying amount of trade receivables from contracts with customers amounted to RMB1,624,198,000.

The Group normally allows a credit period of 45 days to 120 days (2022: 60 days to 120 days) to its trade customers, and may be extended to selected customers depending on their trade volume and historical settlement records with the Group. The banker's acceptance bills receivables and commercial bills receivables have a general maturity period of between 90 days and 1 year (2022: between 90 days and 1 year).

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on dates of transferring control of the goods, and an analysis of banker's acceptance bills receivables and commercial bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date, at the end of the reporting period:

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from contracts with customers		
0 to 30 days	920,770	1,026,413
31 to 60 days	617,185	478,510
61 to 90 days	316,779	262,065
91 to 120 days	237,530	143,763
121 to 180 days	201,745	127,389
Over 180 days	72,170	65,772
	<u>2,366,179</u>	<u>2,103,912</u>
Banker's acceptance bills receivables		
0 to 30 days	695,328	574,224
31 to 60 days	581,264	430,013
61 to 90 days	628,692	323,647
91 to 120 days	631,535	410,900
121 to 180 days	875,400	591,962
Over 180 days	84,319	28,630
	<u>3,496,538</u>	<u>2,359,376</u>
Commercial bills receivables		
91 to 120 days	-	12,534
	<u>-</u>	<u>12,534</u>

13. Trade and other payables

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

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables		
0 to 90 days	1,906,603	1,551,147
91 to 180 days	323,501	367,388
Over 180 days	8,048	51,820
	<u>2,238,152</u>	<u>1,970,355</u>
Trade payables under supplier finance arrangement (Note)		
0 to 90 days	1,021,012	779,384
91 to 180 days	960,917	808,685
	<u>1,981,929</u>	<u>1,588,069</u>
Other payables and accruals	485,088	485,992
Other tax payable	143,899	158,654
Accrual of freight expense	78,729	76,441
Accrual of salary, staff welfare and unclaimed annual leave	214,411	191,578
Accrual of water, electricity fee & steam	345,045	370,618
Deferred income in respect of government grants	73,585	95,859
Payables in respect of the acquisition of property, plant and equipment	<u>524,050</u>	<u>423,723</u>
	6,084,888	5,361,289
Less: Amount due within one year shown under current liabilities	<u>(6,052,651)</u>	<u>(5,317,876)</u>
Amount shown under non-current liabilities	<u><u>32,237</u></u>	<u><u>43,413</u></u>

Note: These relate to trade payables in which the Group has issued bills to the relevant suppliers for future settlement of trade payables. The Group continues to recognise these trade payables as the relevant banks are obliged to make payments only on due dates of the bills, under the same conditions as agreed with the suppliers without further extension. In the consolidated statement of cash flows, settlements of these bills are included within operating cash flows based on the nature of the arrangements.

14. Capital commitments

	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>989,055</u>	<u>355,691</u>

15. Pledge of assets

As at 31 December 2023, the Group had pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Property, plant and equipment	22,440	416,896
Rights-of-use assets	38,354	167,837
Banker's acceptance bills receivables	23,853	251,378
Pledged bank deposits	<u>972,249</u>	<u>694,704</u>

16. Related party transactions

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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Fees	645	666
Salaries and other benefits	18,674	17,884
Contributions to retirement benefits schemes	<u>76</u>	<u>89</u>
	<u>19,395</u>	<u>18,639</u>

During the year, the Group entered into the following transactions with a related party:

<u>Name of related party</u>	<u>Nature of transaction</u>	<u>Relationship</u>	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
寧波普邦生物科技有限公司	Sale of goods	Associate	1,770	-
	Trade advance		<u>7,500</u>	<u>-</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2023, the Group recorded revenue of approximately RMB13,739.9 million, an increase of approximately 21.2% as compared with last year. Earnings before interest, tax, depreciation and amortisation was approximately RMB3,976.7 million, representing a year-on-year increase of 50.6%. Profit attributable to owners of the Company was RMB2,701.4 million, representing a year-on-year increase of 70.9%. Earnings per share were RMB148.67 cents. The Board recommended the payment of a final dividend of RMB28 cents per share and a special dividend of RMB12 cents per share for the year ended 31 December 2023. Together with the interim dividend of RMB12 cents per share already paid, the total dividend for the year was RMB52 cents per share.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 33.2%, 22.3% and 10.2% respectively as compared with last year. Segmental result of intermediate products and bulk medicine increased by 116.0% and 102.7% respectively as compared with last year. Segmental result of finished products decreased by 26.1% as compared with last year.

The operating results of each segment of the Group are summarised as follows:

Intermediate Products and Bulk Medicine

During the year, the intermediate products and bulk medicine segment recorded external sales of approximately RMB2,316.9 million and RMB6,399.2 million, respectively, representing a year-on-year increase of 44.9% and 23.7%, respectively. The rebound in demand represented by overseas markets has led to a steady rise in the market prices of intermediate products and bulk medicine related products. Overseas export recorded sales of RMB2,615.6 million, representing a year-on-year increase of 10.3%, and accounted for 19.0% of total revenue of the Group. The Group continued to occupy a leading position in the domestic and export market of intermediate products and bulk medicine.

The bulk medicine production base of the Group located in Gaolan Port, Zhuhai City, commenced construction in November 2023. The base plans to cover a total floor area of approximately 120,000 square meters. It will mainly construct three bulk medicine workshops for sterile cephalosporin, one workshop for sterile enzyme inhibitors, one workshop for ordinary chemical drug and a series of associated facilities. It will improve the intensive, automatic and intelligent level of the Group's bulk medicine production, and expand the business scale.

Finished Products

During the year, the external sales of finished products was approximately RMB5,023.8 million, representing a year-on-year increase of 10.2%.

Diabetic drugs recorded the sales revenue of approximately RMB1,117.6 million, representing a decrease of 4.9% year-on-year. Among them, the human insulin recorded the sales revenue of approximately RMB506.6 million. The insulin analog recorded the total sales revenue of approximately RMB611.0 million, and the sales volume remained rapid growth during the year.

Antibiotic products, including veterinary drugs, recorded the sales revenue of RMB3,532.8 million, representing an increase of 15.3% year-on-year. In detail, the tazobactam sodium for injection recorded the sales revenue of RMB676.6 million, representing an increase of 0.6% year-on-year. Amoxicillin capsules recorded sales revenue of RMB546.9 million, representing a decrease of 5.5% year-on-year. During the year, the tazobactam sodium for injection of the Group (specification: 4.5g) successfully won the bid for the eighth batch of centralised drug procurement of the state.

The veterinary drugs recorded sales revenue of RMB1,180.1 million, representing a significant increase of 48.1% year-on-year. During the year, United Laboratories (Inner Mongolia) Limited smoothly obtained the veterinary drug production license for TylosinTartrate and passed the GMP acceptance. Also, its oral solution production line successively passed the GMP certification. In addition, the veterinary drugs production base of the Group located in Gaolan Port, Zhuhai City, commenced construction in November 2023. The Group actively responds to national policies. This project is an important project to optimize the structure of the veterinary drug industry, enhance the level of intensive development, and promote industry transformation and upgrade. It is of great significance to the development of the Group's animal healthcare business. In addition, the production base construction of The United Animal Healthcare (Inner Mongolia) Co., Ltd. and Henan Lianmu Veterinary Medicine Co., Ltd. is also progressing steadily.

Progress of Pharmaceutical Research and Development

During the year, the Group invested a total of RMB808.3 million in pharmaceutical research and development, with a year-on-year increase in R&D of 36.2%, including expensed R&D investment of RMB757.2 million and capitalization R&D investment of RMB51.1 million. The Group had 39 new human drug products under development, of which 19 products are Class 1 new drugs. The Group has established a comprehensive research and development system composed of multiple platforms, including biological research and development, chemical drug research and development, innovative drug research and development, clinical research center, and external cooperation developing in synergy. We focus on endocrine, autoimmune, ophthalmology and high-end anti-infection fields.

During the year, the Group made the following major progress in R&D:

- In March 2023, Class 1 new drug **TUL12101 Eye Drops** was approved for clinical trials. TUL12101, a new-generation small-molecule RASP (reactive aldehydes) inhibitor developed by the Group, can relieve inflammatory reactions, break the vicious cycle of inflammation, and achieve the goal of treating dry eye syndrome. Currently, no other products adopting the same mechanism have been marketed in China and abroad.
- In April 2023, **Insulin Degludec/Liraglutide Injection** was approved for clinical trials. The Group is the first enterprise that has obtained the clinical trial approval for this biosimilar drug in China.
- In April 2023, the indication of weight management for **Semaglutide Injection** was approved for clinical trials. In July, the subjects were recruited for the phase III clinical trial treating the diabetes indication.
- In August 2023, the registration application of **Liraglutide Injection** was accepted. Liraglutide, a GLP-1 analog, is used to treat diabetes II of adults, and an injection a day can satisfy the glucose reduction need of patients.
- In August 2023, **UBT251 Injection**, a Class 1 new drug used to treat such diabetes II of adults, was approved for clinical trials. In September, it was approved to address the indications of overweight, obesity and non-alcohol fatty liver disease. In addition, in September, the clinical trial application for the new drug address diabetes II of adults, overweight or obesity indications was approved by the US Food and Drug Administration (“FDA”).
- In September 2023, Class 1 new drug **TUL01101 Tablets** was approved for clinical trials. The drug, used to treat medium and severe atopic dermatitis, features a definite efficacy and minor side effect.

As to the quality and efficacy consistency assessment of generic drugs (“consistency assessment”), the Group successively passed the consistency assessment with regard to amoxicillin capsules (specification: 0.5g), tazobactam sodium for injection (specification: 2.25g), Ibuprofen Sustained Release Capsules (specification: 0.3g) and the Meropenem for Injection (specifications: 0.25g; 0.5g). The Group will continuously advance the new drug research, development and consistency assessment, and provide more safe and high-quality drug choices for patients.

Optimising Financial Structure

In terms of finance, the Group continuously optimised the financial structure to improve liquidity by adjusting the ratio of onshore and offshore borrowings and reducing the financial expenses. During the year, the finance cost of the Group were RMB66.9 million, representing a year-on-year decrease of 18.0%. As at 31 December 2023, the Group’s net bank balances and cash (after deducting bank borrowings and trade payables under supplier finance arrangement) amounted to RMB1,755.5 million (2022: RMB1,394.6 million). The Group will actively adjust its financial structure by using onshore RMB as the main borrowing currency in its efforts to enhance financial flexibility and efficiency in the utilisation of funds and to maintain a healthy financial position.

Liquidity and Financial Resources

As at 31 December 2023, the Group had pledged bank deposits, bank balances and cash amounted to approximately RMB5,234.2 million (2022: RMB5,437.8 million).

As at 31 December 2023, the Group had interest-bearing borrowings of approximately RMB1,496.9 million denominated in Renminbi (2022: RMB2,455.1 million denominated in Hong Kong dollars and Renminbi) with maturity within five years. Borrowings of approximately RMB23.9 million is on a fixed rate basis while the remaining balance of approximately RMB1,473.0 million is on a floating rate basis. 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 31 December 2023, current assets of the Group amounted to approximately RMB13,787.2 million (2022: RMB12,514.9 million). Net current assets increased from RMB5,481.9 million as at 31 December 2022 to RMB7,160.5 million as at 31 December 2023. The Group’s current ratio was approximately 2.08 as at 31 December 2023, as compared with 1.78 as at 31 December 2022. As at 31 December 2023, the Group had total assets of approximately RMB21,017.2 million (2022: RMB18,979.6 million) and total liabilities of approximately RMB8,269.6 million (2022: RMB8,370.2 million). Equity attributable to owners of the Company increased from RMB10,608.1 million at 31 December 2022 to RMB12,734.8 million at 31 December 2023. As at 31 December 2023, the Group’s net bank balances and cash (after deducting bank borrowings and trade payables under supplier finance arrangement) amounted to RMB1,755.5 million (2022: RMB1,394.6 million).

Currency Exchange Exposures

The Group’s purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly denominated in Renminbi and Hong Kong dollars. The Group’s borrowings are denominated in Hong Kong dollars and Renminbi. The Group’s treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Employees and Remuneration

As at 31 December 2023, the Group had approximately 15,000 (2022: 14,000) 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.

Adoption of Share Award Scheme

As announced on 4 August 2023, the Board proposed to adopt the share award scheme (the “2023 Share Award Scheme”). The purpose of the 2023 Share Award Scheme is to recognise the contributions by certain selected participants with an opportunity to acquire a proprietary interest in the Company, encourage and retain such individuals for the continual operation and development of the Group, provide additional incentives for them to achieve performance goals, attract suitable personnel for the further development of the Group and motivate the selected participants to maximize the value of the Company for the benefits of both the selected participants and the Company.

The 2023 Share Award Scheme was approved for adoption in the extraordinary general meeting held on 26 October 2023. On 13 November 2023, the Board resolved to grant a total of 12,096,900 award shares to selected participants in accordance with the terms of the 2023 Share Award Scheme.

Contingent Liabilities

As at 31 December 2023 and 2022, the Group had no material contingent liabilities.

Litigations

Reference is made to the Company’s announcements dated 9 August 2019, 14 August 2019 and 9 November 2022 in relation to the investment and cooperation agreement with 恒大地產集團成都有限公司 (Evergrande Real Estate Group (Chengdu) Limited) (“Evergrande (Chengdu)”). The Group applied for the commencement of an action against, among others, Evergrande (Chengdu) on 7 March 2022 in the Guangzhou Intermediate People’s Court for recovery of the outstanding consideration receivables of approximately RMB340 million and relevant damages and received a notice of acceptance on 14 March 2022 (the “Action”). Due to the large number of actions against China Evergrande Group commenced in the Guangzhou Intermediate People’s Court, the Action is handled by the Chengdu Intermediate People’s Court. The Chengdu Intermediate People’s Court heard the case on 6 June 2023 and handed down the judgement dated 28 December 2023 allowing the Group’s claim of approximately RMB136.3 million but rejecting other claims of the Group. The Group has appealed to the Sichuan Province Higher People’s Court against the judgement. The Company will make further announcement(s) on the progress of the appeal as and when appropriate.

Save for the above, there was no other material litigations during the Year.

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 year ended 31 December 2023.

CORPORATE GOVERNANCE

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group’s performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2023, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code (“CG Code”) and Corporate Governance Report contained in Appendix 14 of Listing Rules, except for deviation which is summarised below:

– Code Provision C.2.1

Under the code provision C.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 year ended 31 December 2023, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

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 directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

The Audit Committee comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2023, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend and the special dividend, the Register of Members of the Company will be closed on Wednesday, 19 June 2024 and Thursday, 20 June 2024 on which no transfer of shares will be registered. In order to qualify for the final dividend and the special dividend (record date being Thursday, 20 June 2024), 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 Tuesday, 18 June 2024.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises (1) 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 (2) Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi as independent non-executive directors.