LANSEN PHARMACEUTICAL HOLDINGS LIMITED
朗生醫藥控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock code: 503)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022 AND PROPOSED ADOPTION OF THE NEW AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2022	2021	**Change**
Results (US$'000):			
Revenue	**65,558**	54,180	**21.0%**
Gross profit	**44,295**	34,409	**28.7%**
Profit from operations	**14,158**	5,558	**154.7%**
Profit before income tax	**9,915**	2,404	**312.4%**
Profit attributable to owners of the Company	**8,597**	903	**852.0%**
Profitability:			
Gross profit margin	**67.6%**	63.5%	**4.1%**
Net profit margin	**13.1%**	1.7%	**11.4%**
Basic earnings per share (US cents)	**2.12**	0.23	**1.89**

	As at 31 December		
	2022	2021	**Change**
Financial Position (US$'000):			
Total assets	**183,958**	172,312	**6.8%**
Equity attributable to owners of the Company	**121,950**	116,601	**4.6%**
Total liabilities	**62,008**	55,711	**11.3%**
Cash and bank balances	**76,305**	48,489	**57.4%**
Liquidity:			
Current ratio (times)	**2.2**	2.1	**0.1**
Net debt-to-equity ratio*	**N/A**	N/A	**N/A**

* Net debt-to-equity ratio = (Borrowings – cash and bank balances)/Total equity

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors of Lansen Pharmaceutical Holdings Limited (the "Company") and its subsidiaries ("Lansen" or the "Group"), I am pleased to present the annual results announcement of the Group for the financial year ended 31 December 2022 to all shareholders.

Review of 2022

The Group has steadily developed its pharmaceutical business in 2022 in accordance with its established strategies, such as continuously achieving both market and product coverages in terms of sales activities, along with cost reductions and efficiency enhancement in supply and production. The Group also planned to grow its product portfolio by ways of strengthening research and development, resuming production of existing products, and bringing in new products. Given all these efforts, we hope to lay a solid foundation for the Group's development in the coming years.

In 2022, these efforts were beginning to reflect in the growth in sales and performance which showed recovery growth. The Group recorded a total revenue of approximately US$65.6 million, representing an increase of approximately 21.0% over last year, mainly due to the contribution of the Group's leading products, Pafulin and Sicorten Plus. The Group recorded an operating profit of approximately US$14.2 million in 2022, representing an increase of 154.7% over last year. Such increase was mainly attributed to higher revenue and improved gross profit margin as a result of cost reduction and efficiency enhancement. The Group recorded a net profit of approximately US$8.6 million in 2022, making an increase of approximately 852.0%, compared to last year's modest profit of approximately US$0.9 million.

I. PHARMACEUTICAL BUSINESS STRATEGY: FULL MARKET AND PRODUCT COVERAGE IN SALES ACTIVITIES, COST REDUCTION AND EFFICIENCY ENHANCEMENT IN PRODUCTION LINE, AND PRODUCT PORTFOLIO EXPANSION

To strengthen two coverages in sales activities

– ***Full market coverage***

1. Hospital sales channel: our self-run hospital team continued to strengthen the work and collaboration with the medical marketing department during the year to enhance academic promotion. We also sped up our research on the application of new indications of Pafulin based on rheumatology, and commenced the exchange and sharing of experience among related divisions, such as dermatology and stomatology, as well as multi-treatment areas, with the aim to extend our brand influence in different divisions of the developed hospitals.

Meanwhile, the Group was committed to developing its low-tier sales network in accordance with the stratified care policy. Our primary goal was to reach the secondary or grass-roots hospitals, with an emphasis on the development of medical alliances and county hospitals (county cooperation), and particularly, our main focus was on hospitals located in more populous and developed counties.

2. Commercial distribution channel: with enhanced product pricing management, we were able to increase the number of hospitals that purchased our medicine in terms of commercial distribution by partnering with distributors who have the resources and comprehensive networks to maximise the influence of Lansen products.

3. Semi-self-run team in grass-roots areas: semi-self-run team carried out refined semi-self-run promotion for all products in remote areas and areas not covered by the self-run hospital team, to expand the coverage and sales of grass-roots terminals, and enhance our product promotion at grass-roots level by partnering with more organisations.

4. OTC retail channel: in terms of the distribution and expansion of retail channels, the OTC retail team has started to experiment with the deployment of major OTC chain channels and promoted the expansion of OTC's broader market coverage during the year.

In 2022, the Group's target hospitals above the secondary level that purchased our medicine increased by approximately 3.3% to 2,597 from 2,514 in 2021, while grass-roots hospitals that purchased our medicine increased by approximately 9.0% to 1,552 from 1,424 in 2021.

– ***Full product coverage***

The Group's core products, Pafulin and Sicorten Plus, served as the stepping stone for us to promote other products of the Group to different speciality divisions, including medicine products with independent production approvals which the Group plans to resume production, resulting in a rise in sales and forming a marketable product mix. In 2022, some hospitals have already increased the number of the Group's product categories.

To strive for cost reduction and efficiency enhancement in the production line

The Group optimised the supply and production chain, and gradually facilitated the construction of the supply chain for key raw materials, with the implementation of cost reduction and efficiency enhancement through multiple channels and projects. We also further strengthened the safety and sustainability of the supply of key raw materials by increasing inventories at a safe and reasonable level, while improving the economic control of procurement. The production chain used energy-saving equipment and technology applications, and process optimisation to improve its cost-effectiveness. During the year, these efforts enabled us to reduce production costs and ensure product quality.

To strengthen product research and development, accelerate production resumption and introduce products with market value to expand product portfolio

The Group continued with its research and development efforts on Pafulin, including research on the mechanism of action and new indications. At the same time, the Group facilitated the technological improvement and resumed production of more than 20 medicine products with independent production approvals, and achieved our goal to resume production of Chanfukang Keli and Notoginseng capsules during the year. The Group also actively sought to introduce products with market value to strengthen its product portfolio.

II. HEALTHCARE BUSINESS STRATEGY: TO DEVELOP THE PLANT EXTRACT BUSINESS AND HEALTHCARE PRODUCT BUSINESS IN BOTH DIRECTIONS THROUGH THE DEVELOPMENT PLATFORM OF NATURAL DAILYHEALTH

With respect to the healthcare business, the Group continued to take Natural Dailyhealth Holdings Limited ("Natural Dailyhealth"), its associate, as a platform for business development.

Our development strategy for the plant extract business included: (i) strengthening the professional construction and management of our sales team, expanding our market development channels, and continuously improving our sales team's ability to explore opportunities; and at the same time, we continued to enhance the market recognition and brand influence of our plant extract products by implementing the strategy of developing high-quality products; (ii) increasing Natural Dailyhealth's bargaining power and improving the cost-performance ratio of our raw material procurement by sourcing from the source while building inventories at a safe level for key raw materials; (iii) optimising our manufacturing process and cost control capabilities to reduce costs and enhance efficiency.

However, we have faced difficulties in sourcing raw materials for our plant extract business of Natural Dailyhealth this year, and our export business has also been affected due to the international situation, changing market and other factors. For example, the Russo-Ukrainian War has disrupted the supply in Ukraine, a major production area for lingonberry raw materials, while New Zealand, a major production area for blackcurrant, has also reduced production due to climatic factors, and the procurement prospects of the U.S. buyers have been affected by economic and tariff policy adjustments. However, due to the expansion of our domestic plant extract business strategy, the increase in domestic sales has reduced the impact of these negative factors on Natural Dailyhealth's revenue and profit.

With respect to the healthcare product business, we aimed to develop a product matrix with core strength as main milestones and establish a production base in Hong Kong to build a "Made in Hong Kong" brand, which is positioned as providing high-quality healthcare products. Our current focus is on developing, manufacturing and registering (filing) featured products in the Mainland and Hong Kong. We will not launch our healthcare products under Natural Dailyhealth to the market until a sufficient number of featured products and brands are in place.

III. OTHERS: TO DISCONTINUE THE INVESTMENT OF NEW RESOURCES IN THE COSMETIC BUSINESS

With respect to the cosmetic business, the Group decided to discontinue its investment of new resources during the year after reviewing the development strategy and effectiveness in the past few years, while the Company's resources would instead be focused on its pharmaceutical and healthcare business development. We would only consider reinvestment in the cosmetic business when we have worked out a clear sales strategy with quality products and a professional team to be presented at the right moment.

Outlook for 2023

As a crucial year in the post-pandemic era in China, the year 2023 becomes an important window of opportunity to reshape the pharmaceutical and healthcare industries and upgrade our businesses through transformation. Looking ahead to 2023, the Group will continue to adhere to its established development strategies for its pharmaceutical and healthcare business.

Proactively following the direction of the national policy on tiered diagnosis and treatment, the Group will continue to increase its efforts on total market and product coverage, reduce costs and enhance efficiency, and at the same time, actively introduce new products through production resumption, research and development or acquisition and merger to strengthen its product portfolio and build a premium brand to ensure continuous stable growth of the Group's business.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	**2022** ***US$'000***	2021 *US$'000*
Revenue	*4*	**65,558**	54,180
Cost of sales		**(21,263)**	(19,771)
Gross profit		**44,295**	34,409
Other income	*4*	**1,193**	722
Selling and distribution expenses		**(19,458)**	(17,366)
Administrative expenses		**(9,630)**	(9,538)
Research and development costs		**(2,132)**	(2,686)
Loss allowance (recognised)/reversed on financial assets		**(110)**	17
Profit from operations		**14,158**	5,558
Other non-operating income and expenses, net	*6*	**(1,250)**	(4,618)
Fair value gain on other financial liabilities		–	47
Finance income	*7*	**875**	3,938
Finance costs	*7*	**(2,968)**	(1,532)
Share of post-tax result of associates		**(900)**	(989)
Profit before income tax	*8*	**9,915**	2,404
Income tax expense	*9*	**(1,318)**	(1,501)
Profit for the year		**8,597**	903

	Note	2022 US$'000	2021 US$'000
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
— Exchange differences arising on translation of foreign operations		**(7,234)**	788
Exchange difference reclassified to profit or loss upon disposal of subsidiaries		**–**	143
Other comprehensive income for the year, net of tax		**(7,234)**	931
Total comprehensive income for the year		**1,363**	1,834
Profit attributable to owners of the Company		**8,597**	903
Total comprehensive income attributable to owners of the Company		**1,363**	1,834
		US cents	*US cents*
Earnings per share			
— Basic and diluted	*11*	**2.12**	0.23

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 US$'000	2021 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**19,553**	23,242
Right-of-use assets		**1,698**	1,950
Investment property		**555**	627
Intangible assets		**21,213**	22,850
Goodwill		**6,824**	6,824
Deferred tax assets		**859**	–
Interests in associates		**813**	2,196
		51,515	57,689
Current assets			
Inventories		**10,032**	7,391
Trade and other receivables	*12*	**37,132**	49,876
Loan to an associate	*13*	**8,974**	8,855
Tax recoverable		**–**	12
Pledged bank deposits		**9,814**	15,944
Restricted bank deposits		**15,165**	–
Cash and cash equivalents		**51,326**	32,545
		132,443	114,623
Total assets		**183,958**	172,312
EQUITY AND LIABILITIES			
Capital and reserves			
Equity attributable to owners of the Company			
Share capital		**4,204**	3,773
Share premium		**17,204**	11,299
Treasury shares		**(2,350)**	—
Foreign exchange reserve		**(2,396)**	4,838
Statutory reserve		**11,549**	10,621
Retained profits		**93,739**	86,070
Total equity		**121,950**	116,601

	Note	2022 US$'000	2021 US$'000
Non-current liabilities			
Lease liabilities		**31**	204
Deferred tax liabilities		**2,012**	2,032
		2,043	2,236
Current liabilities			
Borrowings		**18,235**	24,687
Lease liabilities		**330**	336
Current tax liabilities		**777**	539
Trade and other payables	*14*	**39,148**	26,589
Contract liabilities		**168**	77
Other financial liabilities		**1,307**	1,247
		59,965	53,475
Total liabilities		**62,008**	55,711
Total equity and liabilities		**183,958**	172,312
Net current assets		**72,478**	61,148
Total assets less current liabilities		**123,993**	118,837

NOTES

1. CORPORATE INFORMATION

Lansen Pharmaceutical Holdings Limited (the "Company") is an exempted limited liability company incorporated in the Cayman Islands on 10 September 2009 and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 7 May 2010. The Company's registered office is located at Windward 3, Regatta Office Park, P. O. Box 1350, Grand Cayman KY1-1108, the Cayman Islands. The Company's principal place of business is located at Suites 1203–4, 12/F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries (together with the Company referred to as the "Group") are manufacturing and trading of pharmaceutical products. The principal activities of the Group are carried out in the People's Republic of China (the "PRC"). There were no significant changes in the Group's operations during the year.

The Company is a subsidiary of Cathay International Holdings Limited ("CIH"), a company incorporated in Bermuda. The directors consider the immediate and ultimate holding company to be Cathay International Pharma Manufacture and Distribution (China) Limited and CIH respectively.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with all International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations (hereinafter collectively referred to as "IFRSs") issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements have been prepared under the historical cost basis except for certain financial liabilities that are measured at fair values at the end of each of the reporting period. The consolidated financial statements are presented in United States Dollars ("US$"), which is the same as the functional currency of the Company and all values are rounded to the nearest thousand except when otherwise indicated.

In prior year, research and development costs of approximately US$2,686,000 were included under administrative expenses. From 2022 onwards, research and development costs are presented as a separate line item on the consolidated statements of profit or loss and other comprehensive income in order to reflect the Group's inputs for research and development activities. Thus, the comparative figures have been reclassified to conform to the current year's presentation.

3. ADOPTION OF IFRSs

3.1 Adoption of revised IFRSs

In the current year, the Group has applied for the first time the following amended IFRSs issued by the IASB, which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2022:

Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendment to IFRS 16	COVID-19 — Related Rent Concessions beyond 30 June 2021
Annual Improvements to IFRSs 2018–2020	Amendments to IFRS 1 — First-time Adoption of IFRS; Amendments to IFRS 9 — Financial Instruments; Amendments to IFRS 16 and Amendments to IAS 41 — Agriculture

The adoption of these amendments have no material impact on the Group's consolidated financial statements.

3.2 New or revised IFRSs that have been issued but are not yet effective

The following new or revised IFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants[2]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction[1]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[2]

1 Effective for annual periods beginning on or after 1 January 2023

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

Amendments to IAS 1

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of "settlement" to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The directors of the Company do not anticipate that the application of the amendments and revision in the future will have an impact on the Group's consolidated financial statements.

Except for those mentioned above, these amendments are unlikely to have material impact on the Group's consolidated results and consolidated financial position and/or the disclosures to the consolidated financial statements of the Group upon application.

4. REVENUE AND OTHER INCOME

An analysis of the Group's revenue which are generated from contracts with customers and other income for the years are as follows:

	2022	2021
	US$'000	*US$'000*
Revenue from sales of goods	**65,558**	54,180
Other income		
Gain on early termination of lease	**72**	198
Government grants *(Note)*	**449**	104
Others	**672**	420
	1,193	722

Note:

The Group received grants from the local government in the PRC as recognition of the Group's development of high-technology pharmaceutical products. The grants received were not subject to any conditions.

In addition, during the year ended 31 December 2022, the Group received government grants of Hong Kong Dollars ("HK$") 120,000 (equivalent to US$15,000) (2021: Nil) from Employment Support Scheme ("ESS") under the Anti-pandemic Fund launched by the government of Hong Kong Special Administrative Region of the PRC supporting the payroll of the Group's employees. Under the ESS, the Group had to commit to spend these grants on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The grant was allocated to the consolidated profit or loss to match the relevant costs incurred. The Group did not have other unfulfilled obligations relating to this programme.

5. SEGMENT INFORMATION

Information reported to the executive managing director, being the chief operating decision maker ("CODM"), for the purposes of resource allocation and assessment of segment performance based on the types of goods delivered.

The Group's reportable and operating segments under IFRS 8 *Operating segments* ("IFRS 8") are as follows:

— Pharmaceuticals: development, production and sale of specialty pharmaceuticals mainly used in the field of rheumatology and dermatology and other pharmaceuticals

— Cosmetic products: sale of cosmetic products

— Healthcare products: development, production and sale of healthcare products

The following is an analysis of the Group's revenue and results from operations by reportable and operating segments.

For the year ended 31 December 2022

	Pharmaceuticals	**Cosmetic products**	**Healthcare products**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Reportable segment revenue	**63,571**	**70**	**1,917**	**65,558**
Reportable segment profit	**24,671**	**58**	**108**	**24,837**

For the year ended 31 December 2021

	Pharmaceuticals	Cosmetic products	Healthcare products	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Reportable segment revenue	51,359	252	2,569	54,180
Reportable segment profit/(loss)	17,641	(812)	214	17,043

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current year and prior year.

The totals presented for the Group's operating segments reconciled to the Group's key financial figures as presented in the consolidated financial statements is as follows:

	2022	2021
	US$'000	*US$'000*
Total results of reportable segment profit	**24,837**	17,043
Share of post-tax result of associates	**(900)**	(989)
Other non-operating income and expenses, net	**(1,250)**	(4,618)
Unallocated income	**1,193**	769
Unallocated expenses	**(11,872)**	(12,207)
Finance income	**875**	3,938
Finance costs	**(2,968)**	(1,532)
Profit before income tax	**9,915**	2,404

The accounting policies of the operating segments under IFRS 8 are the same as the Group's accounting policies. Reportable segment profit/(loss) represents the gross profit/(loss) less selling and distribution expenses by each segment. This is the measure reported to the CODM for the purpose of resources allocation and performance assessment.

Share of post-tax result of associates, other non-operating income and expenses, net, finance income, finance costs and certain income and expenses are not allocated to the reportable segments as they are not included in the measure of the results of reportable segment that is used by CODM for assessment of segment performance.

No external customer contributed 10% or more of the Group's revenue for the years ended 31 December 2022 and 2021.

The Group has applied the practical expedient in IFRS 15 *Revenue from Contracts with Customers* not to disclose the remaining performance obligations under the contracts that have an original expected duration of one year or less.

In the following table, revenue from contracts with customers is disaggregated by primary geographical market and timing of revenue recognition:

	2022	2021
	US$'000	*US$'000*
Primary geographical markets		
The PRC (domicile)	**63,899**	52,037
Hong Kong	**1,659**	2,143
	65,558	54,180
Timing of revenue recognition		
At a point in time	**65,558**	54,180

The geographical location of customers is based on the location to which the goods were delivered. The Company is an investment holding company incorporated in the Cayman Islands where the Group does not have any activities, the Group has the majority of its operations and workforce in the PRC, and therefore, the PRC is considered as the Group's country of domicile for the purpose of the disclosures as required by IFRS 8.

Almost all of the non-current assets of the Group were located in the PRC in both years.

No segment assets or segment liabilities is presented as they are not regularly reported to the CODM.

6. OTHER NON-OPERATING INCOME AND EXPENSES, NET

	2022	2021
	US$'000	*US$'000*
Provision for impairment of intangible assets	**(1,409)**	(232)
Provision for impairment of interests in associates	**(295)**	(3,801)
Loss allowance reversed on financial guarantee contract	**454**	515
Gain on disposal of subsidiaries	**—**	18
Realised loss from financial assets at fair value through profit or loss ("FVTPL") *(Note)*	**—**	(1,111)
Transaction costs and other tax in connection with partial disposal of financial assets at FVTPL	**—**	(7)
	(1,250)	(4,618)

Note:

During the year ended 31 December 2021, the Group had disposed of all the remaining 3,252,493 shares of Zhejiang Starry Pharmaceutical Co., Ltd ("Starry") via on-market sales on the Shanghai Stock Exchange, at the average price of Renminbi ("RMB") 63.43 per share and resulting in a realised loss of US$1,118,000 (net of transaction costs and other tax). After the disposal, the Group did not hold any shares of Starry.

7. FINANCE INCOME AND FINANCE COSTS

	2022	2021
	US$'000	*US$'000*
Finance income		
Bank interest income	**875**	1,470
Net exchange gain	**—**	2,468
	875	3,938
Finance costs		
Interest on bank borrowings	**971**	1,321
Interest on lease liabilities	**22**	47
Cross guarantee commission fee payable to a fellow subsidiary	**96**	101
Unwinding of discount on contingent consideration	**60**	63
Net exchange loss	**1,819**	—
	2,968	1,532

8. PROFIT BEFORE INCOME TAX

The Group's profit before income tax has been arrived at after charging/(crediting):

	2022	2021
	US$'000	*US$'000*
Auditors' remuneration		
— Audit services	**266**	274
— Non-audit services	**85**	47
Cost of inventories recognised as expenses *(Note)*	**21,263**	19,771
Depreciation of right-of-use assets	**444**	522
Depreciation of investment property	**20**	21
Depreciation of property, plant and equipment	**2,194**	2,347
Provision for impairment of intangible assets	**1,409**	232
Provision for impairment of property, plant and equipment	**94**	17
Provision for impairment of right-of-use assets	**—**	78
Provision for impairment of obsolete inventories	**182**	383
Loss allowance reversed on financial guarantee contract	**(454)**	(515)
Loss allowance recognised/(reversed) on financial assets	**110**	(17)
Net exchange loss/(gain)	**1,819**	(2,468)
Rental income from investment property	**(22)**	(23)
Research and development costs	**2,132**	2,686
Loss on disposals of property, plant and equipment	**177**	7
Gain on early termination of lease	**(72)**	(198)
Write off of inventories	**2**	464
Write off of financial assets	**24**	18
Employee costs (including directors' remuneration		
— Wages and salaries	**16,323**	14,400
— Contributions to defined contribution retirement plans	**2,892**	2,693
	19,215	17,093

Note:

Cost of inventories recognised as expenses included amounts relating to employee costs, depreciation of right-of-use assets, depreciation of property, plant and equipment, provision for impairment of obsolete inventories and write off of inventories, which are also included in the respective expenses disclosed separately above.

9. INCOME TAX EXPENSE

	2022	2021
	US$'000	*US$'000*
Current income tax		
— Current year	**2,050**	2,749
— Under/(Over) provision in prior years	**6**	(24)
	2,056	2,725
Deferred tax	**(738)**	(1,224)
Income tax expense	**1,318**	1,501

Tax on assessable profits has been calculated at the applicable rates of tax prevailing in the tax jurisdiction in which the Group operates.

Under the two-tiered profits tax rates regime for Hong Kong profit tax, the first HK$2,000,000 of the estimated assessable profits of qualifying corporations will be taxed at 8.25%, and the estimated assessable profits above HK$2,000,000 will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The two-tiered profits tax rates regime was applicable to the Group for the years ended 31 December 2022 and 2021.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2021: 25%).

On 1 December 2020, one subsidiary of the Group renewed the "High Technology Enterprise" status for 3 years that entitled them a preferential tax rate of 15% for a period of three years starting from December 2020 to December 2023 according to the PRC tax law.

10. DIVIDENDS

	2022	2021
	US$'000	*US$'000*
Dividends recognised as distribution during the year:		
Special dividends — HK$1.55 per share (approximately US$0.20 per share)	**—**	76,865

For the year ended 31 December 2021, the Company settled special dividends of HK$1.55 (equivalent to approximately US$0.20) per share, totally amounting to HK$598,551,000 (equivalent to approximately US$76,865,000) proposed on 31 August 2021.

On 24 March 2023, the directors have resolved to declare an interim dividend of HK5.0 cents (equivalent to approximately US0.64 cents) per share, totalling approximately HK$20,396,000 (equivalent to approximately US$2,616,000) to the shareholders listed in the register of members of the Company at the close of business on 14 April 2023. The declared interim dividend will be satisfied wholly in form of an allotment of shares credited as fully paid up without offering any right to the shareholders to elect to receive such dividend in cash in lieu of such allotment.

The declared interim dividend has not yet been accounted for in the consolidated financial statements for the year ended 31 December 2022, but will be reflected in the consolidated financial statements for the year ending 31 December 2023.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the consolidated profit attributable to owners of the Company of US$8,597,000 (2021: US$903,000) and the weighted average number of ordinary shares of 406,331,000 (2021: 389,748,000), after adjusting the treasury shares held or cancelled by the Company, outstanding during the year.

The Group had no potential dilutive shares for both years.

12. TRADE AND OTHER RECEIVABLES

	2022	2021
	US$'000	*US$'000*
Trade receivables	**16,430**	15,954
Less: loss allowance	**(772)**	(683)
	15,658	15,271
Bills receivables	**19,429**	23,612
Trade and bills receivables	**35,087**	38,883
Prepayments and other receivables	**2,045**	10,993
	37,132	49,876

The directors consider that the carrying amounts of trade and other receivables approximate their fair values.

The Group has a policy of allowing an average credit period of 90 days to its customers.

The Group does not hold any collateral over these balances.

Based on the invoice date, the ageing analysis of the trade and bills receivables (net of loss allowance) of the Group as at the end of the reporting period is as follows:

	2022	2021
	US$'000	*US$'000*
90 days or below	**20,146**	19,551
91–180 days	**7,006**	7,397
181–365 days	**7,935**	11,935
	35,087	38,883

As at 31 December 2022, certain bills receivables of US$15,456,000 (2021: US$19,249,000) were pledged to secure for bank borrowings of a fellow subsidiary.

13. LOAN TO AN ASSOCIATE

The amount due is unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of this balance approximates its fair value.

As at 31 December 2022, loss allowance recognised on loan to an associate of US$925,000 (2021 : US$964,000) were made against the carrying amount of loan to an associate.

14. TRADE AND OTHER PAYABLES

	2022	2021
	US$'000	*US$'000*
Trade payables	**1,791**	3,188
Bills payables	**12,004**	14,547
Financial guarantee contract	**—**	481
Deposits received from ultimate holding company	**15,165**	—
Other payables and accruals	**10,188**	8,373
	39,148	26,589

Based on invoice date, the ageing analysis of the trade payables of the Group as at the end of the reporting period is as follows:

	2022	2021
	US$'000	*US$'000*
90 days or below	**1,505**	2,848
91–180 days	**14**	40
181–365 days	**3**	3
Over 365 days	**269**	297
	1,791	3,188

The directors consider that the carrying amounts of trade and other payables approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group recorded a total revenue of approximately US$65.6 million in 2022 (2021: US$54.2 million), representing an increase of approximately 21.0% over the last year and, after excluding the effect of the depreciation of RMB against USD, an increase by 26.8% from last year. Such increase was mainly due to the increase in sales volume of the Group's core products, Pafulin and Sicorten Plus, as compared to last year. The Group's profit from operations in 2022 was approximately US$14.2 million (2021: US$5.6 million), representing an increase of approximately 154.7% from last year, the increase in profit from operation was mainly attributable to the increase in revenue as mentioned above which resulted in a corresponding increase in gross profit. Net profit for the Group in 2022 was approximately US$8.6 million, making an increase of approximately 852.0%, compared to last year's modest profit of approximately US$0.9 million, which was mainly due to the increase in profit from operations.

In 2022, revenue of the pharmaceutical segment amounted to approximately US$63.6 million (2021: approximately US$51.4 million), representing an increase of approximately 23.8% from 2021 and, after excluding the effect of the depreciation of RMB against USD, an increase of approximately 29.7% from last year; gross profit amounted to approximately US$43.8 million (2021: approximately US$33.7 million), representing an increase of approximately 29.7% from 2021; and segment profit amounted to approximately US$24.7 million (2021: approximately US$17.6 million), representing an increase of approximately 39.9% from 2021. The increase in profit of the pharmaceutical segment was mainly due to the increased sales volume of Pafulin and Sicorten Plus for the year as compared with last year.

In 2022, revenue of the cosmetic product segment amounted to approximately US$0.1 million (2021: approximately US$0.2 million), representing a decrease of 72.2% from 2021; gross profit amounted to approximately US$61,000 (2021: approximately US$0.1 million); and segment profit amounted to approximately US$58,000 (2021: segment loss of approximately US$0.8 million). The revenue for the year was mainly derived from handling the historical inventory for which provisions had been made.

The Group utilises Natural Dailyhealth Holdings Limited ("Natural Dailyhealth") as a platform for developing its healthcare business. In 2022, revenue from the healthcare business other than Natural Dailyhealth amounted to approximately US$1.9 million (2021: approximately US$2.6 million), representing a decrease of approximately 25.4% from 2021; gross profit amounted to approximately US$0.4 million (2021: approximately US$0.5 million), representing a decrease of approximately 21.9% from 2021; and segment profit amounted to approximately US$0.1 million (2021: approximately US$0.2 million). The operating results of the healthcare business are reflected in the Group's share of profit or loss of Natural Dailyhealth, an associate of the Group. During the year, Natural Dailyhealth saw an increase in sales of some of its plant extract products but gross profit decreased due to international conditions and market changes. The Group's share of loss from Natural Dailyhealth for 2022 was approximately US$0.9 million (2021: approximately US$0.9 million).

Pharmaceutical segment

In 2022, the State officially released the "14th Five-Year National Health Plan", the basic principles of which stated that the State persisted in focusing on the grass-roots, promoting resources reaching grass-roots and close coordination between different levels to improve the ability of the grass-roots to prevent and treat diseases as well as managing their health. The State stratified care structure is gradually being established, and these policies have demonstrated the importance of penetrating into low-tier market to increase hospital coverage, especially for chronic diseases. In 2022, the Group developed its pharmaceutical business in accordance with its established strategy, with a focus on sales in terms of market channels and wide coverage of products; cost control in terms of optimising the supply and production chain to achieve cost reduction and efficiency; and product portfolio expansion strategy in terms of strengthening research and development, resuming production of existing products as well as seeking new product introductions. We addressed the challenges posed by the changing market environment by optimising these three areas.

Strengthen the full market and product sales coverage

The Group has expanded its sales scale and extended its brand by strengthening the sales model of full market channels and product coverage. The Group required its marketing team to carry out academic professional promotion in the graded hospitals, with in-depth coverage at the grass-roots level, conduct targeted agent recruitment in remote areas, as well as finding suitable institutions for commerce and OTC retail channel sales, and using the core products to drive the sales of the Group's other products to develop a marketable product mix.

Specific measures for full market coverage included:

(i) The self-run hospital team, based on rheumatology, commenced the exchange and sharing of experience among related divisions, such as dermatology and stomatology, as well as multi-treatment areas, with the aim to enter different departments of the developed hospitals to increase the brand influence of the products. During the year, the hospital team strengthened its collaboration with the medical marketing department to propose the therapeutic theory of preventive treatment and encourage early screening for rheumatic diseases so as to promote the use of Pafulin for the early treatment of rheumatic immune diseases, as well as to accelerate research on the application of Pafulin for new indications. With a more rapid growth pace of Sicorten Plus, the self-run hospital team has been engaged in intensive hospital development and marketing activities in the dermatology field, strengthening the influence of Sicorten Plus as a premium dermatology product across the country.

Meanwhile, the Group was committed to developing its low-tier sales network according to stratified care policy. As patients with chronic diseases are often being directed to grass-roots hospitals and community medical institutions in the country's stratified care system, the team accelerated its development in medical alliances and county hospitals (county cooperation) to expand the coverage of its sales network. Targeting at hospitals located in more populous and developed counties, the Group accelerated coverage enhancement and new customer development, as well as academic output and education for doctors of grass-roots hospitals to promote the Group's core products and increase its market share.

(ii) With enhanced product pricing management, we were able to increase the number of hospitals that purchased our medicine in terms of commercial distribution channel by partnering with distributors who have the resources and comprehensive networks to maximise the influence of Lansen products. Professional sales support, including training and promotion, will be provided to distributors to help them understand the Group's products and markets and to improve sales efficiency and customer satisfaction.

(iii) Semi-self-run team carried out refined semi-self-run promotion for all products in remote areas, aiming to cover areas not covered by the self-run hospital team, expand the coverage of grass-roots terminals by adding partners who are familiar with the sales market in those areas and enhance our product promotion in grass-roots level to enhance brand awareness of the Group's products at the grass-roots terminals.

(iv) In terms of the distribution and expansion of retail channels, the OTC retail team has started to experiment with the deployment of major OTC chain channels and promoted the expansion of OTC's broader market coverage during the year and also planned to launch pilot product of OTC other than Pafulin in provinces with good OTC development, such as Sicorten Plus, Yahao and Qixuekang, etc. The Company would establish cooperation with the leading e-commerce channel customers under the premise of good price control.

By enhancing the full market channel coverage, the Group's target hospitals above the secondary level that purchased our medicine increased by approximately 3.3% to 2,597 in 2022 from 2,514 in 2021, while grass-roots target hospitals that purchased our medicine increased by approximately 9.0% in 2022 to 1,552 from 1,424 in 2021.

Full product sales coverage

The Group's core products, Pafulin and Sicorten Plus, served as the stepping stone for us to promote other products of the Group to different speciality divisions, including medicine products with independent production approvals which the Group planned to resume production, allowing the Group's products to meet the needs of different people and diseases in multi-treatment areas. In 2022, some hospitals have already increased the number of the Group's product categories.

To strive for cost reduction and efficiency enhancement in the production line

The Group strived for cost reduction and efficiency enhancement in the production line, through optimising the supply and production chain, and gradually facilitated the construction of the supply chain for key raw materials, with the implementation of cost reduction and efficiency enhancement through multiple channels and projects. Specific measures included:

(i) Launched the construction of the supply chain of white peony, a key raw material for Pafulin, and continuously optimised the procurement model to increase the Group's procurement leadership by improving the tendering system and introducing more supply competition; strengthened the safety of the supply of key raw materials by increasing inventories at a safe and reasonable level, while procuring white peony with high cost-performance ratio;

(ii) The production chain used energy-saving equipment and technology applications to cope with rising energy prices. During the year, the Group implemented photovoltaic power generation and introduced high performance production equipment to improve energy efficiency;

(iii) Lean scheduling and stronger synergy of production and sales operations to rationalise staff planning and reduce overheads in line with the production process at the sales end and to implement refined operational control;

(iv) Strengthened quality management throughout the full process to safeguard the quality of production, reinforced the Company's ability to ensure compliance with regulations and product quality assurance, and further enhanced the awareness and ability of all staff to ensure quality through measures such as the ISO9001 quality management system certification and the launch of a series of quality-themed activities;

(v) In respect of safety and environment: through ISO14001 and ISO45001 environmental management system certification, implementing measures such as energy saving and emission reduction, optimisation of waste disposal, continuously promote safety standardisation and lean operation of green factories.

These efforts reduced production costs during the year while ensuring product quality, reducing the pressure on gross profit margin due to rising raw material and energy prices and improving the sustainability of the business.

Strengthened research and development, accelerated production resumption and introduced products with market value to expand its product portfolio

The Group further optimised the research and development direction to consolidate the mature rheumatology and dermatology therapeutic areas, to strengthen the research on new standards, new indications and new drugs for the core product Pafulin total glucosides of white peony capsules, to gradually expand and enrich other therapeutic areas such as pediatrics and gynecology, to implement the white peony series and gradually extend it to the research and development of other series of product.

The Group facilitated the technological improvement and resumed production of more than 20 medicine products with independent production approvals, and achieved our goal to resume production of Chanfukang Keli and Notoginseng capsules during the year. Significant progress has also been made in the study of resumption of production for Cough syrup, Ganda Pian, Yinbaiganyan Keli and Huperzine-A Capsules, which will be completed and launched in 2023 and beyond.

The Group also actively sought to introduce products with market value to strengthen its product portfolio. We expected to enrich the Group's product lines by accelerating the introduction of suitable products with market value, great market potential and in line with the overall strategy of penetrating into lower-tier terminal market. We focused on the introduction of research and development products in the rheumatology, dermatology and maternal and child product lines, and at the same time, the Group will research on introducing products for the development of advantageous business therapeutic areas and high-burden disease treatment areas.

The Group aimed to build and improve its product matrix to match market demand and corporate development by strengthening research and development, accelerating production resumption and introducing products with market value.

Healthcare segment

In 2022, the Group continued to use Natural Dailyhealth as a healthcare business development platform to develop its plant extract business and healthcare product business.

The plant extract business operation faced challenges. The procurement of raw materials from overseas and our export business were affected by the international situation and market changes (e.g. the Russo-Ukrainian War has disrupted the supply in Ukraine, a major production area for lingonberry raw materials, while New Zealand, a major production area for blackcurrant, has also reduced production due to climatic factors, and the procurement prospects of the U.S. buyers have been affected by economic and tariff policy adjustments). Natural Dailyhealth adopted the following measures:

(i) Product and client expansion: strengthening the professional construction and management of our sales team, expanding our market development channels, and continuously improving our sales team's ability to explore opportunities; developing medicinal and edible plant extract products with company characteristics, and continuing to enhance the market recognition and brand influence of Natural Dailyhealth's plant extract products by implementing the strategy of developing high-quality products;

(ii) Procurement optimisation: in order to boost the bargaining power of Natural Dailyhealth and improve the cost-performance ratio of raw material procurement, the Group would source its procurement from the source and consider bringing in more suppliers. Meanwhile, we would strengthen the construction of reasonable inventory at a safe level of key raw materials;

(iii) Production technology optimisation: optimising manufacturing and cost control capabilities to achieve cost reduction and efficiency while Natural Dailyhealth would also make full use of the opportunity of transforming and upgrading from a traditional plant extract factory to a company with qualification for drug manufacturing to improve our processes and apply new technologies and equipment.

Such measures mitigated the negative impact of changes in international situation and markets on revenue and profit.

The healthcare product business currently focused on developing, manufacturing and registering (filing) featured products in the Mainland and Hong Kong, to develop a product matrix with core strength, continue to build a brand positioned as providing high-quality healthcare products through establishing a production base in Hong Kong to build a “Made in Hong Kong” brand. We will not launch our healthcare products to the market until a sufficient number of featured products and brands are in place.

Cosmetic segment

The Group’s sales during the year were mainly through agency network sales to handle the historical inventory for which provisions had been made. The Group decided to continue to halt its investment of new resources in the cosmetic business during the year after reviewing the development strategy and effectiveness in the past few years. Until opportunities arise and the Group has a well-defined marketing strategy in place as well as right products to market and with a professional team, the Group would not make any new investment in the cosmetic business, while the Company’s resources would instead be focused on its pharmaceutical and healthcare business development. The Group made a provision for impairment of its investment in an associate, Tianjin Robustnique Biotechnology Co., Limited, for the year, which was approximately US$0.3 million.

FINANCIAL REVIEW

Revenue

The Group recorded a revenue of approximately US$65.6 million (2021: approximately US$54.2 million) for the year ended 31 December 2022, representing an increase of 21.0% over last year.

For the year ended 31 December 2022, revenue from pharmaceuticals amounted to approximately US$63.6 million (2021: approximately US$51.4 million), representing an increase of 23.8% over last year. Revenue from cosmetic products amounted to approximately US$0.1 million (2021: approximately US$0.2 million), representing a decrease of 72.2% over last year. Revenue from healthcare products amounted to approximately US$1.9 million (2021: approximately US$2.6 million), representing a decrease of 25.4% over last year.

The Group’s self-owned specialty pharmaceutical products (including Pafulin and Sicorten Plus), recorded a revenue of approximately US$56.8 million (2021: approximately US$46.8 million) representing an increase of 21.3% over last year.

Gross profit

For the year ended 31 December 2022, the Group recorded a gross profit of approximately US$44.3 million (2021: approximately US$34.4 million), representing an increase of 28.7% over last year. For the year ended 31 December 2022, the overall gross profit margin was 67.6% (2021: 63.5%), representing an increase of 4.1% over last year.

The increase in overall gross profit margin as compared to last year was mainly because of the improvement of gross profit margin of pharmaceutical products as a result of cost reduction and efficiency enhancement.

Other income

Other income amounted to approximately US$1.2 million (2021: approximately US$0.7 million) for the year ended 31 December 2022, representing an increase of 65.2% over last year, which was mainly because the government grants received in 2022 increased by approximately US$0.3 million compared to last year. Government grants received by the Group primarily came from the local government and were partly used as recognition of the Group's efforts in developing high-technology pharmaceutical products.

Selling and distribution expenses

For the year ended 31 December 2022, the selling and distribution expenses of the Group increased by 12.0% to approximately US$19.5 million from approximately US$17.4 million last year. The proportion of the selling and distribution expenses of the Group to the total revenue of the Group decreased by 2.4% to 29.7% for the year ended 31 December 2022 from 32.1% last year. The decrease was mainly because of the decrease in sales and distribution activities in 2022.

Management believed that the marketing model and academic promotional advantages of pharmaceuticals products are the key factors in maintaining the Group's leading market position. The Group endeavoured to enhance market recognition of its pharmaceutical products and has actively launched educational activities. By organising academic conferences across China, doctors and users were able to have a better understanding of the pharmacology, efficacy and benefits of these products.

Administrative expenses and research and development costs

For the year ended 31 December 2022, administrative expenses amounted to approximately US$9.6 million (2021: approximately US$9.5 million), representing an increase of 1.0% over last year. The proportion of the administrative expenses of the Group to the total revenue of the Group decreased by 2.9% to 14.7% for the year ended 31 December 2022 from 17.6% last year.

For the year ended 31 December 2022, research and development costs amounted to approximately US$2.1 million (2021: approximately US$2.7 million), representing a decrease of 20.6% over last year. The proportion of the research and development costs of the Group to the total revenue of the Group decreased by 1.7% to 3.3% for the year ended 31 December 2022 from 5.0% last year.

Finance costs

For the year ended 31 December 2022, finance costs of the Group increased by approximately US$1.4 million. This was mainly due to the net exchange loss approximately US$1.8 million recorded for the year.

Share of post-tax result of associates

Share of post-tax result of associates for the year ended 31 December 2022 amounted to loss of approximately US$0.9 million (2021: approximately US$1.0 million).

Income tax expense

Ningbo Liwah Pharmaceutical Company Limited ("Ningbo Liwah") has obtained the certification as a high-technology enterprise and enjoys a preferential income tax rate of 15%. According to the Enterprise Income Tax Law (the "EIT Law") of the PRC and the implementation rules of the EIT Law, except for Ningbo Liwah, the enterprise income tax rate for the Group's other PRC subsidiaries was 25%.

Profit attributable to owners of the Company

Profit attributable to owners of the Company for the year ended 31 December 2022 amounted to approximately US$8.6 million, representing an increase by approximately US$7.7 million from approximately US$0.9 million last year.

Liquidity, financial resources and capital structure

The share capital of the Company only comprises of ordinary shares. The Group primarily finances its working capital and other capital requirements by net cash generated from operating activities and resorts to external financing including bank borrowings from time to time when the operating cash flow is insufficient to meet capital requirements. During the year ended 31 December 2022, the Company completed placing of new shares under general mandate. On 7 April 2022, the Company and the placees entered into the subscription agreements, pursuant to which the placees conditionally agreed to subscribe and the Company conditionally agreed to allot and issue a total of 49,520,000 ordinary shares at a placing price of HK$1.20 per placing share.

The placing of 49,520,000 shares was completed on 20 April 2022. The net proceeds after deducting the related expenses amounted to approximately HK$59,154,000 (equivalent to approximately US$7,618,000) ("Net Proceeds"). Accordingly, the Company's share capital increased by approximately US$495,000 and the remaining balance of the Net Proceeds of approximately US$7,123,000 was credited to the share premium account. For details, please refer to the Company's announcements dated 7 April 2022 and 20 April 2022.

As at 31 December 2022, the Net Proceeds were utilised approximately US$5.6 million. The intended use of the remaining balance of the Net Proceeds remains unchanged, for (i) potential future acquisitions or projects; and (ii) replenishment of working capital and general corporate purposes to support the Company's strategy. There is no specific timeline for the use of the remaining balance of the Net Proceeds as this is subject to the availability of suitable investment opportunities, the pace of the Company's business development, and the economic and market conditions of the pharmaceutical industry in China. As at 31 December 2022, the Company has not identified any specific target for acquisitions or projects and it will continue to identify such opportunities.

As at 31 December 2022, net current assets and current ratio of the Group were approximately US$72.5 million (31 December 2021: US$61.1 million) and 2.2 (31 December 2021: 2.1) respectively.

As at 31 December 2022, the Group's cash and cash equivalents amounted to approximately US$51.3 million (31 December 2021: approximately US$32.5 million). As at 31 December 2022, the Group had pledged bank deposits of approximately US$9.8 million (31 December 2021: approximately US$15.9 million) to secure banking facilities of the Group and bank borrowings of a fellow subsidiary. As at 31 December 2022, the Group had restricted bank deposits of approximately US$15.2 million (31 December 2021: Nil), which is the cash deposits received from Cathay International Holdings Limited ("CIH") placed in designated bank accounts as security under a counter-guarantee provided by CIH to the Group pursuant to a cross guarantee agreement.

The Group's borrowings as at 31 December 2022 amounted to approximately US$18.2 million (31 December 2021: approximately US$24.7 million).

As at 31 December 2022 and 2021, the Group was in a net cash and bank balance position.

The exposure of the Group's transactional currency to foreign currency risk was minimal as most of the financial assets and liabilities held by the subsidiaries of the Group are denominated in the respective functional currency of the subsidiaries. The Group currently does not have any foreign currency hedging policy. However, management would closely monitor foreign exchange exposure and consider hedging foreign currency exposure when necessary.

Charges on assets

As at 31 December 2022, certain bank deposits and bills receivables in an aggregate carrying amount of approximately US$25.3 million (31 December 2021: approximately US$35.2 million) were pledged to secure banking facilities of the Group and bank borrowings of a fellow subsidiary.

Capital commitment

As at 31 December 2022, the Group's capital expenditure contracted for but not provided in the consolidated financial statements amounted to approximately US$0.1 million (31 December 2021: approximately US$0.2 million).

Financial guarantee issued

The Group has issued guarantees to banks in respect of borrowings made by Jilin Haizi Bio-Engineering Technology Company Limited ("Jilin Haizi"), a fellow subsidiary of the Group. Under the guarantee, the Group is liable for a maximum of RMB130,000,000 (equivalent to approximately US$18,666,000) (31 December 2021: RMB130,000,000 (equivalent to approximately US$20,390,000)) borrowings drawn by Jilin Haizi from the banks. As at 31 December 2022, the maximum liability of the Group under the guarantee issued represents the amount drawn down by Jilin Haizi of RMB100,000,000 (equivalent to approximately US$14,358,000) (31 December 2021: RMB130,000,000 (equivalent to approximately US$20,390,000)). During the year ended 31 December 2022, provision for financial guarantee contract of approximately US$0.5 million (31 December 2021: approximately US$0.5 million) was reversed.

Save as mentioned above, the Group did not have any material contingent liabilities as at 31 December 2022 and 2021.

Material acquisitions and disposals

There were no material acquisitions and disposals of any subsidiaries and associates of the Group during the year ended 31 December 2022.

Human resources

The Group had 626 employees as at 31 December 2022 with employee costs of approximately US$19.2 million for the year ended 31 December 2022. Staff remuneration of the Group is determined with reference to individual performance, professional qualifications, experience in the industry and relevant market trends.

Salaries of employees of the Group have been maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic condition. The Group provides career advancement training in the form of internal courses and workshops for the staff and encourages them to participate in training programmes related to the Group's business.

OTHER INFORMATION

Interim dividend and share dividend scheme and closure of register of members

The Directors have resolved to declare an interim dividend of HK5.0 cents per share for the year ended 31 December 2022 to the shareholders listed in the register of members of the Company at the close of business on 14 April 2023. The declared interim dividend will be satisfied wholly in form of an allotment of shares to be credited as fully paid up ("Interim Dividend Shares") without offering any right to the shareholders to elect to receive such dividend in cash in lieu of such allotment ("Share Dividend Scheme").

The Share Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Interim Dividend Shares to be issued under the Share Dividend Scheme. If the condition is not satisfied, the Share Dividend Scheme will not become effective and the Interim Dividend will not be paid whether in cash, in Interim Dividend Shares or otherwise to any of the shareholders whose names appear on the register of members of the Company at the close of business on 14 April 2023 ("Record Date").

The number of Interim Dividend Shares which an eligible shareholder will receive in respect of the Interim Dividend that he/she is entitled will be calculated as follows:

$$\begin{array}{c}\text{Number of Interim}\\\text{Dividend Shares to be}\\\text{received}\end{array} = \begin{array}{c}\text{Number of Shares held}\\\text{on the Record Date}\end{array} \times \frac{\begin{array}{c}\text{HK\$0.05}\\\text{(Interim Dividend per Share)}\end{array}}{\begin{array}{c}\text{HK\$1.406}\\\text{(Average closing price per Share for the five consecutive trading days}\\\text{commencing on 17 March 2023)}\end{array}}$$

The number of the Interim Dividend Shares to be issued to each eligible shareholder will be rounded down to the nearest whole number. Fractional entitlements to the Interim Dividend Shares will be disregarded as the Company considers that it is not cost effective to do so after taking into account the amounts of fractional entitlements in cash and the administrative expenses that will be incurred, and the benefit thereof will be accrued to the Company.

A circular which gives full details of the Share Dividend Scheme will be sent to the shareholders of the Company as soon as practicable. Subject to the fulfilment of all conditions of the Share Dividend Scheme, it is expected that the Interim Dividend Shares will be issued to the eligible shareholders and the share certificates for the Interim Dividend Shares will be despatched to the eligible shareholders on or around 28 April 2023.

The register of members of the Company will be closed from 13 April 2023 to 14 April 2023, during which period no transfer of shares of the Company will be registered. In order for a shareholder to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Link Market Services (Hong Kong) Pty Limited, at Suite 1601, 16/F, Central Tower, 28 Queen's Road Central, Hong Kong for registration no later than 4:30 p.m. on 12 April 2023.

Purchase, sale or redemption of listed securities

The table below outlines details of the shares of the Company purchased by the Company on the Stock Exchange on a monthly basis during the year ended 31 December 2022. The total number of shares purchased during the year ended 31 December 2022 was 18,478,000 shares.

	Number of shares	Highest price paid per share HK$	Lowest price paid per share HK$	Average price paid per share HK$	Aggregate price paid HK$
Month					
June 2022	6,400,000	1.62	1.39	1.57	10,062,570
September 2022	441,000	1.30	1.16	1.27	558,280
October 2022	7,620,000	1.60	1.33	1.56	11,909,900
November 2022	3,005,000	1.50	1.46	1.49	4,470,590
December 2022	1,012,000	1.50	1.45	1.49	1,502,910
	18,478,000				28,504,250

On 7 April 2022, the Company and the placees entered into the subscription agreements, pursuant to which the placees conditionally agreed to subscribe and the Company conditionally agreed to allot and issue a total of 49,520,000 placing shares at a placing price of HK$1.20 per placing share. The placing of 49,520,000 shares was completed on 20 April 2022. For details, please refer to the paragraph headed "Liquidity, financial resources and capital structure" in this announcement.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2022.

Compliance with the Code on Corporate Governance Practices

For the year ended 31 December 2022, the Company has complied with the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules, except with a deviation from paragraph B.3.1 of the CG Code for the period from 1 January 2022 to 23 March 2022. The Company has established the nomination committee on 23 March 2022 with written terms of reference in compliance with Code Provision B.3.1 of the CG Code. Prior to the establishment of the nomination committee, the remuneration committee of the Company has been delegated the functions of a nomination committee since the Company's listing on the Main Board of the Stock Exchange in 2010.

Compliance with the Model Code by Directors

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding Directors' securities transactions adopted by the Company.

Review of audited financial statements

The audit committee of the Company (the "Audit Committee") comprises of three independent non-executive Directors, namely Mr. Chan Kee Huen, Michael (Chairman), Mr. Yeung Tak Bun, Allen and Ms. Chan Ching Har, Eliza.

The Company's audited consolidated annual results for the year ended 31 December 2022 have been reviewed by the Audit Committee together with the management of the Company.

Scope of work of BDO Limited

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board, and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

Publication of the annual results and annual report

The electronic version of this announcement will be published on the website of the Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.lansen.com.cn). The annual report of the Company for the year ended 31 December 2022 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders and published on the aforementioned websites in due course.

PROPOSED ADOPTION OF THE NEW AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION

The Board announces that it proposes to amend and restate the existing amended and restated memorandum and articles of association of the Company ("Existing M&A") and to adopt the the new amended and restated memorandum and articles of association of the Company ("New Amended and Restated M&A") incorporating the amendments for the purposes of (i) providing greater flexibility to the Company in relation to the conduct of general meetings by allowing (but not requiring) general meetings to be held as an electronic meeting and/or as a hybrid meeting where the shareholders may attend by electronic means in addition to as a physical meeting where shareholders attend in person; (ii) bringing the Existing M&A in line with the amendments made to the Listing Rules (in particular to conform to the core shareholder protection standards as set out in Appendix 3 to the Listing Rules) and applicable laws of the Cayman Islands; (iii) making certain minor housekeeping amendments to the Existing M&A.

The proposed amendments and the adoption of the New Amended and Restated M&A are subject to the approval of the shareholders by way of a special resolution at the forthcoming annual general meeting of the Company (the "AGM"). A circular containing, among other things, particulars relating to the proposed amendments to the Existing M&A brought about by the adoption of the Amended and Restated M&A together with a notice convening the AGM will be despatched to the shareholders as soon as practicable.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to the Board, management and employees of the Group for their contributions and efforts in 2022 and also our clients, banks, suppliers, shareholders and partners for their continuous support.

By order of the Board
Lansen Pharmaceutical Holdings Limited
Wu Zhen Tao
Chairman

Hong Kong, 24 March 2023

As at the date of this announcement, the executive managing Director is Mr. Chen Li; the non-executive Directors are Mr. Wu Zhen Tao and Ms. Liu Xuezi; the independent non-executive Directors are Mr. Chan Kee Huen, Michael, Mr. Yeung Tak Bun, Allen, Ms. Chan Ching Har, Eliza and Dr. Zhu Xun.