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The United Laboratories International Holdings Limited

聯邦制藥國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3933)

Interim Results Announcement

For the six months ended 30 June 2023

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Increase
	2023	2022	
	RMB'000	RMB'000	
Revenue	6,906,524	5,181,925	33.3%
EBITDA	1,953,790	1,140,996	71.2%
Profit before taxation	1,612,155	826,954	95.0%
Profit for the period attributable to the owners of the Company	1,284,496	629,517	104.0%
	RMB cents	RMB cents	
Earnings per share - Basic	70.69	34.55	104.6%
Interim dividend (per share)	12.0	5.0	140.0%

The Board of Directors (the “Board”) of The United Laboratories International Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2023 together with the comparative figures for the corresponding period in 2022 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

	Notes	Six months ended 30 June	
		2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	3	6,906,524	5,181,925
Cost of sales		<u>(3,693,226)</u>	<u>(2,927,960)</u>
Gross profit		3,213,298	2,253,965
Other income	4	92,491	72,641
Other gains and losses, net	5	52,472	(71,251)
Selling and distribution expenses		(974,906)	(805,744)
Administrative expenses		(380,688)	(344,847)
Research and development expenditures		(338,678)	(242,607)
Other expenses		(6,275)	(1,022)
Impairment losses under expected credit loss model, net of reversal		(6,988)	(12,379)
Share of results of an associate		165	-
Finance costs	6	<u>(38,736)</u>	<u>(21,802)</u>
Profit before taxation		1,612,155	826,954
Tax expense	7	<u>(327,915)</u>	<u>(197,437)</u>
Profit for the period	8	<u>1,284,240</u>	<u>629,517</u>
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>1,351</u>	<u>2,214</u>
Total comprehensive income for the period		<u>1,285,591</u>	<u>631,731</u>
Profit (loss) for the period attributable to:			
Owners of the Company		1,284,496	629,517
Non-controlling interests		<u>(256)</u>	<u>-</u>
		<u>1,284,240</u>	<u>629,517</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		1,285,847	631,731
Non-controlling interests		<u>(256)</u>	<u>-</u>
		<u>1,285,591</u>	<u>631,731</u>
Earnings per share	9	RMB cents	RMB cents
- Basic		<u>70.69</u>	<u>34.55</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	11	5,983,862	5,932,295
Right-of-use assets		253,009	255,586
Goodwill		3,031	3,031
Intangible assets		91,572	100,338
Interests in an associate		7,326	7,161
Deposit for acquisition of land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		130,611	78,476
Financial asset at fair value through profit or loss		500	500
Derivative financial instruments		995	-
Deferred tax assets		79,707	80,030
		<u>6,557,875</u>	<u>6,464,679</u>
Current assets			
Inventories		2,191,636	2,163,626
Trade and bills receivables, other receivables, deposits and prepayments	12	5,577,973	4,911,704
Derivative financial instruments		1,445	1,841
Financial asset at fair value through profit or loss		21,834	-
Pledged bank deposits	15	674,355	694,704
Cash and cash equivalents		4,744,842	4,743,071
		<u>13,212,085</u>	<u>12,514,946</u>
Current liabilities			
Trade and other payables	13	5,746,664	5,317,876
Contract liabilities		101,840	132,484
Derivative financial instruments		478	10,087
Dividend payables	10	363,405	-
Lease liabilities		3,317	3,744
Tax payables		207,161	209,478
Borrowings - due within one year		640,868	1,359,358
		<u>7,063,733</u>	<u>7,033,027</u>
Net current assets		<u>6,148,352</u>	<u>5,481,919</u>
Total assets less current liabilities		<u>12,706,227</u>	<u>11,946,598</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION - continued
AT 30 JUNE 2023

	Note	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		251,296	194,069
Deferred income in respect of government grants	13	38,367	43,413
Derivative financial instruments		239	-
Lease liabilities		4,708	3,896
Borrowings - due after one year		880,000	1,095,789
		<u>1,174,610</u>	<u>1,337,167</u>
Net assets		<u>11,531,617</u>	<u>10,609,431</u>
Capital and reserves			
Share capital		16,965	16,965
Reserves		11,513,563	10,591,121
		<u>11,530,528</u>	<u>10,608,086</u>
Equity attributable to owners of the Company		11,530,528	10,608,086
Non-controlling interests		1,089	1,345
		<u>11,531,617</u>	<u>10,609,431</u>
Total equity		<u>11,531,617</u>	<u>10,609,431</u>

NOTES TO FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from the application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the Group’s condensed 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

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

2.1 *Impacts on application of Amendments to HKAS 12 Income Taxes International Tax Reform - Pillar Two model Rules*

In July 2023, the HKICPA issued the amendments to HKAS 12 to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the “Pillar Two legislation”). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group is yet to apply the temporary exception during the current interim period because the Group’s entities are operating in jurisdictions which the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group’s exposure to Pillar Two income taxes in the Group’s annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

3. REVENUE AND SEGMENT INFORMATION

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

(a) Segment Revenue and Results

For the six months ended 30 June 2023 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,047,439	3,422,975	2,436,110	6,906,524	-	6,906,524
Inter-segment sales	1,644,676	426,141	-	2,070,817	(2,070,817)	-
Segment revenue	<u>2,692,115</u>	<u>3,849,116</u>	<u>2,436,110</u>	<u>8,977,341</u>	<u>(2,070,817)</u>	<u>6,906,524</u>
RESULTS						
Segment profit	<u>814,405</u>	<u>427,956</u>	<u>303,767</u>			1,546,128
Share of results of an associate						165
Unallocated other income						68,105
Unallocated corporate expenses						(74,022)
Unallocated other gains and losses, net						110,889
Impairment losses under expected credit loss model, net of reversal						(374)
Finance costs						<u>(38,736)</u>
Profit before taxation						<u>1,612,155</u>

For the six months ended 30 June 2022 (Unaudited)

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	740,849	2,553,424	1,887,652	5,181,925	-	5,181,925
Inter-segment sales	1,222,023	305,300	-	1,527,323	(1,527,323)	-
Segment revenue	<u>1,962,872</u>	<u>2,858,724</u>	<u>1,887,652</u>	<u>6,709,248</u>	<u>(1,527,323)</u>	<u>5,181,925</u>
RESULTS						
Segment profit	<u>429,082</u>	<u>183,367</u>	<u>307,382</u>			919,831
Unallocated other income						41,586
Unallocated corporate expenses						(58,730)
Unallocated other gains and losses, net						(49,185)
Impairment losses under expected credit loss model, net of reversal						(4,746)
Finance costs						<u>(21,802)</u>
Profit before taxation						<u>826,954</u>

3. REVENUE AND SEGMENT INFORMATION - Continued

(b) Geographical Information

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The People's Republic of China ("PRC"), including Hong Kong (country of domicile)	5,544,083	4,129,014
Europe	431,526	308,533
India	331,769	204,031
Middle East	26,046	32,208
South America	170,335	124,404
Other Asian regions	308,142	263,667
Other regions	94,623	120,068
	<u>6,906,524</u>	<u>5,181,925</u>

4. OTHER INCOME

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Bank interest income	51,432	29,512
Sales of scrap materials	2,576	2,191
Subsidy income (Note)	34,809	33,778
Sundry income	3,674	7,160
	<u>92,491</u>	<u>72,641</u>

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

During the six months ended 30 June 2023, the Group recognised government grants of RMB529,000 (six months ended 30 June 2022: RMB650,000) in respect of Covid-19-related subsidies and entire amount relates to Employment Support Scheme provided by the Hong Kong government.

5. OTHER GAINS AND LOSSES, NET

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net foreign exchange gain (loss)	50,682	(48,568)
Net gain on fair value change of derivative financial instruments (Note)	24,231	308
Gain on disposal of financial assets at fair value through profit or loss	36,690	-
Gain on fair value change of financial assets at fair value through profit or loss	54	-
Net loss on disposal of property, plant and equipment	(2,330)	(2,803)
Written-off of property, plant and equipment	(56,087)	(19,263)
Others	(768)	(925)
	<u>52,472</u>	<u>(71,251)</u>

Note: During the periods ended 30 June 2023 and 2022, the Group entered into a cross currency interest rate swap contract and several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There were five outstanding derivative financial instruments held by the Group as at 30 June 2023 (31 December 2022: three).

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on borrowings	44,288	23,752
Interest on lease liabilities	260	293
	<u>44,548</u>	<u>24,045</u>
Less: amounts capitalised in property, plant and equipment	<u>(5,812)</u>	<u>(2,243)</u>
	<u>38,736</u>	<u>21,802</u>

Borrowing costs capitalised during the current interim period arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.28% (six months ended 30 June 2022: 2.42%) per annum to expenditure on qualifying assets.

7. TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
PRC enterprise income tax ("EIT")	256,986	148,635
PRC withholding tax on interest income	3,594	2,294
PRC withholding tax on distributed profits of PRC subsidiaries	9,785	16,500
	270,365	167,429
Deferred tax charge	57,550	30,008
Tax expense	327,915	197,437

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

No Hong Kong Profits Tax has been recognised as its subsidiaries incorporated in Hong Kong had no assessable profits for both periods, except a subsidiary had utilised the tax losses in current period.

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

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

According to a joint circular of Ministry of Finance and State Administration of Taxation, Cai Shui 2008 No.1, dividend distributed out of the profits generated since 1 January 2008 by a PRC entity to a non-PRC tax resident shall be subject to the PRC EIT pursuant to Articles 3 and 27 of the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises and Article 91 of the Detailed Rules for the Implementation of the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises. The withholding tax rate applicable to the Group is 5%. As at 30 June 2023 and 31 December 2022, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

During the six months ended 30 June 2023, the taxation charge for current PRC EIT is calculated after taking into account the utilisation of unused tax losses of PRC subsidiaries amounting to approximately RMB nil (six months ended 30 June 2022: RMB6,932,000). No deferred tax assets in respect of tax losses has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain. All unrecognised tax losses may be carried forward indefinitely.

8. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Staff costs, including directors' emoluments		
Salaries and other benefits	704,842	578,785
Contributions to retirement benefit schemes	64,926	63,980
	769,768	642,765
Depreciation		
Depreciation of right-of-use assets	5,468	5,198
Depreciation of property, plant and equipment	288,665	278,560
Amortisation of intangible assets (included in cost of sales)	8,766	8,482
Write-down of inventories, net (included in cost of sales)	5,292	432
Cost of inventories recognised as expenses	3,693,226	2,927,960

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings per share, being profit for the period attributable to the owners of the Company	1,284,496	629,517
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,817,027	1,822,167

No diluted earnings per share for the six months ended 30 June 2023 and 2022 were presented as there were no potential ordinary shares in issue for both periods.

10. DIVIDENDS

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the period		
- 2022 final dividend RMB14 cents (2021: final dividend RMB8 cents) per share	254,384	145,406
- 2022 special dividend RMB6 cents (2021: special dividend RMB2 cents) per share	109,021	36,351
	<u>363,405</u>	<u>181,757</u>

The 2022 final dividend and special dividend were paid on 26 July 2023.

Subsequent to the end of the reporting period, the Board declared an interim dividend of RMB12 cents (six months ended 30 June 2022: RMB5 cents) per ordinary share, in an aggregate amount of RMB218,043,000 for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB90,879,000).

11. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

The Group incurred approximately RMB395,085,000 (six months ended 30 June 2022: RMB281,759,000) on property, plant and equipment to expand and upgrade certain production plants and office buildings primarily in Zhuhai and Inner Mongolia, the PRC, during the six months ended 30 June 2023.

During the current interim period, the Group disposed of and written off of certain plant and machinery with an aggregate carrying amount of RMB60,665,000 (six months ended 30 June 2022: RMB22,318,000) for cash proceeds of RMB2,248,000 (six months ended 30 June 2022: RMB252,000), resulting in a loss on disposal of RMB2,330,000 (six months ended 30 June 2022: RMB2,803,000) and written-off of RMB56,087,000 (six months ended 30 June 2022: RMB19,263,000).

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables from contracts with customers	2,488,508	2,110,751
Less: allowance for credit losses	(19,924)	(6,839)
Banker's acceptance bills receivables	2,563,631	2,360,224
Less: allowance for credit losses	(151)	(848)
Commercial bills receivables	1,952	18,909
Less: allowance for credit losses	(601)	(6,375)
Consideration receivables	339,574	339,574
Less: allowance for credit losses	(339,574)	(339,574)
Value added tax receivables	114,862	115,866
Other receivables, deposits and prepayments	436,566	326,512
Less: allowance for credit losses	(6,870)	(6,496)
	<u>5,577,973</u>	<u>4,911,704</u>

The Group normally allows a credit period of ranging from 60 days to 120 days (31 December 2022: from 60 days to 120 days) to its trade customers, and may be extended to selected customers depending on their trade volume and settlement 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 (31 December 2022: between 90 days and 1 year).

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

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on dates of 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:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade receivables		
0 to 30 days	1,012,737	1,026,413
31 to 60 days	657,617	478,510
61 to 90 days	376,173	262,065
91 to 120 days	162,341	143,763
121 to 180 days	111,680	127,389
Over 180 days	148,036	65,772
	<u>2,468,584</u>	<u>2,103,912</u>
Banker's acceptance bills receivables		
0 to 30 days	317,977	574,224
31 to 60 days	430,117	430,013
61 to 90 days	437,914	323,647
91 to 120 days	387,018	410,900
121 to 180 days	932,854	591,962
Over 180 days	57,600	28,630
	<u>2,563,480</u>	<u>2,359,376</u>
Commercial bills receivables		
91 to 120 days	-	12,534
Over 180 days	1,351	-
	<u>1,351</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:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables		
0 to 90 days	1,202,925	1,551,147
91 to 180 days	396,570	367,388
Over 180 days	35,112	51,820
	<u>1,634,607</u>	<u>1,970,355</u>
Trade payables under supplier finance arrangement (note 1)		
0 to 90 days	1,561,958	779,384
91 to 180 days	756,515	808,685
	<u>2,318,473</u>	<u>1,588,069</u>
Other payables and accruals	482,330	485,992
Other tax payable	181,924	158,654
Refund liabilities (note 2)	39,284	-
Accrual of freight expense	78,323	76,441
Accrual of salary, staff welfare and unclaimed annual leave	196,927	191,578
Accrual of water, electricity fee and steam	364,186	370,618
Deferred income in respect of government grants	88,036	95,859
Payables in respect of the acquisition of property, plant and equipment	400,941	423,723
	<u>5,785,031</u>	<u>5,361,289</u>
Less: Amount due within one year shown under current liabilities	<u>(5,746,664)</u>	<u>(5,317,876)</u>
Amount shown under non-current liabilities	<u>38,367</u>	<u>43,413</u>

Notes:

- (1) 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.
- (2) The balance represents the estimated refund to customers as the compensation of price reduction of certain antibiotics products sold during current period due to the eighth batch of the PRC's centralised procurement of pharmaceuticals announced in March 2023 and to be effective in July 2023.

14. CAPITAL COMMITMENTS

As at 30 June 2023, the Group had commitments for capital expenditure of RMB497,212,000 (31 December 2022: RMB355,691,000) in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements.

15. PLEDGE OF OR RESTRICTIONS ON ASSETS

Pledge of assets

The Group had also pledged the following assets to banks as securities against banking facilities granted to the Group at the end of the reporting period:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Property, plant and equipment	384,621	416,896
Right-of-use assets	165,226	167,837
Banker's acceptance bills receivables	1,074,187	764,422
Pledged bank deposits	674,355	694,704

Restrictions on assets

In addition, lease liabilities of RMB8,025,000 (31 December 2022: RMB7,640,000) are recognised with related right-of-use assets of RMB7,114,000 (31 December 2022: RMB6,570,000) as at 30 June 2023. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

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 period is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	286	329
Salaries and other benefits	9,300	8,869
Contributions to retirement benefits schemes	44	44
	9,630	9,242

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND FINANCIAL RESULTS

In the first half of 2023, the global economic recovery was weak and inflation remained high. With domestic economy and society fully restoring normal operation, the Chinese economy has withstood external pressure and picked up, showing improved major indicators and better development quality.

At the NPC and CPPCC held in March 2023, it was pointed out that the transformation and innovation and upgrading of the pharmaceutical industry play a vital role in improving people's life and health, focusing on the topics of "health", "innovation" and "cooperation" in the pharmaceutical field. In the first half of this year, the eighth batch of state organized centralized drug procurement was carried out in an orderly manner, and a total of 39 drugs were successfully purchased, covering anti-infection, cardiovascular and cerebrovascular diseases, anti-allergy, mental diseases and other common diseases and chronic diseases. In addition, the adjustment of National Medical Insurance Drug List in 2023 has been started, with the goal of optimizing the structure of the drug list, making management more scientific and standardized, payment more efficient and protection more fair, and helping to solve the people's worries for medical treatment. With the continuous deepening of the reform of the medical and health care system and the continuous improvement of the industry structure, the Group's market position has been further consolidated.

For the six months ended 30 June 2023 (the "Period"), the Group recorded revenue of approximately RMB6,906.5 million, an increase of approximately 33.3% as compared with the same period last year. EBITDA was approximately RMB1,953.8 million, representing a year-on-year increase of 71.2%. Profit attributable to owners of the Company was RMB1,284.5 million, representing a year-on-year increase of 104.0%. Earnings per share were RMB70.69 cents. The Board recommended the payment of an interim dividend of RMB12 cents per share for the six months ended 30 June 2023.

During the Period, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products was RMB2,692.1 million, RMB3,849.1 million and RMB2,436.1 million respectively, representing increase of 37.2%, 34.6% and 29.1% respectively as compared with the same period in the previous year. Segmental profit of intermediate products, bulk medicine and finished products amounted to RMB814.4 million, RMB428.0 million and RMB303.8 million respectively, representing an increase of 89.8%, increase of 133.4% and decrease of 1.2% respectively as compared to last corresponding period.

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

Intermediate Products and Bulk Medicine

During the Period, the intermediate products and bulk medicines segment recorded external sales of approximately RMB1,047.4 million and RMB3,423.0 million, respectively, representing a year-on-year increase of 41.4% and 34.1%, respectively. Overseas export recorded sales of RMB1,362.4 million, representing a year-on-year increase of 29.4%, and accounting for 19.7% of total revenue of the Group. The recovery in demand, especially in overseas markets, led to a steady increase in the market prices of the related products, and the Group continued to hold a leading position in the domestic and export markets for intermediate products and bulk medicines.

Finished Products

During the Period, the sales of finished products was approximately RMB2,436.1 million, representing a year-on-year increase of 29.1%.

Diabetes series recorded total sales revenue of approximately RMB498.0 million, representing a year-on-year decrease of 19.6%. Among that, human insulin recorded sales revenue of approximately RMB230.9 million; insulin analogues recorded total sales revenue of RMB267.1 million. The sales volume of insulin analogues maintained a rapid growth during the Period.

Antibiotics products, including veterinary drugs, recorded sales revenue of RMB1,725.0 million, representing a year-on-year increase of 50.5%. Among that the piperacillin sodium and tazobactam sodium for injection recorded a sales revenue of RMB386.6 million, representing a year-on-year increase of 22.7%, and amoxicillin capsules recorded a sales revenue of RMB247.1 million, representing a year-on-year increase of 17.7%. During the Period, the Group's piperacillin sodium and tazobactam sodium for injection (specification: 4.5g) was selected in the eighth batch of national organized drug centralised procurement, and the future sales scale is expected to reach a new level.

The veterinary drugs recorded sales revenue of RMB534.3 million representing a year-on-year increase of 158.6%. During the Period, the strategic cooperation between United Animal Healthcare (Inner Mongolia) Co., Ltd.(內蒙古聯動保藥品有限公司), a wholly-owned subsidiary of the Company, and Muyuan Foods Co., Ltd.(牧原食品股份有限公司) was in smooth progress. The Group will continue to enhance its comprehensive competitiveness in the field of veterinary drug, with an aim to build a leading brand in China's animal health industry.

Progress of Pharmaceutical Research and Development

During the Period, the Group invested a total of RMB350.3 million in pharmaceutical R&D, with a year-on-year increase in R&D expenses of 44.4%, including expensed R&D investment of RMB338.7 million and capitalisation R&D expenditure of RMB11.6 million. The Group has 34 human use new products under development, of which 16 products are class-I new drugs. The Group has established a comprehensive research and development system characterised by collaborative development among multiple platforms such as biological research and development, chemical drug research and development, innovative drug research and development, clinical research centre and external cooperation, focusing on endocrine, autoimmune, ophthalmology, high-end anti-infection and other fields. As innovation is the fundamental driving force for our development, we will efficiently promote the research, development and marketing of new drugs, expand the fields of drug research, foster greater global outlook, and improve the high-end talent team in order to continuously enhance our competitiveness and creativity.

During the Period, the Group made significant progress in pharmaceutical research and development.

- In March, the class -I new drug, TUL12101 eye drops, was approved for clinical trials. TUL12101 is a new generation of small molecule RASP (active aldehyde) inhibitor developed by the Group, which can alleviate inflammatory response, break the vicious cycle of inflammation, and achieve the purpose of treating xerophthalmia. At present, there are no other products with the same mechanism launched at home and abroad.
- In April, the insulin degludec and liraglutide injection was approved for clinical trials. The Group is the first company in China to obtain the clinical approval of this biosimilar.
- In April, the semaglutide injection was approved for clinical trials for the indication of weight management. Currently the Group is the first company in China to obtain the clinical approval of this biosimilar.
- In June, the application for clinical trial registration of the Group's self-developed class-I innovative drug UBT251 injection was accepted for the indications of T2DM, weight management and non-alcoholic fatty liver/non-alcoholic steatohepatitis (NASH). At present, the Company is the first in China and the second in the world to apply for clinical trial registration for the long-acting GLP-1 (glucagon-like peptide-1) /GIP (Glucose-dependent insulin stimulating polypeptide) /GCG (glucagon) triple-agonist prepared by the chemical synthetic peptide method.

In terms of the quality and efficacy consistency evaluation of generic drugs ("consistency evaluation"), the amoxicillin capsule (specification: 0.5g) declared by the Group was approved to pass the consistency evaluation, which is the third amoxicillin capsule variety of the Group to pass the consistency evaluation. The Group will continue to promote the research and development and the consistency evaluation of new drugs to provide patients with more safe and high-quality drug options in the future.

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 Period, the finance costs of the Group were approximately RMB38.7 million, representing a year-on-year increase of 77.7%. As at 30 June 2023, the Group's net bank balances and cash (after deducting borrowings and trade payables under supplier finance arrangement) amounted to RMB1,579.9 million. The Group will actively adjust its financial structure by using onshore Renminbi as the main borrowing currency in its efforts to reduce overall finance costs, balance the risk of exchange rate fluctuation, enhance financial flexibility and efficiency in the utilisation of funds and maintain robust financial position.

Liquidity and Financial Resources

As at 30 June 2023, the Group had pledged bank deposits, cash and bank balances amounted to RMB5,419.2 million (31 December 2022: RMB5,437.8 million).

As at 30 June 2023, the Group had interest-bearing borrowings of approximately RMB1,520.9 million (31 December 2022: RMB2,455.1 million), which were denominated in Hong Kong dollars and Renminbi with maturity within five years. Interest-bearing borrowings of approximately RMB691.2 million (31 December 2022: RMB251.4 million) are fixed rates loans while the remaining balance of approximately RMB829.7 million (31 December 2022: RMB2,203.7 million) is at floating rates. The directors expect that all such borrowings will either be repaid by internally generated funds or rolled over upon maturity and will continue to provide funding to the Group's operations.

As at 30 June 2023, current assets of the Group amounted to approximately RMB13,212.1 million (31 December 2022: RMB12,514.9 million). Net current assets increased from RMB5,481.9 million as at 31 December 2022 to RMB6,148.4 million as at 30 June 2023. The Group's current ratio was approximately 1.87 as at 30 June 2023 as compared with 1.78 as at 31 December 2022. As at 30 June 2023, the Group had total assets of approximately RMB19,770.0 million (31 December 2022: RMB18,979.6 million) and total liabilities of approximately RMB8,238.3 million (31 December 2022: RMB8,370.2 million). Equity attributable to shareholders of the Company increased from RMB10,608.1 million at 31 December 2022 to RMB11,530.5 million at 30 June 2023. As at 30 June 2023, the Group's net cash and bank balances (after deducting borrowings and trade payables under supplier finance arrangement) amounted to RMB1,579.9 million (31 December 2022: RMB1,394.6 million).

Contingent Liabilities

As at 30 June 2023 and 31 December 2022, the Group had no material contingent liabilities.

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 Policies

As at 30 June 2023, the Group had approximately 14,000 (31 December 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.

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. After accepting the case, the Chengdu Intermediate People's Court heard the case in the first session on 21 February 2023, and a second hearing on 6 June 2023. It is currently awaiting the first-instance judgment of the Chengdu Intermediate People's Court.

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

Proposed 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 maximise the value of the Company for the benefits of both the selected participants and the Company.

The adoption of the 2023 Share Award Scheme is conditional upon the approval of the shareholders of the Company and the Stock Exchange granting the approval for the listing of, and permission to deal in, the Shares which may fall to be issued and allotted pursuant to any awards that may be granted under the 2023 Share Award Scheme.

OUTLOOK

At present, China's economy has gradually entered a stage of recovery growth after emerging from the impact of the epidemic, the order of medical institutions is basically normal, and the demand for drugs is steadily released. In the context of the deepening reform of the medical and health system, the Group will further consolidate its core industrial advantages, strengthen the cost control of the industrial chain, continue to promote the brand strategy, and accelerate the process of market development and commercialisation. Meanwhile, we will constantly improve the strength of scientific research and innovation, efficiently promote the process of new drug research and development and marketing, upgrade production line facilities, and comprehensively improve the industrialization capacity. In addition, we will actively expand external cooperation and take multiple measures to add impetus to the Group's long-term sustainable development. Looking ahead, the Group is confident that it will keep consolidating and enhancing its position and influence in the pharmaceutical industry in China amid the wave of changes in the industry, so as to create more value for shareholders and the society.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2023.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange as its code of conduct for dealings in securities of the Company by the Board. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2023, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

AUDIT COMMITTEE

The Audit Committee comprises of three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi. The Audit Committee has reviewed the unaudited condensed consolidated financial statements for the six months ended 30 June 2023. The Audit Committee has relied on a review conducted by the Company's external auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and representations from the management.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the interim dividend, the Register of Members of the Company will be closed on Monday, 18 September 2023 and Tuesday, 19 September 2023 on which no transfer of shares will be registered. In order to qualify for the interim dividend (record date being 19 September 2023), all completed transfer forms accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 15 September 2023.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to our shareholders and partners in the community for their full trust and support in the first half of 2023, as well as to our staff for their efforts and contributions. I hope we can join hands and create a better future together.

On behalf of the Board

Tsoi Hoi Shan
Chairman

Hong Kong, 29 August 2023

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