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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)

CONTINUING CONNECTED TRANSACTIONS IN RELATION TO THE MASTER SALES AGREEMENT

THE MASTER SALES AGREEMENT

On 3 June 2024, the Suppliers and Muyuan Foods entered into the Master Sales Agreement, pursuant to which the Suppliers have agreed to supply to Muyuan Foods, and Muyuan Foods has agreed to purchase veterinary drug products, including but not limited to injections such as Amoxicillin Sodium for injection, customised Penicillin Sodium for injection and Ampicillin Sodium for injection for a period of three years from 1 January 2024 to 31 December 2026 (both dates inclusive).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Henan Lianmu, an indirect non wholly-owned subsidiary of the Company, is owned as to 40% by Muyuan Foods. Muyuan Foods is therefore a connected person of the Company at subsidiary level pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Master Sales Agreement and the related Annual Caps constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Notwithstanding that one or more of the applicable percentage ratios in respect of the Transactions exceed(s) 5%, by virtue of Rule 14A.101 of the Listing Rules, as (i) Muyuan Foods is a connected person of the Company at the subsidiary level; (ii) the Transactions are on normal commercial terms; and (iii) the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Transactions are only subject to reporting and announcement requirements but are exempted from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. None of the Directors has any interest in the Transactions and is required to abstain from voting on the same at the relevant meeting of the Board.

THE MASTER SALES AGREEMENT

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Date

3 June 2024

Parties

- (i) United Animal Healthcare (Inner Mongolia), an indirect wholly-owned subsidiary of the Company;
- (ii) Henan Lianmu, an indirect non wholly-owned subsidiary of the Company;
- (iii) United Animal Healthcare (Zhuhai), an indirect wholly-owned subsidiary of the Company;
and
- (iv) Muyuan Foods, holder of 40% of equity interest of Henan Lianmu.

Term

1 January 2024 to 31 December 2026 (both dates inclusive)

Subject Matter

Pursuant to the Master Sales Agreement, the Suppliers agreed to supply to Muyuan Foods and Muyuan Foods agreed to purchase from the Suppliers veterinary drug products, including but not limited to injections such as Amoxicillin Sodium for injection, customised Penicillin Sodium for injection and Ampicillin Sodium for injection (the “**Products**”) during the term of the Master Sales Agreement.

The Master Sales Agreement is a framework agreement which provides the principles, mechanism and terms and conditions for Muyuan Foods’ purchase of the Products from the Suppliers. Subject to successful tender, each of the Suppliers and Muyuan Foods will enter into specific agreements and individual purchase orders from time to time in accordance with the Master Sales Agreement, which will specify the particulars of the Products to be purchased, price, delivery arrangements, and any other terms which may be relevant to the supply of the Products to Muyuan Foods.

Pricing Policies

Each Transaction is subject to public bidding, invitation for bidding or invitation for quotation processes (the “**Tendering and Quotation Process(es)**”) of Muyuan Foods, under which the relevant Supplier shall first submit a bid to Muyuan Foods and the price of the Products shall be determined taking into account the following factors, which include but are not limited to:

- (i) the quotations provided by the Suppliers to Independent Third Parties and/or the respective confirmed or winning bid prices for products of the same or similar type, transaction nature and scale (the “**Comparable Transaction(s)**”); and
- (ii) (where the information under (i) is not available) the price will be determined based on (a) the fees charged by Independent Third Parties under other Comparable Transactions on the market, and (b) the expected costs to be incurred in respect of supply of the Products (including but not limited to the costs of raw materials and equipment, processing costs, inspection and testing costs, administrative costs, packaging costs, labour costs, logistics costs, insurance fees, handling fees, product loss and all other production and sales costs (as appropriate), etc.), the applicable taxes and regulatory fees, a reasonable level of profits expected to be made by the Group out of the Products (which will be determined in accordance with the internal control measures as set out in the paragraph headed “Internal Control and Pricing Policy” below), as well as other related costs and cost of risks.

The procedures under the Tendering and Quotation Processes of Muyuan Foods generally involve (i) issuing invitation for bidding; (ii) online receipt of bids; (iii) testing of sample products provided by the bidders; (iv) review of bids; and (v) online execution of appointment contract with the successful bidder. The bids will be assessed based on, among other factors, the product quality standards, the price, the guarantee of supply and the biosecurity standards, etc.

If the Suppliers are awarded the purchase orders, the final price of the Products shall be determined with reference to the confirmed bid price from the Tendering and Quotation Process(es), and shall (i) not exceed the standard price specified by the relevant regulatory authorities (if applicable); (ii) be fair and reasonable; (iii) be no less favourable to the Group than the price charged by the Group to customers who are Independent Third Parties under Comparable Transactions; and (iv) be subject to potential adjustments to be made in light of the latest applicable tax rates prescribed by the relevant government authorities during the term of the Master Sales Agreement.

Payment Terms

Unless otherwise determined by the relevant parties in the individual purchase orders, Muyuan Foods shall settle the respective payment(s) within 180 days from the date of the invoice by cash, bank transfer, commercial acceptance bills or bank acceptance bills (as the case may be).

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

The Group is principally engaged in the research and development, production and sales of pharmaceuticals in the PRC. By entering into the Master Sales Agreement, the Group can continue to utilise its expertise, experience and resources to supply the Products to Muyuan Foods, while enhancing income and broadening the revenue base of the Group.

Muyuan Foods is one of the key leading enterprises in large-scale agricultural industrialisation in the PRC, which has a top intensive farming scale. Taking into account Muyuan Foods’ brand positioning and market resources, the Board considers that the Transactions will deepen the cooperation between the Group and Muyuan Foods and allow the Group to establish a stronger market presence, thereby promoting the Group’s leading corporate and brand recognition.

INTERNAL CONTROL AND PRICING POLICY

The Company has established internal control measures to ensure that the Transactions are in accordance with the pricing policies and the terms of the Master Sales Agreement, and that the price of the Products to be sold to Muyuan Foods are on normal commercial terms and on terms no less favourable to the Group than those terms offered by the Group to Independent Third Parties for similar products. Such internal control measures employed by the Group include the following:

- (i) the Group has in place a pre-bidding guide which stipulates the minimum bidding prices to be proposed by the Group for the Products under all Tendering and Quotation Processes of Muyuan Foods (the “**Price Floor(s)**”) which shall be determined and updated quarterly with reference to the market prices of the Products obtained through periodic researches conducted by the business departments of the Suppliers on other Tendering and Quotation Processes of Independent Third Parties on the market. Such Price Floors shall be approved by the managing director of the Suppliers and the finance department of the Company upon the quarterly updates;
- (ii) prior to submitting any bids to Muyuan Foods, the business department of the relevant Supplier will refer to the Price Floor and either (as the case may be) (a) one or two confirmed or winning bid price(s) for Comparable Transactions with Independent Third Parties or (b) the reasonable level of profits expected to be made by the relevant Supplier out of the Products being recommended by the finance department of the relevant Supplier, based on such department’s quarterly review of the historical gross profit margins of the relevant Supplier under Comparable Transactions and/or the gross profit margins of other companies in the industry (if available);
- (iii) the legal department and the internal audit department of the Group will perform checking on the transaction amounts to ensure that the actual selling prices of the Products are higher than or equivalent to the Price Floor and are in accordance with the agreed sales terms pursuant to the Master Sales Agreement and Individual purchase orders;
- (iv) the Company will arrange periodic compliance trainings for its Directors, senior management and other relevant staff of the Suppliers on, among others, the rules relating to connected transactions under Chapter 14A of the Listing Rules;
- (v) a monthly report will be prepared by the finance departments of each of the Suppliers to check the accumulated revenue in aggregated amounts against the relevant annual cap for the financial year. The managing director of the Suppliers shall submit dual filings to the company secretarial department and the finance department of the Company on the utilisation level of the relevant annual cap within three working days after the end of each month. In case the accumulated selling amount is about to reach the relevant annual cap, the Company will seek to revise the annual cap and re-comply with the requirements under Chapter 14A of the Listing Rules as appropriate;
- (vi) each of the Suppliers shall engage its respective auditors in the PRC to conduct reviews of the Transactions at least once every six months to ensure compliance with this section; and
- (vii) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Transactions in accordance with the Listing Rules requirements.

The Board considers that the above internal control measures could effectively ensure that the pricing and terms of the Transactions are conducted on normal commercial terms, no less favourable to the Group than those terms offered by the Group to Independent Third Parties for similar products and in accordance with the pricing policy as agreed under the Master Sales Agreement.

HISTORICAL TRANSACTION AMOUNTS AND PROPOSED ANNUAL CAPS

Historical transaction amounts of the Transactions

The table below sets out the historical transaction amounts (tax exclusive) in relation to the supply of the Products by the Group to Muyuan Foods for the three years ended 31 December 2021, 2022 and 2023 and from January to May 2024:

Historical transaction amounts between the Group and Muyuan Foods (for the following financial years/ period ended):	RMB'000 (tax exclusive)
31 December 2021 (audited)	103,953
31 December 2022 (audited)	416,205
31 December 2023 (audited)	700,734
January to May 2024 (unaudited)	409,013

Henan Lianmu was incorporated on 1 August 2022. Prior to the incorporation of Henan Lianmu, Muyuan Foods was an Independent Third Party to the Group. Based on the financial statements of Henan Lianmu for the period from 1 August 2022 (date of incorporation) to 31 December 2022 and for the financial year ended 31 December 2023, all relevant ratios pursuant to Rule 14A.09(1) of the Listing Rules were less than 5% for the corresponding periods. Therefore, during the period from 1 August 2022 (date of incorporation) to 31 December 2022 and for the financial year ended 31 December 2023 and up to the date of this announcement, Henan Lianmu was regarded as an insignificant subsidiary pursuant to Rule 14A.09 of the Listing Rules and the Previous Transactions did not constitute connected transactions of the Company.

Proposed Annual Caps for the Transactions and the basis of determination

The Board proposes that the Annual Caps (tax exclusive) for the Transactions be set as follows:

Annual Cap (for the following years):	RMB'000 (tax exclusive)
For the year ending 31 December 2024	1,100,000
For the year ending 31 December 2025	1,320,000
For the year ending 31 December 2026	1,650,000

The Annual Caps have been determined by the Board based on the initial discussions and business plans discussed among the Group and Muyuan Foods (the “**Business Discussions**”), taking into account of the following factors:

- (i) the historical transaction amounts (the total amount incurred in relation to the Historical Transactions);
- (ii) the pricing basis contained in the Master Sales Agreement and as set out in the section headed “The Master Sales Agreement – Pricing Policies”;
- (iii) the existing and expected orders for the Products from Muyuan Foods;

- (iv) the expected increase in costs of supplying the Products to Muyuan Foods, including, among others, depreciation costs in relation to the Suppliers' construction of three new production bases located in Inner Mongolia, Henan and Zhuhai in the PRC (which are expected to be put into operations gradually in late 2024 and 2025) (the “**New Production Bases**”), together with core manufacturing costs and expenditures (including mainly costs of purchase of raw materials), at an approximate year-on-year rate of up to 27% during the years ending 31 December 2024, 2025 and 2026; and
- (v) the expected increase in demand for the Products at an approximate year-on-year rate of up to 20% during the years ending 31 December 2024, 2025 and 2026, in view of (a) the business needs of Muyuan Foods as noted from the Business Discussions; (b) the expected increase in the production capacity of the Suppliers by approximately 50% upon the completion of the construction of the New Production Bases as set out in (iv) above, which is expected to bring about new business opportunities; and (c) the potential new types of Products which Muyuan Foods may purchase from the Suppliers (including but not limited to the new products to be produced at the New Production Bases, such as veterinary drug powders and solutions).

BOARD VIEWS

To the best of the Board's knowledge, information and belief having made all reasonable enquiries, no Director has a material interest in the Transactions, and no Director was required to abstain from voting on the board resolutions approving the Transactions and the related Annual Caps.

The Group will continue to monitor and ensure that the purchase price of the Products offered to Muyuan Foods are on normal commercial terms and on terms no less favourable to the Group than those terms offered by the Group to Independent Third Parties for similar products, as set out in the paragraph headed “Internal Control and Pricing Policy” above.

The Directors (including all the independent non-executive Directors) consider that the Transactions will be carried out in the ordinary and usual course of business of the Group and on normal commercial terms, and that the terms of such transactions and the related Annual Caps have been reached after arm's length negotiations among the parties, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INFORMATION OF THE GROUP

The Group is principally engaged in the research and development, production and sales of pharmaceuticals in the PRC.

INFORMATION OF UNITED ANIMAL HEALTHCARE (INNER MONGOLIA)

United Animal Healthcare (Inner Mongolia) is a wholly foreign-owned enterprise incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the manufacturing and sale of veterinary drugs in the PRC.

INFORMATION OF HENAN LIANMU

Henan Lianmu is a company incorporated on 1 August 2022 in the PRC with limited liability. It is principally engaged in the manufacturing and sale of veterinary drugs in the PRC. As at the date of this announcement, Henan Lianmu is owned as to 60% and 40% by the Company and Muyuan Foods, respectively, and is an indirect non wholly-owned subsidiary of the Company.

INFORMATION OF UNITED ANIMAL HEALTHCARE (ZHUHAI)

United Animal Healthcare (Zhuhai) is a wholly foreign-owned enterprise incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is principally engaged in the manufacturing and sale of veterinary drugs in the PRC.

INFORMATION OF MUYUAN FOODS

Muyuan Foods is a joint stock company organised and established in accordance with the law of the PRC and listed on the Shenzhen Stock Exchange (stock code: SZ002714). It is one of the key leading enterprises in large-scale agricultural industrialization in the PRC, which has a top intensive farming scale. As at the date of this announcement, Henan Lianmu, an indirect non wholly-owned subsidiary of the Company, is owned as to 40% by Muyuan Foods.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Henan Lianmu, an indirect non wholly-owned subsidiary of the Company, is owned as to 40% by Muyuan Foods. Muyuan Foods is therefore a connected person of the Company at subsidiary level pursuant to Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Master Sales Agreement and the related Annual Caps constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Notwithstanding that one or more of the applicable percentage ratios in respect of the Transactions exceed(s) 5%, by virtue of Rule 14A.101 of the Listing Rules, as (i) Muyuan Foods is a connected person of the Company at the subsidiary level; (ii) the Transactions are on normal commercial terms; and (iii) the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the transactions are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Transactions are only subject to reporting and announcement requirements but are exempted from the circular (including independent financial advice) and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. None of the Directors has any interest in the Transactions and is required to abstain from voting on the same at the relevant meeting of the Board.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Annual Cap(s)”	the maximum aggregate annual value of the Transactions for the three financial years ending 31 December 2024, 2025 and 2026 proposed by the Board
“Board”	the board of Directors of the Company

“Company”	The United Laboratories International Holdings Limited (聯邦制藥國際控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Henan Lianmu”	Henan Lianmu Veterinary Medicine Co., Ltd., a company incorporated in the PRC with limited liability and an indirect non wholly-owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	an independent third party not connected with the Company or its connected persons (as defined in the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Sales Agreement”	the agreement dated 3 June 2024 entered into between the Suppliers and Muyuan Foods in relation to the supply of the Products by the Suppliers to Muyuan Foods
“Muyuan Foods”	Muyuan Foods Co., Ltd. (牧原食品股份有限公司), a joint stock company organised and established in accordance with the laws of the PRC and listed on the Shenzhen Stock Exchange (stock code: SZ002714)
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Previous Transactions”	transactions entered into between the Group and Muyuan Foods in relation to the supply of the Products by the Group to Muyuan Foods for the financial years ended 31 December 2021, 2022 and 2023 and for the period from 1 January 2024 to the date of this announcement
“Products”	has the meaning set out in the section headed “The Master Sales Agreement - Subject matter”
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) with par value of HK\$0.01 each in the share capital of the Company

“Shareholder(s)”	registered holders of the Shares from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplier(s)”	United Animal Healthcare (Inner Mongolia), Henan Lianmu and United Animal Healthcare (Zhuhai)
“Transaction(s)”	the transactions contemplated under the Master Sales Agreement
“United Animal Healthcare (Inner Mongolia)”	The United Animal Healthcare (Inner Mongolia) Co., Ltd., a wholly foreign-owned enterprise incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“United Animal Healthcare (Zhuhai)”	The United Animal Healthcare (Zhuhai) Co., Ltd.* (珠海聯邦動保有限公司), a wholly foreign-owned enterprise incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“%”	per cent

In this announcement, unless the context requires otherwise, the terms “connected person(s)”, “connected transaction(s)”, “percentage ratio(s)” and subsidiary(ies)”, shall have the meaning given to such terms in the Listing Rules.

** For identification purpose only*

By Order of the Board
The United Laboratories International Holdings Limited
Tsoi Hoi Shan
Chairman

Hong Kong, 3 June 2024

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.