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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)

2020 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2020	2019	Increase (decrease)
	<i>RMB'000</i>	<i>RMB'000</i>	%
Revenue	8,772,488	8,392,600	4.5%
EBITDA	1,678,072	1,798,222	(6.7%)
Profit before taxation	882,334	841,652	4.8%
Profit for the year attributable to owners of the Company	702,989	641,764	9.5%
Earnings per share	<i>RMB cents</i>	<i>RMB cents</i>	
Basic	39.81	39.14	1.7%
Diluted	39.81	39.14	1.7%

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company"), I hereby present to all shareholders the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2020.

In 2020, the COVID-19 pandemic caused severe impacts on the global economy, exerted severe challenges to all industries, and the global supply chain therefore had been under tremendous pressure. Thanks to strict pandemic prevention and control measures, China quickly found its way out of the haze of the pandemic, and social production recovered rapidly. Meanwhile, supported by strong domestic demand, China has become the sole major economy in the world that recorded positive growth, with an increase in GDP of 2.3% as compared to 2019, demonstrating China's strong economic capacity to withstand pressure.

Since the pandemic outbreak, the national medical and health system has shown tremendous resilience and has played an important role in the battle against the pandemic. As a member of the pharmaceutical industry, the Group organised the resumption of work and production in an orderly manner under the premise of ensuring the health and safety of employees, and made positive contributions to maintaining the stability of drug supply. The Group accumulatively donated more than RMB 4 million and anti-epidemic materials worth nearly RMB 1 million during the year to support epidemic prevention and control, and fulfilled corporate social responsibilities with practical actions.

During the year, the Group's revenue amounted to RMB8,772.5 million, representing an increase of approximately 4.5% over 2019. EBITDA was approximately RMB1,678.1 million, a decrease of 6.7% as compared with last year. Profit attributable to owners of the Company was RMB703.0 million, representing an increase of 9.5% as compared with last year. Earnings per share amounted to RMB39.81 cents. The Board proposes a final dividend of RMB8 cents per share for the year ended 31 December 2020.

OUTLOOK

As the reform of the national medical and health system has becoming more in-depth, the pharmaceutical industry is moving forward to a stage of high-quality development. Under the trend of accelerating industry integration, a combination of core strategic products, diversified research pipelines and high-quality sales teams will help companies stand out in market competition. In the future, the Group will be committed to and focus on the field of diabetes. On the basis of further terminal expansion, the Group will strengthen the academic platform and comprehensive competitiveness, deepen the coverage of brand and professional services in ways that enhance the Group's market status in diabetes and other specialised fields.

In the context of ever-changing pharmaceutical policies, innovation is the key to the long-term development of an enterprise. The Group will deepen its efforts to allocate more resources to product research and development, expand treatment fields, and develop innovative products with market potential to meet medical needs in the PRC. Moreover, it will consolidate and expand the scientific research team, enhance the comprehensive strength in scientific research, and proactively embrace the transformation driven by R&D innovation.

From a global perspective, the COVID-19 pandemic currently has not yet been fully controlled, and the impact of the pandemic on the world will persist for a period of time. This global public health crisis has brought unprecedented challenges, while prompting people to deeply reflect on issues such as public health, ecological environment protection, environmental and climate risks. Entering the post-pandemic era, the Group will continue to adhere to the concept of sustainable development, comprehensively improve the level of environmental protection and comprehensive management, and actively assume corporate responsibilities to society and the environment.

On behalf of the Board, I would like to take this opportunity to thank our shareholders, customers and business partners for their full trust and support in 2020, as well as all staff for their efforts and contributions. I hope we can join hands and create a better future together.

2020 ANNUAL RESULTS

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2020 together with the comparative figures for the year 2019 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Revenue	3	8,772,488	8,392,600
Cost of sales		(4,966,270)	(4,771,336)
Gross profit		3,806,218	3,621,264
Other income	4	202,350	123,059
Other gains and losses, net	5(a)	14,617	(1,773)
Selling and distribution expenses		(1,483,868)	(1,477,637)
Administrative expenses		(742,002)	(740,653)
Other expenses	5(b)	(353,182)	(386,829)
Impairment losses under expected credit loss model, net of reversal		(65,912)	(7,655)
Gain on disposal of a subsidiary		-	200,445
Loss on fair value change on investment properties		-	(97,614)
Loss on fair value change of embedded derivative components of convertible bonds		(314,614)	(110,117)
Finance costs	6	(181,273)	(280,838)
Profit before taxation		882,334	841,652
Tax expense	7	(181,416)	(199,888)
Profit for the year	8	700,918	641,764
Other comprehensive income (expense)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		5,904	(1,971)
Total comprehensive income for the year		706,822	639,793
Profit (loss) for the year attributable to:			
Owners of the Company		702,989	641,764
Non-controlling interest		(2,071)	-
		700,918	641,764
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		708,893	639,793
Non-controlling interest		(2,071)	-
		706,822	639,793
Earnings per share			
	10	<i>RMB cents</i>	<i>RMB cents</i>
- Basic		39.81	39.14
- Diluted		39.81	39.14

Consolidated Statement of Financial Position
At 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	11	6,147,029	6,197,479
Right-of-use assets		225,908	232,637
Goodwill		3,031	3,031
Intangible assets		131,280	137,177
Deposit for acquisition of land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		15,775	56,427
Other pledged deposits		24,000	24,000
Consideration receivables	12	105,679	276,363
Financial asset at fair value through profit or loss		500	500
Deferred tax asset		78,253	51,289
		<u>6,738,717</u>	<u>6,986,165</u>
Current assets			
Inventories		1,428,502	1,575,235
Trade and bills receivables, other receivables, deposits and prepayments	12	3,359,499	3,241,069
Other pledged deposits		-	7,423
Pledged bank deposits		440,194	724,981
Bank balances and cash		2,996,802	3,164,819
		<u>8,224,997</u>	<u>8,713,527</u>
Current liabilities			
Trade and bills payables, other payables and accrued charges	13	3,692,715	3,656,456
Contract liabilities		78,125	59,733
Lease liabilities		1,686	1,646
Tax payables		180,196	167,641
Borrowings - due within one year		907,142	2,573,398
		<u>4,859,864</u>	<u>6,458,874</u>
Net current assets		<u>3,365,133</u>	<u>2,254,653</u>
Total assets less current liabilities		<u>10,103,850</u>	<u>9,240,818</u>

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Non-current liabilities			
Deferred tax liabilities		119,582	77,803
Deferred income in respect of government grants	13	65,351	68,085
Derivative financial instrument		4,573	-
Lease liabilities		-	117
Borrowings - due after one year		1,302,509	1,414,591
Convertible bonds		-	1,008,433
		<u>1,492,015</u>	<u>2,569,029</u>
		<u>8,611,835</u>	<u>6,671,789</u>
Capital and reserves			
Share capital		17,183	15,360
Reserves		8,596,723	6,656,429
		<u>8,613,906</u>	<u>6,671,789</u>
Equity attributable to owners of the Company		8,613,906	6,671,789
Equity attributable to non-controlling interests		(2,071)	-
		<u>8,611,835</u>	<u>6,671,789</u>
Total Equity		<u>8,611,835</u>	<u>6,671,789</u>

Notes:

1. General

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on application of Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year had no impact on the consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts and related Amendments ¹
Amendments to HKFRS 16	Covid-19-Related Rent Concessions ⁴
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phrase 2 ⁵
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts - Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020 ²

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

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 June 2020.

⁵ Effective for annual periods beginning on or after 1 January 2021.

3. Revenue and segment information

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

The three revenue streams are the operating and reportable segments of the Group on which the Group reports its primary segment information.

(a) Segment revenue and results:

Year ended 31 December 2020

	Intermediate products <i>RMB '000</i>	Bulk medicine <i>RMB '000</i>	Finished products <i>RMB '000</i>	Segment total <i>RMB '000</i>	Elimination <i>RMB '000</i>	Consolidated <i>RMB '000</i>
REVENUE						
External sales	1,429,690	3,620,720	3,722,078	8,772,488	-	8,772,488
Inter-segment sales	1,397,230	592,085	-	1,989,315	(1,989,315)	-
Segment revenue	<u>2,826,920</u>	<u>4,212,805</u>	<u>3,722,078</u>	<u>10,761,803</u>	<u>(1,989,315)</u>	<u>8,772,488</u>
RESULT						
Segment profit	<u>258,072</u>	<u>212,015</u>	<u>886,608</u>			1,356,695
Unallocated other income						193,232
Unallocated corporate expenses						(180,078)
Unallocated other gains and losses, net						8,372
Loss on fair value change of embedded derivative components of convertible bonds						(314,614)
Finance costs						<u>(181,273)</u>
Profit before taxation						<u>882,334</u>

Year ended 31 December 2019

	Intermediate products <i>RMB '000</i>	Bulk medicine <i>RMB '000</i>	Finished products <i>RMB '000</i>	Segment total <i>RMB '000</i>	Elimination <i>RMB '000</i>	Consolidated <i>RMB '000</i>
REVENUE						
External sales	1,280,352	3,593,112	3,519,136	8,392,600	-	8,392,600
Inter-segment sales	1,516,838	533,695	-	2,050,533	(2,050,533)	-
Segment revenue	<u>2,797,190</u>	<u>4,126,807</u>	<u>3,519,136</u>	<u>10,443,133</u>	<u>(2,050,533)</u>	<u>8,392,600</u>
RESULT						
Segment profit	<u>87,344</u>	<u>235,943</u>	<u>783,500</u>			1,106,787
Unallocated other income						108,873
Unallocated corporate expenses						(98,522)
Unallocated other gains and losses, net						12,638
Loss on fair value change of embedded derivative components of convertible bonds						(110,117)
Gain on disposal of a subsidiary						200,445
Loss on fair value change on investment properties						(97,614)
Finance costs						<u>(280,838)</u>
Profit before taxation						<u>841,652</u>

(b) Geographical information

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

	Revenue from external customers	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The People's Republic of China ("PRC"), including Hong Kong (country of domicile)	6,259,058	6,045,514
Europe	730,289	642,620
India	818,938	833,723
Middle East	58,040	44,353
South America	227,875	234,337
Other Asian regions	421,103	366,692
Other regions	257,185	225,361
	8,772,488	8,392,600

4. Other income

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank interest income	41,093	51,156
Sales of scrap materials	9,118	11,886
Imputed interest income from consideration receivables	71,695	-
Subsidy income (Note)	66,207	40,041
Sundry income	14,237	19,976
	202,350	123,059

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

5. Other gains and losses/other expenses

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(a) Other gains and losses, net		
Net loss on derivative financial instrument (Note)	3,137	1,640
Reversal of write-down of deposits for property, plant and equipment	(1,389)	(7,237)
Net (gain) loss on disposal of property, plant and equipment	(43,535)	14,411
Net foreign exchange loss (gain)	27,184	(7,079)
Net gain on lease modification	(13)	-
Others	(1)	38
	<u>(14,617)</u>	<u>1,773</u>
(b) Other expenses		
Research and development costs	339,567	367,968
Temporary production suspension costs	-	6,478
Tax penalty	800	4,312
Land penalty	5,767	-
Others	7,048	8,071
	<u>353,182</u>	<u>386,829</u>

Note: During the years ended 31 December 2020 and 2019, the Group had entered into several foreign currency forward contracts with banks and financial institutions to reduce its exposure to foreign currency risks. These derivatives were not accounted for under hedge accounting. There were one (2019: nil) outstanding derivative financial instrument held by the Group as at 31 December 2020.

6. Finance costs

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on borrowings	145,953	185,240
Interest on convertible bonds	42,981	97,356
Interest on lease liabilities	80	2,551
	<u>189,014</u>	<u>285,147</u>
Less: amounts capitalised in property, plant and equipment	(7,741)	(4,309)
	<u>181,273</u>	<u>280,838</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.28% (2019: 4.47%) per annum to expenditure on qualifying assets.

7. Tax expenses

	2020	2019
	RMB'000	RMB'000
The tax charges (credit) comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	166,601	209,209
PRC withholding tax on distributed profits of PRC subsidiaries	-	32,500
	166,601	241,709
Underprovision in prior year		
Hong Kong Profits tax	-	(3,067)
PRC EIT	-	3,397
	-	330
Deferred tax charge (credit)	14,815	(42,151)
	181,416	199,888

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime are applicable to the Hong Kong subsidiaries for its annual reporting periods beginning on or after 1 January 2018. No Hong Kong Profits Tax has been recognised as its subsidiaries incorporated in Hong Kong had no assessable profits for both years.

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 2020 and 2019.

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%. At 31 December 2020 and 2019, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

8. Profit for the year

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	4,775	4,865
Depreciation		
Depreciation of right-of-use assets	8,306	74,698
Depreciation of property, plant and equipment	593,447	588,427
Amortisation of intangible assets (included in cost of sales)	12,712	12,607
Staff costs, including directors' emoluments		
Salaries and other benefits costs	1,047,329	1,069,640
Contribution to retirement benefit costs	98,602	119,944
	1,145,931	1,189,584
Write-down of inventories, net (included in cost of sales)	5,263	8,825
Cost of inventories recognised as expenses	4,966,270	4,771,336

9. Dividends

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the current year		
-2019 final dividend RMB7 cents (2019: 2018 final dividend of RMB6 cents) per share	128,140	98,383

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of RMB8 cents (2019: RMB7 cents) per ordinary share, in an aggregate amount of RMB147,231,000 (2019: RMB128,140,000), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting.

10. Earnings per share

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

Earnings

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to owners of the Company	702,989	641,764

Number of shares

	2020 <i>'000</i>	2019 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,765,968	1,639,725

The computation of diluted earnings per share for the year ended 31 December 2019 and 2020 does not assume the conversion of the Company's convertible bonds outstanding during the year since their exercise would result in an increase in earnings per share.

11. Property, plant and equipment

During the year ended 31 December 2020, the Group spent approximately RMB560,962,000 (2019: RMB379,872,000) on the acquisition of property, plant and equipment, in order to upgrade its manufacturing capabilities.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	1,420,450	1,241,536
Bills receivables	1,343,365	1,354,984
Consideration receivables	308,388	773,693
Commercial bills receivables	244,110	-
Value added tax receivables	93,924	59,045
Other receivables, deposits and prepayments	160,437	127,758
Less: Allowance for credit losses		
- trade	(19,697)	(23,167)
- non-trade	(85,799)	(16,417)
	<u>3,465,178</u>	<u>3,517,432</u>
Less: Amount due within one year	<u>(3,359,499)</u>	<u>(3,241,069)</u>
Amount due after one year	<u><u>105,679</u></u>	<u><u>276,363</u></u>

As at 1 January 2019, carrying amount of trade receivables from contracts with customers amounted to RMB1,134,749,000.

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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables		
0 to 30 days	806,012	697,533
31 to 60 days	411,407	306,184
61 to 90 days	149,574	127,859
91 to 120 days	21,955	67,030
121 to 180 days	11,805	19,763
	<u>1,400,753</u>	<u>1,218,369</u>
Bills receivables		
0 to 30 days	358,164	345,572
31 to 60 days	287,311	188,439
61 to 90 days	204,825	216,072
91 to 120 days	149,526	209,528
121 to 180 days	325,678	363,268
Over 180 days	17,861	32,105
	<u>1,343,365</u>	<u>1,354,984</u>

13. Trade and bills payables, other payables and accrued charges

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables		
0 to 90 days	899,089	726,116
91 to 180 days	125,460	172,467
Over 180 days	21,865	30,508
	<u>1,046,414</u>	<u>929,091</u>
Bills payables		
0 to 90 days	583,980	797,167
91 to 180 days	507,538	543,136
Over 180 days	139,563	13,773
	<u>1,231,081</u>	<u>1,354,076</u>
Other payables and accruals	419,372	428,022
Other tax payable	109,176	99,823
Accrual of freight expense	44,803	48,612
Accrual of salary, staff welfare and unclaimed annual leave	144,000	113,853
Accrual of water, electricity fee & steam	241,974	246,066
Deferred income in respect of government grants	122,607	125,934
Payables in respect of the acquisition of property, plant and equipment	398,639	379,064
	<u>3,758,066</u>	<u>3,724,541</u>
Less: Amount due within one year shown under current liabilities	<u>(3,692,715)</u>	<u>(3,656,456)</u>
Amount shown under non-current liabilities	<u>65,351</u>	<u>68,085</u>

Included in the trade payables, other payables and payables in respect of the acquisition of property, plant and equipment above are RMB57,673,000, RMB107,539,000 and RMB175,846,000 (2019: RMB155,229,000, RMB38,597,000 and RMB28,872,000), respectively which had been settled by endorsed bills for which the maturity dates of the bills receivables have not yet fallen due as at the end of the reporting period.

14. Capital commitments

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>354,725</u>	<u>369,170</u>

15. Pledge of assets

Other than deposits and property, plant and equipment made to financing institutions with carrying amount of RMB24,000,000 and RMB732,029,000 (2019: RMB31,423,000 and RMB843,228,000) respectively as at 31 December 2020, 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:

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	446,089	545,169
Rights-of-use assets	178,270	183,013
Bills receivables	26,493	61,793
Pledged bank deposits	440,194	724,981

16. Events after the reporting period

Subsequent to the end of reporting period, RMB144,110,000 of commercial bills receivables had been settled by cash and the Group entered into an agreement with Evergrande Real Estate Group (Chengdu) Limited to extend the maturity date of the commercial bills in relation to the remaining balance of RMB100,000,000 which will be matured on 23 April 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2020, the Group's revenue was approximately RMB8,772.5 million, an increase of 4.5% as compared with last year. The profit attributable to shareholders for the year ended 31 December 2020 was approximately RMB703.0 million while the profit for the year ended 31 December 2019 was approximately RMB641.8 million, representing an increase of 9.5%.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 1.1%, 2.1% and 5.8% respectively as compared with last year. Segmental result of intermediate products and finished products increased by 195.5% and 13.2% respectively as compared with last year. Segmental result of bulk medicine decreased by 10.1% as compared with last year.

Fair value loss of embedded derivative components of convertible bonds of approximately RMB314.6 million is mainly due to continuous increase in the share price of the Company during the year. The fair loss is a non-cash item not involving any cash out-flow.

The Group's operations during the year are summarised as follows:

Intermediate Products and Bulk Medicine

The Group's intermediate products and bulk medicine recorded segment external sales of RMB1,429.7 million and RMB3,620.7 million, respectively, representing year-on-year growth of 11.7% and 0.8% respectively. During the year, external sales volume of 6-APA increased by 18.0% as compared with last year and the sales prices are increased steadily. Overseas export grew steadily and recorded a revenue of RMB2,513.4 million, representing year-on-year growth of 7.1%. The Group continued to occupy an advantageous position in the domestic and export market of intermediate products and bulk medicine, and made active contributions to maintaining the stability of the international bulk medicine supply chain during the pandemic.

Finished Products

The Group's finished products recorded sales revenue of RMB3,722.1 million, representing a year-on-year increase of 5.8%. Diabetes products continued to grow steadily. Insulin series recorded an aggregate sales revenue of RMB1,234.7 million during the year, representing a year-on-year increase of 35.7%. Among that, sales revenue of recombinant human insulin injections and insulin glargine injections amounted to RMB832.5 million and RMB402.2 million, respectively, and sales volume increased by 22.0% and 81.3%, respectively as compared with last year.

In terms of other finished products, due to the limited diagnosis and treatment services of medical institutions during the pandemic, antibiotic products recorded a sales revenue of RMB2,091.6 million during the year, representing a year-on-year decrease of 2.6%. Nervous system drugs recorded a sales revenue of RMB 105.6 million during the year, representing a year-on-year increase of 34.3%. During the year, ophthalmic products recorded a sales revenue of RMB 175.6 million, representing a year-on-year increase of 2.3%. Vitamin products recorded a sales revenue of RMB 61.6 million, representing a year-on-year increase of 58.1%.

The PRC government intensified its efforts in promoting the reform of medical and health system, gradually launching centralised procurement of drugs, optimising the national medical insurance catalog, and improving the security mechanism of outpatient medications for diabetes for urban and rural residents. Although a series of policies, which aimed at reducing the burden of drug use by residents and strengthening drug security, may have a certain impact on the industry in the short term, those companies with comprehensive competitiveness have the ability to continue to accommodate to policy requirements. In the long run, industry concentration will be further improved, which is conducive to the long-term and healthy development of the industry. The Group will continue to pay attention to the trend of pharmaceutical policies and explore opportunities amidst reforms.

Research and Development

The Group has been committed to drug research and development, and steadily promotes the pipeline product. The expenditure on R&D for current year amounted to approximately RMB339.6 million. The Group currently has 26 new products under development which including 10 Class 1 new drugs. In terms of biological R&D, the Group focuses on the development of diabetes drugs, with projects covering insulin aspart injection, insulin degludec injection, liraglutide injection, insulin degludec-insulin aspart mixed injection, and insulin degludec-liraglutide mixed injection. Based on the increasingly perfect biological R&D platform, the Group will continue to expand its development of relevant products in the fields of internal secretion and autoimmune disease. In addition, the monoclonal antibody laboratory was officially put into use during the year, marking the key progress in the construction of the Group's biological macromolecular drug platform. With regard to the research and development of chemical pharmaceuticals, drugs for ophthalmology and dermatology are being promoted, and the consistency evaluation of injections is also being carried out simultaneously. In terms of innovative drug development, the Class 1 new drug WXSH0150 which is for the treatment of moderate to severe active rheumatoid arthritis was approved for clinical trial during the year. In the future, the Group will continue to expand into new drugs.

Marketing

During the year, the Group continued to simultaneously carry out the "Double Excellence Action-Grassroots Diabetes Prevention and Treatment Management Training Course" project online and offline, attracting more than 13,000 participants. Since the launch of the "Double Excellence Action" project in 2019, a total of nearly 40 sessions were carried out across the country, attracting more than 21,000 participants, making positive contributions to building an interactive platform for academic communication, improving academic research and clinical standards in diabetes, and facilitating the standardisation of grassroots diabetes diagnosis and treatment.

Optimising Financing Structure

During the year, the convertible bonds with principal amount of US\$120,951,000 (equivalent to approximately RMB792,324,000) have been fully converted into ordinary shares of the Company. The Group reduced its financial expenses by adjusting the ratio of domestic and offshore borrowings and reducing the amount of borrowings, and continued to optimise the financial structure and improve liquidity. As at 31 December 2020, the Group's net cash and bank balances (after deducting borrowings, bills payables and convertible bonds payable) amounted to RMB20,264,000 (2019: net liability of RMB2,429.3 million), which realised a positive turnaround from the net debt in 2019 to the net cash for the current year.

Liquidity and Financial Resources

As at 31 December 2020, the Group had pledged bank deposits, cash and bank balances amounted to approximately RMB3,437.0 million (2019: RMB3,889.8 million).

As at 31 December 2020, the Group had interest-bearing borrowings of approximately RMB2,209.7 million (2019: RMB3,988.0 million), which were denominated in Hong Kong dollars, Reminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB81.5 million are fixed rates loans while the remaining balance of approximately RMB2,128.2 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 31 December 2020, current assets of the Group amounted to approximately RMB8,225.0 million (2019: RMB8,713.5 million). Net current assets increased from RMB2,254.7 million at 31 December 2019 to RMB3,365.1 million as at 31 December 2020. The Group's current ratio was approximately 1.69 as at 31 December 2020, as compared with 1.35 as at 31 December 2019. The short term financial position is improved significantly. As at 31 December 2020, the Group had total assets of approximately RMB14,963.7 million (2019: RMB15,699.7 million) and total liabilities of approximately RMB6,351.9 million (2019: RMB9,027.9 million). Equity attributable to shareholders of the Company increased from RMB6,671.8 million at 31 December 2019 to RMB8,613.9 million at 31 December 2020. As at 31

December 2020, the Group's net cash and bank balances (after deducting borrowings, bills payables and convertible bonds payable) amounted to RMB20,264,000 (2019: net liability RMB2,429.3 million).

Currency Exchange Exposures

The Group's purchases and sales are mainly denominated in Renminbi, United States dollars and Hong Kong dollars. The operating expenses of the Group are mainly denominated in Renminbi and Hong Kong dollars. The Group's borrowings are denominated in Hong Kong dollars, Renminbi, Euro and United States dollars. 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.

Contingent Liabilities

As at 31 December 2020 and 2019, the Group had no material contingent liabilities.

Employees and Remuneration

As at 31 December 2020, the Group had approximately 13,000 (2019: 13,000) employees in Hong Kong and the PRC. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2020.

CORPORATE GOVERNANCE

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

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

- Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended 31 December 2020, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

- Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that the non-executive directors should attend general meetings of the Company. Independent non-executive directors, Prof. Song Ming and Ms. Fu Xiao Nan were unable to attend the annual general meeting of the Company held on 29 June 2020 due to travel restrictions for COVID-19.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the directors. Following a specific enquiry, all directors confirmed that they have complied with the required standards set out in the Model Code throughout the year covered by this announcement.

AUDIT COMMITTEE REVIEW

The Audit Committee comprises of three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2020, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend, the Register of Members of the Company will be closed on Thursday, 8 July 2021 and Friday, 9 July 2021 on which no transfer of shares will be registered. In order to qualify for the final dividend (record date being 9 July 2021), 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 Wednesday, 7 July 2021.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises (1) Mr. Tsoi Hoi Shan, Mr. Leung Wing Hon, Ms. Choy Siu Chit, Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as executive directors; and (2) Mr. Chong Peng Oon, Prof. Song Ming and Ms. Fu Xiao Nan as independent non-executive directors.

On behalf of the Board
Tsoi Hoi Shan
Chairman

Hong Kong, 30 March 2021