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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)

2021 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

	2021	2020	Increase
	RMB'000	RMB'000	%
Revenue	9,703,438	8,772,488	10.6%
EBITDA	1,883,735	1,678,072	12.3%
Profit before taxation	1,202,647	882,334	36.3%
Profit for the year attributable to owners of the Company	988,098	702,989	40.6%
Earnings per share	RMB cents	RMB cents	
Basic	53.70	39.81	34.9%
Diluted	53.70	39.81	34.9%

CHAIRMAN’S STATEMENT

On behalf of the board of directors (the “Board”) of The United Laboratories International Holdings Limited (the “Company”), I am pleased to present to all shareholders the annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021 (the “Year”).

In 2021, the Omicron variant of COVID-19 cast a shadow on the global economic recovery. However, benefiting from China’s strict epidemic prevention and control measures, social and economic activities have not been significantly affected despite the resurgence of COVID-19 epidemic. At the same time, 2021 is the first year for China to implement the 14th Five-Year Plan. The government continues to take “comprehensively promote the construction of Healthy China” as a major task in the future, and puts forward a series of requirements, such as deepening the reform of the medical and health system, accelerating the establishment of a tiered diagnosis and treatment system, and rolling out reform in national centralised procurement and use of pharmaceuticals and consumables. The intensive introduction of policies in the pharmaceutical industry has brought impetus to the long-term development of medical and health undertakings, and pointed out the direction for the future development of the pharmaceutical industry.

During the Year, the Group progressed steadily in various productions and operations, and satisfactory progress has been made in the sales of each segment, research and development, new product launch and market promotion. In 2021, the Group recorded revenue of approximately RMB9,703.4 million, representing an increase of approximately 10.6% over 2020. EBITDA was approximately RMB1,883.7 million, representing an increase of 12.3% as compared with last year. Profit attributable to owners of the Company was approximately RMB988.1 million, representing an increase of 40.6% as compared with last year. Earnings per share amounted to RMB53.70 cents.

The Board recommends the payment of final dividend of RMB8 cents per share and a special dividend of RMB2 cents per share respectively for the year ended 31 December 2021 which, together with the interim dividend of RMB4 cents per share already paid out, amounted to a total dividend of RMB14 cents per share for the full year.

On the premise of national efforts to promote carbon peaking, carbon neutrality and ecological civilization construction, the Group adheres to the sustainable development concept of “priority for environmental protection”, supports the establishment of national carbon market and clean energy system, coordinates with the comprehensive transformation towards green social development, and is committed to forming an environmental and circular economy system and building national green factory. At the same time, the Group actively participates in charitable initiatives, and has made outstanding achievements in a number of public charities, such as epidemic prevention and control, poverty alleviation and facilitating education, to give back to the community with practical actions and fulfill corporate social responsibilities. According to the latest rating report issued by MSCI (Morgan Stanley Capital International), a global index compiler, the Group has been rated as A in terms of ESG (Environmental, Social & Governance), and the rating has been improved for two consecutive years.

OUTLOOK

Stepping into 2022, the situation between Russia and Ukraine triggered global economic turbulence and intensified inflationary pressure. Against the backdrop of an increasingly complex international environment, China’s economic development has followed the principle of “pursuing progress while ensuring stability”. High-quality development is the theme of social and economic development during the 14th Five-Year Plan period and even in the longer period. It also serves as the main melody of the mid - and long-term development of the pharmaceutical industry, under which the pharmaceutical industry will surely accelerate its transformation. With the implementation of the “Healthy China” strategy, the development of the pharmaceutical industry also ushered in new opportunities. The market growth brought about by the increase of disposable income of residents, the reform of the medical and health system and the aggravation of the aging of the population and other factors still maintain stable and sound. The Group is firmly optimistic about the long-term development of the pharmaceutical industry in China.

The Group will consistently adhere to its commitment to the mission and vision of “Making Life More Valuable”, depend on the development and reform opportunities of the pharmaceutical and health industry in China, conform to the policy guidance, consolidate the development of core business, and drive enterprise transformation with scientific research and innovation. The Group will continue to input more resources in the research and development of new drugs, improve scientific research strength, expand talent team, expand field layout, develop innovative products with market potential, and provide impetus to the long-term sustainable development of the Group. The Group believes that as a pharmaceutical enterprise with comprehensive competitiveness in the pharmaceuticals’ research and development, production and quality system, sales and after-sales network, talent team, we are confident to give full play to our advantages in the fierce market competition, and continue to consolidate and enhance the industry position.

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 2021, as well as all staff for their efforts and contributions. I hope we can join hands and create a better future together.

2021 ANNUAL RESULTS

The Board hereby announces the audited consolidated results of the Group for the year ended 31 December 2021 together with the comparative figures for the year 2020 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the year ended 31 December 2021

	Notes	2021 RMB'000	2020 RMB'000
Revenue	3	9,703,438	8,772,488
Cost of sales		<u>(5,492,391)</u>	<u>(4,966,270)</u>
Gross profit		4,211,047	3,806,218
Other income	4	155,879	202,350
Other gains and losses, net	5(a)	19,256	14,617
Selling and distribution expenses		<u>(1,633,456)</u>	<u>(1,483,868)</u>
Administrative expenses		<u>(698,335)</u>	<u>(742,002)</u>
Other expenses	5(b)	<u>(494,954)</u>	<u>(353,182)</u>
Impairment losses under expected credit loss model, net of reversal		<u>(296,559)</u>	<u>(65,912)</u>
Loss on fair value change of embedded derivative components of convertible bonds		-	(314,614)
Finance costs	6	<u>(60,231)</u>	<u>(181,273)</u>
Profit before taxation		1,202,647	882,334
Tax expense	7	<u>(213,062)</u>	<u>(181,416)</u>
Profit for the year	8	<u>989,585</u>	<u>700,918</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>475</u>	<u>5,904</u>
Total comprehensive income for the year		<u>990,060</u>	<u>706,822</u>
Profit (loss) for the year attributable to:			
Owners of the Company		988,098	702,989
Non-controlling interests		<u>1,487</u>	<u>(2,071)</u>
		<u>989,585</u>	<u>700,918</u>
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		988,573	708,893
Non-controlling interests		<u>1,487</u>	<u>(2,071)</u>
		<u>990,060</u>	<u>706,822</u>
Earnings per share			
	10	<i>RMB cents</i>	<i>RMB cents</i>
- Basic		<u>53.70</u>	<u>39.81</u>
- Diluted		<u>53.70</u>	<u>39.81</u>

**Consolidated Statement of Financial Position
At 31 December 2021**

	<i>Notes</i>	2021 RMB'000	2020 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment	11	5,842,295	6,147,029
Right-of-use assets		227,174	225,908
Goodwill		3,031	3,031
Intangible assets		119,826	131,280
Deposit for acquisition of land use rights		7,262	7,262
Deposits for acquisition of property, plant and equipment		61,917	15,775
Other pledged deposits		-	24,000
Consideration receivables	12	-	105,679
Financial asset at fair value through profit or loss		500	500
Deferred tax assets		82,782	78,253
		6,344,787	6,738,717
Current assets			
Inventories		2,004,029	1,428,502
Trade and bills receivables, other receivables, deposits and prepayments	12	3,799,905	3,359,499
Other pledged deposits		24,000	-
Pledged bank deposits		827,389	440,194
Bank balances and cash		3,331,009	2,996,802
		9,986,332	8,224,997
Current liabilities			
Trade and other payables	13	4,699,608	3,692,715
Contract liabilities		107,955	78,125
Derivative financial instrument		5,812	-
Lease liabilities		3,871	1,686
Tax payables		108,094	180,196
Borrowings - due within one year		1,609,906	907,142
		6,535,246	4,859,864
Net current assets		3,451,086	3,365,133
Total assets less current liabilities		9,795,873	10,103,850

	<i>Notes</i>	2021 RMB'000	2020 RMB'000
Non-current liabilities			
Deferred tax liabilities		172,309	119,582
Deferred income in respect of government grants	13	55,319	65,351
Derivative financial instrument		-	4,573
Lease liabilities		7,125	-
Borrowings - due after one year		221,212	1,302,509
		455,965	1,492,015
		9,339,908	8,611,835
Capital and reserves			
Share capital		17,125	17,183
Reserves		9,323,367	8,596,723
Equity attributable to owners of the Company		9,340,492	8,613,906
Equity attributable to non-controlling interests		(584)	(2,071)
Total Equity		9,339,908	8,611,835

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

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

2. Application of 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 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 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2

In addition, the Group applied the agenda decision of the IFRS Interpretations Committee (the "Committee") of the International Accounting Standards Board issued in June 2021 which clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories.

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 Interest Rate Benchmark Reform - Phase 2

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial assets, financial liabilities and lease liabilities as a result of interest rate benchmark reform, specific hedge accounting requirements and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("HKFRS 7").

As at 1 January 2021, the Group has several bank loans, the interests of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform. The following table shows the total amounts of these outstanding contracts. The amounts of liabilities are shown at their carrying amounts.

	<u>HKD Hong Kong</u> <u>Interbank Offered Rate</u> <i>RMB'000</i>	<u>GBP London</u> <u>Interbank Offered Rate</u> <i>RMB'000</i>
Financial liabilities		
Bank loans	1,687,315	247,368

The amendments have had no impact on the consolidated financial statements as none of the relevant contracts has been transitioned to the relevant replacement rates during the year. The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank loans measured at amortised cost.

2.2 *Impacts on application of the agenda decision of the Committee - Cost necessary to sell inventories (HKAS 2 Inventories)*

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as "estimated costs necessary to make the sale" when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental but should also include costs that an entity must incur to sell its inventories including those that are not incremental to a particular sale.

The Group's accounting policy prior to the Committee's agenda decision was to determine the net realisable value of inventories taking into consideration incremental costs only. Upon application of the Committee's agenda decision, the Group changed its accounting policy to determine the net realisable value of inventories taking into consideration both incremental costs and other cost necessary to sell inventories including depreciation of the warehouse. The new accounting policy has been applied retrospectively.

The application of the Committee's agenda decision has had no material impact on the Group's financial positions and performance.

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 ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
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 April 2021.

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

³ Effective for annual periods beginning on or after 1 January 2023.

⁴ Effective for annual periods beginning on or after a date to be determined.

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 2021

	Intermediate products RMB '000	Bulk medicine RMB '000	Finished products RMB '000	Segment total RMB '000	Elimination RMB '000	Consolidated RMB '000
REVENUE						
External sales	1,700,337	3,968,575	4,034,526	9,703,438	-	9,703,438
Inter-segment sales	1,684,837	585,413	-	2,270,250	(2,270,250)	-
Segment revenue	<u>3,385,174</u>	<u>4,553,988</u>	<u>4,034,526</u>	<u>11,973,688</u>	<u>(2,270,250)</u>	<u>9,703,438</u>
RESULT						
Segment profit	<u>396,151</u>	<u>202,220</u>	<u>875,571</u>			1,473,942
Unallocated other income						147,311
Unallocated corporate expenses						(106,227)
Unallocated other gains and losses, net						41,799
Impairment losses under expected credit loss model, net of reversal						(293,947)
Finance costs						<u>(60,231)</u>
Profit before taxation						<u>1,202,647</u>

Year ended 31 December 2020

	Intermediate products RMB '000	Bulk medicine RMB '000	Finished products RMB '000	Segment total RMB '000	Elimination RMB '000	Consolidated RMB '000
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						(110,696)
Unallocated other gains and losses, net						8,372
Loss on fair value change of embedded derivative components of convertible bonds						(314,614)
Impairment losses under expected credit loss model, net of reversal						(69,382)
Finance costs						<u>(181,273)</u>
Profit before taxation						<u>882,334</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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
The People's Republic of China ("PRC"), including Hong Kong (country of domicile)	7,607,485	6,259,058
Europe	530,715	730,289
India	688,842	818,938
Middle East	27,844	58,040
South America	234,769	227,875
Other Asian regions	480,380	421,103
Other regions	133,403	257,185
	9,703,438	8,772,488

4. Other income

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	51,594	41,093
Sales of scrap materials	8,568	9,118
Imputed interest income from consideration receivables	31,186	71,695
Subsidy income (Note)	44,419	66,207
Sundry income	20,112	14,237
	155,879	202,350

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, net/other expenses

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
(a) Other gains and losses, net		
Net (gain) loss on fair value change of derivative financial instruments (Note)	(8,120)	3,137
Write-down (reversal of write-down) of deposits for property, plant and equipment	3,165	(1,389)
Net loss (gain) on disposal of property, plant and equipment	19,381	(43,535)
Net foreign exchange (gain) loss	(34,550)	27,184
Net gain on lease modification	-	(13)
Others	868	(1)
	<u>(19,256)</u>	<u>(14,617)</u>
(b) Other expenses		
Research and development expenditures	465,243	339,567
Tax penalty	223	800
Land penalty	1,739	5,767
Others	27,749	7,048
	<u>494,954</u>	<u>353,182</u>

Note: During the years ended 31 December 2021 and 2020, 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 was one (2020: one) outstanding derivative financial instrument held by the Group as at 31 December 2021.

6. Finance costs

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest on borrowings	63,532	145,953
Interest on convertible bonds	-	42,981
Interest on lease liabilities	697	80
	<u>64,229</u>	<u>189,014</u>
Less: amounts capitalised in property, plant and equipment	(3,998)	(7,741)
	<u>60,231</u>	<u>181,273</u>

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 2.61% (2020: 4.28%) per annum to expenditure on qualifying assets.

7. Tax expenses

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
The tax charge comprises:		
Current tax		
PRC Enterprise Income Tax ("EIT")	151,371	157,348
PRC withholding tax on interest income	4,536	9,253
PRC withholding tax on distributed profits of PRC subsidiaries	8,957	-
	<u>164,864</u>	<u>166,601</u>
Deferred tax charge	<u>48,198</u>	<u>14,815</u>
	<u>213,062</u>	<u>181,416</u>

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 2021 and 2020.

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 2021 and 2020, deferred tax was provided for in full in respect of the temporary differences attributable to such profits.

8. Profit for the year

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit for the year has been arrived at after charging:		
Auditor's remuneration	4,583	4,775
Depreciation		
Depreciation of right-of-use assets	11,089	8,306
Depreciation of property, plant and equipment	593,150	593,447
Amortisation of intangible assets (included in cost of sales)	16,618	12,712
Staff costs, including directors' emoluments		
Salaries and other benefits costs	1,137,517	1,047,329
Contribution to retirement benefit schemes	119,654	98,602
	1,257,171	1,145,931
Write-down of inventories, net (included in cost of sales)	2,003	5,263
Cost of inventories recognised as expenses	5,492,391	4,966,270

9. Dividends

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the current year		
- 2021 interim dividend RMB4 cents (2020: Nil) per share	73,616	-
- 2020 final dividend RMB8 cents (2020: 2019 final dividend RMB7 cents) per share	147,231	128,140
	220,847	128,140

Subsequent to the end of the reporting period, a final dividend of RMB8 cents (2020: RMB8 cents) per ordinary share and a special dividend of RMB2 cents (2020: nil) per ordinary share in respect of the year ended 31 December 2021, in an aggregate amount of RMB182,617,000 (2020: RMB147,231,000), 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

	2021 <i>RMB'000</i>	2020 <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	988,098	702,989

Number of shares

	2021 <i>'000</i>	2020 <i>'000</i>
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	1,840,043	1,765,968

No diluted earnings per share for the year ended 31 December 2021 was presented as there were no potential ordinary shares in issue for the year ended 31 December 2021.

The computation of diluted earnings per share for the year ended 31 December 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 2021, the Group spent approximately RMB326,961,000 (2020: RMB560,962,000) 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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	1,624,198	1,420,450
Less: Allowance for credit losses	(22,309)	(19,697)
Bills receivables	1,821,768	1,343,365
Consideration receivables	339,574	308,388
Less: Allowance for credit losses	(339,574)	(44,709)
Commercial bills receivables	-	244,110
Less: Allowance for credit losses	-	(35,390)
Value added tax receivables	103,214	93,924
Other receivables, deposits and prepayments	283,001	160,437
Less: Allowance for credit losses	(9,967)	(5,700)
	<u>3,799,905</u>	<u>3,465,178</u>
Less: Amount due within one year	<u>(3,799,905)</u>	<u>(3,359,499)</u>
Amount due after one year	<u>-</u>	<u>105,679</u>

As at 1 January 2020, carrying amount of trade receivables from contracts with customers amounted to RMB1,241,536,000.

The Group normally allows a credit period of 60 days to 120 days (2020: 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 transferring control of the goods, 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables		
0 to 30 days	751,852	806,012
31 to 60 days	388,933	411,407
61 to 90 days	213,617	149,574
91 to 120 days	155,869	21,955
121 to 180 days	65,133	11,805
Over 180 days	26,485	-
	<u>1,601,889</u>	<u>1,400,753</u>
Bills receivables		
0 to 30 days	291,709	358,164
31 to 60 days	411,219	287,311
61 to 90 days	314,599	204,825
91 to 120 days	214,863	149,526
121 to 180 days	557,658	325,678
Over 180 days	31,720	17,861
	<u>1,821,768</u>	<u>1,343,365</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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade payables		
0 to 90 days	964,555	899,089
91 to 180 days	63,668	125,460
Over 180 days	43,744	21,865
	<u>1,071,967</u>	<u>1,046,414</u>
Trade payables under supplier finance arrangement (Note)		
0 to 90 days	1,377,132	583,980
91 to 180 days	761,576	507,538
Over 180 days	-	139,563
	<u>2,138,708</u>	<u>1,231,081</u>
Other payables and accruals	402,368	419,372
Other tax payable	141,766	109,176
Accrual of freight expense	65,019	44,803
Accrual of salary, staff welfare and unclaimed annual leave	146,845	144,000
Accrual of water, electricity fee & steam	318,915	241,974
Deferred income in respect of government grants	111,397	122,607
Payables in respect of the acquisition of property, plant and equipment	357,942	398,639
	<u>4,754,927</u>	<u>3,758,066</u>
Less: Amount due within one year shown under current liabilities	<u>(4,699,608)</u>	<u>(3,692,715)</u>
Amount shown under non-current liabilities	<u>55,319</u>	<u>65,351</u>

Note: These relate to trade payables in which the Group has issued bills to the relevant suppliers for future settlement of trade payables. The Group continues to recognise these trade payables as the relevant banks are obliged to make payments only on due dates of the bills, under the same conditions as agreed with the suppliers without further extension.

14. Capital commitments

	2021 <i>RMB'000</i>	2020 <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>293,642</u>	<u>354,725</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 RMB333,161,000 (2020: RMB24,000,000 and RMB732,029,000) respectively as at 31 December 2021, 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:

	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	417,602	446,089
Rights-of-use assets	173,057	178,270
Bills receivables	18,353	26,493
Pledged bank deposits	827,389	440,194

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Financial Results

For the year ended 31 December 2021, the Group's revenue was approximately RMB9,703.4 million, an increase of 10.6% as compared with last year. The profit attributable to owners of the Company for the year ended 31 December 2021 was approximately RMB988.1 million while the profit for the year ended 31 December 2020 was approximately RMB703.0 million, representing an increase of 40.6%.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 19.7%, 8.1% and 8.4% respectively as compared with last year. Segmental result of intermediate products increased by 53.5% as compared with last year. Segmental result of bulk medicine and finished products decreased by 4.6% and 1.2% respectively as compared with last year.

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

Intermediate Products and Bulk Medicine

During the year, The Group's intermediate products and bulk medicine recorded segment external sales of RMB1,700.3 million and RMB3,968.6 million, respectively, representing year-on-year growth of 18.9% and 9.6% respectively. The average sales price of 6-APA continued to increase, and the external sales of bulk medicine such as amoxicillin increased steadily. Overseas export recorded a revenue of RMB2,096.0 million, representing year-on-year decrease of 16.6% mainly due to decrease in Europe and India markets. The Group continued to occupy a leading position in the domestic and export market of intermediate products and bulk medicine, and made active contributions to maintaining the stability of the international API supply chain during the pandemic.

United Laboratories (Inner Mongolia) Limited, a wholly-owned subsidiary of the Company, entered into a strategic cooperation framework in relation to veterinary drugs with Zhejiang Apeloa Biotechnology Co., Ltd.. The two parties are to fully exert their respective strengths, and strive to develop all-round competitiveness in technology, production and market in the field of veterinary drugs.

In terms of policy, the National Development and Reform Commission and the Ministry of Industry and Information Technology issued the Notice on the Implementation Plan for Promoting the High-quality Development of API Industry in November 2021, proposing to promote the large-scale and intensive development of bulk medicine production, encourage advantageous enterprises to become bigger and stronger, improve industrial concentration, and encourage the integrated development of API and finished products. As a leading enterprise of antibiotic bulk medicines, the Group will actively seize policy opportunities, optimize its own vertical integration development model, and promote the coordinated development of intermediate products, bulk medicine and finished products.

Finished Products

During the year, the finished products recorded sales revenue of approximately RMB4,034.5 million, representing a year-on-year increase of 8.4%. Diabetes series recorded a sales revenue of RMB1,433.6 million, representing a year-to-year increase of 16.1%. Among that, sales revenue of recombinant human insulin injections amounted to RMB868.8 million, sales volume increased by 4.6% as compared with last year. Sales revenue of insulin glargine injections amounted to RMB552.6 million, and sales volume increased by 37.5% as compared with last year. The insulin aspart injection and insulin aspart 30 injection which has been approved for listing during the year recorded sales revenue of RMB12.2 million.

For other finished products, antibiotic products recorded a sales revenue of RMB2,305.2 million for the year, representing a year-on-year increase of 10.2%. In particular, Piperacillin Sodium and Tazobactam Sodium for Injection recorded a sales revenue of RMB611.2 million, representing a year-on-year increase of 16.1%. Amoxicillin capsules recorded a sales revenue of RMB504.5 million, representing a year-on-year increase of 1.9%. In addition, veterinary drugs recorded a sales revenue of RMB386.7 million, representing a year-on-year increase of 76.3%.

During the year, the bid for Sixth Batch of National Centralized Procurement of Pharmaceuticals (specializing in Insulin) was opened, and all six groups of insulin products of the Group won the bidding, involving human insulin and insulin analogues in meal, basic and premixed groups. The centralized procurement is the first expansion of national drug centralized procurement into the field of biological products. The Group will take advantage of the opportunity of the national centralized drug procurement to expand the sales of insulin products, increase the market share of products, enhance the brand influence, benefit the vast number of diabetic patients, and accelerate the domestic substitution process in the field of diabetes.

Research and Development

In 2021, the expenditure on R&D of the Group amounted to RMB465.2 million, representing a year-on-year increase of 37.0%. The Group currently has 23 new products under development which including 9 are class I new drug projects. Each of the pharmaceutical R&D projects is progressing smoothly. The Group focuses on the development of diabetes drugs, with projects covering insulin analogues such as insulin degludec injection, insulin degludec-insulin aspart mixed injection, and GLP-1 receptor agonists such as liraglutide injection and Semaglutide injection. At the same time, the Group has laid out a number of innovative drug products in the fields of internal secretion, autoimmune disease and ophthalmology. In particular, insulin aspart 50 injection has been approved to conduct clinical trial in May, and Semaglutide Injection has been issued a notice of acceptance of clinical trial application in June.

The Group also made positive progress in the Quality and Efficacy Consistency Evaluation of Generic Drugs (“Consistency Evaluation”). In January 2021, the Group obtained the Drug Registration Certificate and deemed to have passed the Consistency Evaluation for its oral hypoglycemic drug Glipizide Tablets (specification: 5mg) and Tenofovir Dipivoxil Fumarate Tablets (specification: 300mg) for the treatment of chronic hepatitis B and HIV-1 infection in adults. In April, the Amoxicillin Capsule (specification: 0.25g) submitted by The United Laboratories Limited (Hong Kong) passed the Consistency Evaluation. In May, the Memantine Hydrochloride Tablets (specification: 10 mg), a drug to treat Alzheimer’s disease passed the Consistency Evaluation. As of 31 December 2021, there are six products of the Group that have passed the Consistency Evaluation, further enhancing its market competitiveness.

In order to actively expand the R&D of biological drugs and realize the leapfrog development of the Group's business, the Group established Zhuhai United Bio-Pharmaceutical Co., Ltd.(珠海聯邦生物醫藥有限公司) and The United Biotechnology (Hengqin) Co., Ltd. (聯邦生物科技(珠海橫琴)有限公司). The Company will rely on the Group’s existing technology platform and research team to expand investment in biological fields and high-end R&D talents, and deepen cultivation and expansion in the fields of diabetes drugs, monoclonal antibody drugs, chronic disease management, cooperation in research institutes in Guangdong-Hong Kong-Macao Greater Bay Area, and carry out drug molecular screening, process R&D, clinical trials, declaration and registration, market production, commissioned production and other related businesses.

Optimising Financing Structure

The Group reduced its financial expenses by adjusting the ratio of domestic and offshore borrowings, and continued to optimise the financial structure and improve liquidity. During the year, the financial cost of the Group decreased from RMB181.3 million in 2020 to RMB60.2 million, representing a significant decrease of 66.8% year-on-year. As at 31 December 2021, the Group’s net bank balances and cash (after deducting borrowings and trade payables under supplier finance arrangement) amounted to RMB212.6 million (2020: RMB20.3 million) and its financial position remained stable.

Liquidity and Financial Resources

As at 31 December 2021, the Group had pledged bank deposits, bank balances and cash amounted to approximately RMB4,158.4 million (2020: RMB3,437.0 million).

As at 31 December 2021, the Group had interest-bearing borrowings of approximately RMB1,831.1 million (2020: RMB2,209.7 million), which were denominated in Hong Kong dollars, Reminbi, Euro and United States dollars with maturity within five years. Borrowings of approximately RMB18.4 million are fixed rates loans while the remaining balance of approximately RMB1,812.7 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 31 December 2021, current assets of the Group amounted to approximately RMB9,986.3 million (2020: RMB8,225.0 million). Net current assets increased from RMB3,365.1 million at 31 December 2020 to RMB3,451.1 million as at 31 December 2021. The Group's current ratio was approximately 1.53 as at 31 December 2021, as compared with 1.69 as at 31 December 2020. As at 31 December 2021, the Group had total assets of approximately RMB16,331.1 million (2020: RMB14,963.7 million) and total liabilities of approximately RMB6,991.2 million (2020: RMB6,351.9 million). Equity attributable to owners of the Company increased from RMB8,613.9 million at 31 December 2020 to RMB9,340.5 million at 31 December 2021. As at 31 December 2021, the Group's net cash and bank balances (after deducting borrowings and trade payables under supplier finance arrangement) amounted to RMB212.6 million (2020: RMB20.3 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, Reminbi, 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 2021 and 2020, the Group had no material contingent liabilities.

Employees and Remuneration

As at 31 December 2021, the Group had approximately 13,300 (2020: 13,000) 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2021, the Company repurchased a total of 10,900,000 shares on the Stock Exchange at total consideration (including transaction costs) of approximately HK\$50,013,000. All the repurchased shares were subsequently cancelled. Particulars of the repurchases are as follows:

Month	No. of Shares	Purchase Price		Total Consideration
		Highest	Lowest	
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
January to November	-	-	-	-
December	10,900,000	4.60	4.46	50,013,000

Save for the above, 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 2021.

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 2021, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE REVIEW

The Audit Committee comprises 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 2021, including the accounting principles and practices adopted by the Group.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend and the special dividend, the Register of Members of the Company will be closed on Thursday, 7 July 2022 and Friday, 8 July 2022 on which no transfer of shares will be registered. In order to qualify for the final dividend and the special dividend (record date being Friday, 8 July 2022), 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, 6 July 2022.

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, 23 March 2022