The United Laboratories International Holdings Limited

(A company incorporated in the Cayman Islands with limited liability)
(Stock Code: 3933)

2023
ANNUAL REPORT

Our mission is to
make life more valuable

Founded in 1990, the Group is mainly engaged in the research and development, production and sales of pharmaceuticals, and ranks among the leading integrated pharmaceutical companies in China. The Group witnessed its listing on the Main Board of the Hong Kong Stock Exchange on 15 June 2007 (Stock Code: 3933). At present, the Group stands as a constituent stock of the Hang Seng Composite Index series, and maintains MSCI ESG rating at A, which is an industry leading rating.

Over three decades of rapid development, the Group has extended its product mix from antibiotics since its establishment to the fields of biopharmaceuticals and animal healthcare, and continues to optimize its vertically integrated business model. The Group currently boasts seven production bases, covering intermediate products, bulk medicine and finished products, veterinary drugs, empty capsule casings, and medical devices, with the sales networks dotted across nearly 80 countries and regions.

The Group never ceases to expand its fields of drug research and foster a greater global outlook. To make it happen, the Group seeks footprints in multi-platforms for collaborative development focusing on endocrine, metabolism, autoimmunity, anti-infection, ophthalmology and other fields, and several class 1 new drugs have entered the clinical trial stage. The Group presently has over 100 projects under research and development and has claimed over 100 patents.

Keeping the corporate objective of "Making Life More Valuable" in mind, the Group will, closely following the national development strategy, innovate and upgrade the industry for more high-quality and efficient products and services to society as contributions to the development of China's pharmaceutical industry across the board.

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CORPORATE CALENDAR OF 2023

JANUARY	• Zhuhai United Laboratories was ranked 63rd in the "Top 500 Manufacturing Enterprises in Guangdong Province for 2022".
MARCH	• The biopharmaceutical sector of The United Laboratories was settled in Hengqin, Zhuhai, and Chairman Mr. Tsoi Hoi Shan, on behalf of the Group, signed a cooperation agreement with the Guangdong-Macao In-Depth Cooperation Zone in Hengqin. • TUL12101 Eye Drops, a class I new drug for dry eye syndrome, was approved for clinical trials. • The United Laboratories' Amoxicillin Capsules (specification: 0.5g) passed the quality and efficacy consistency evaluation of generic drugs. • The United Laboratories' Piperacillin Sodium and Tazobactam Sodium for Injection (specification: 4.5g) was listed among the eighth batch of National Centralised Procurement of Pharmaceuticals. • Zhuhai United Laboratories was honored with the title of "the Pioneer of the Pharmaceuticals Industry in Fighting Covid-19 in Guangdong Province".
APRIL	• The United Laboratories' Insulin Degludec and Liraglutide Injection was approved for clinical trials. • The United Laboratories' Semaglutide Injection for weight management indication was approved for clinical trials.
JUNE	• The United Laboratories was ranked 16th in the "Top 100 Chemical and Pharmaceutical Enterprises in China for 2022". • The United Laboratories was honored with the "County-level Health Development Contribution Award".
JULY	• The United Laboratories' Piperacillin Sodium and Tazobactam Sodium for Injection (specification: 2.25g) passed the quality and efficacy consistency evaluation of generic drugs. • The cross-border commissioned production to Zhongshan United Laboratories of Vitamin C Effervescent Tablets by Hong Kong United Laboratories was officially launched for production and sold in Mainland China, which was the first cross-border production of pharmaceutical products in the Guangdong-Hong Kong-Macao Greater Bay Area.

CORPORATE CALENDAR OF **2023**

AUGUST

- The United Laboratories' Amoxicillin was ranked among the "Health Industry Brand List for 2023" and was honored with the "Antibiotic Brand Gold Award".
- The application for product launching of The United Laboratories' Liraglutide Injection was accepted.

SEPTEMBER

- UBT251 Injection, a class I innovative drug for the treatment of adult type 2 diabetes, overweight or obesity, and non-alcoholic fatty liver disease, was approved for clinical trials in China.
- Class I innovative drug UBT251 Injection for type 2 diabetes and overweight or obesity indications was approved by the US FDA for clinical trials.
- TUL01101 tablets, a new class 1 drug for the treatment of moderate-to-severe atopic dermatitis, was approved for clinical trials.
- The United Laboratories' Ibuprofen Extended-release Capsule (specification: 0.3g) and Meropenem for Injection (specification: 0.25g, 0.5g) passed the quality and efficacy consistency evaluation of generic drugs.
- The United Laboratories (Inner Mongolia) has reached a framework agreement with the Institute of Microbiology, Chinese Academy of Sciences on strategic cooperation in the field of synthetic biology.

OCTOBER

- The shareholders of The United Laboratories approved to adopt the 2023 Share Award Scheme.
- The United Laboratories (Inner Mongolia) passed EU-GMP on-site inspection for Amoxicillin and Ampicillin.
- The United Laboratories (Inner Mongolia) has been granted a license for the production of Tavamycin Tartrate veterinary drugs and passed the GMP inspection.

NOVEMBER

- Zhuhai United Laboratories was ranked 27th in the "2022 Top 100 Pharmaceutical Enterprises in China".
- Zhuhai United Laboratories was ranked 69th in the "Top 500 Manufacturing Enterprises in Guangdong Province for 2023".
- The United Laboratories (Gaolan Port) project (production base for APIs and veterinary drugs) witnessed the laying of the foundation stone and the commencement of construction.

DECEMBER

- The United Laboratories (3933.HK) was included in the Hang Seng Hong Kong Listed Biotechnology Index.
- The United Laboratories received the "Best ESG Company Award" from Zhitongcaijing.
- The oral solution production line of The United Animal Healthcare (Inner Mongolia) passed GMP certification.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent non-executive directors

Mr. Chong Peng Oon
Prof. Song Ming
Dr. Fu Qiushi (appointed on 30 June 2023)
Ms. Fu Xiao Nan (resigned on 31 March 2023)

COMPANY SECRETARY

Mr. Leung Wing Hon *(FCPA)*

AUTHORISED REPRESENTATIVES

Mr. Tsoi Hoi Shan
Mr. Leung Wing Hon

AUDIT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Dr. Fu Qiushi

REMUNERATION COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Dr. Fu Qiushi

NOMINATION COMMITTEE

Prof. Song Ming *(Chairman)*
Mr. Chong Peng Oon
Dr. Fu Qiushi

RISK MANAGEMENT COMMITTEE

Mr. Chong Peng Oon *(Chairman)*
Prof. Song Ming
Mr. Leung Wing Hon
Ms. Choy Siu Chit

SUSTAINABILITY COMMITTEE

Ms. Choy Siu Chit *(Chairman)*
Mr. Chong Peng Oon
Prof. Song Ming
Dr. Fu Qiushi
Mr. Leung Wing Hon

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

6 Fuk Wang Street
Yuen Long Industrial Estate
New Territories
Hong Kong

PRINCIPAL BANKERS

China

Industrial and Commercial Bank of China Ltd., Zhuhai Branch
China Merchants Bank Co., Ltd., Zhuhai Branch
China Construction Bank Corporation, Bayannaoer Branch
Bank of China Ltd., Zhuhai Branch
Ping An Bank Co., Ltd., Hengqin Branch
Bank of Communication Co., Ltd., Zhuhai Branch
Guangdong Huaxing Bank Co., Ltd., Zhuhai Branch
Bank of China Ltd, Bayannaoer Branch
China Guangfa Bank Co., Ltd, Zhuhai Branch

Hong Kong

Bank of China (Hong Kong) Ltd.
Hang Seng Bank Ltd.
Bank of Communications (Hong Kong) Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Suntera (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

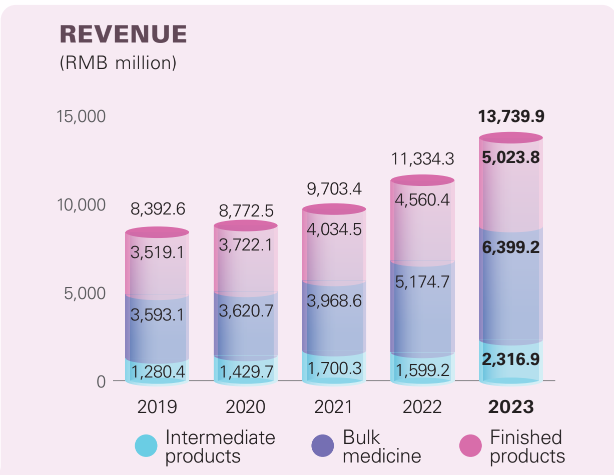
Computershare Hong Kong Investor Services Limited

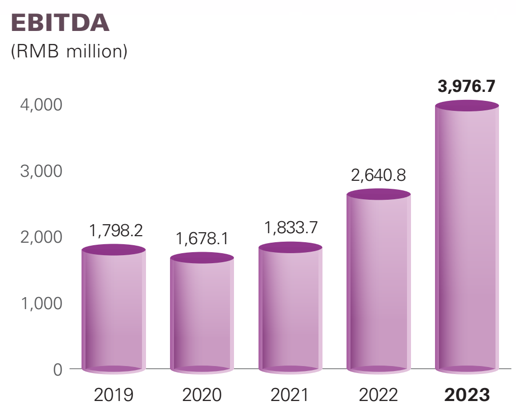
WEBSITE

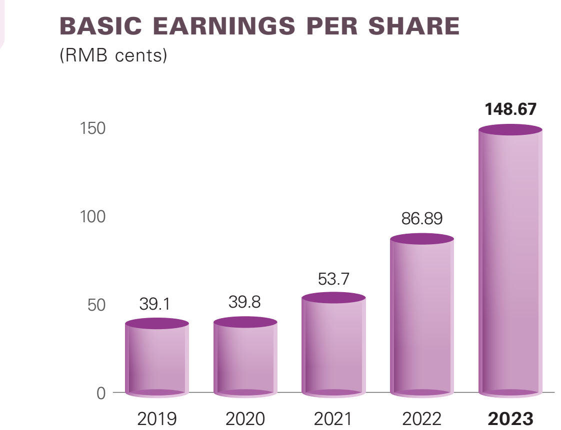
www.tul.com.cn
www.irasia.com/listco/hk/unitedlab

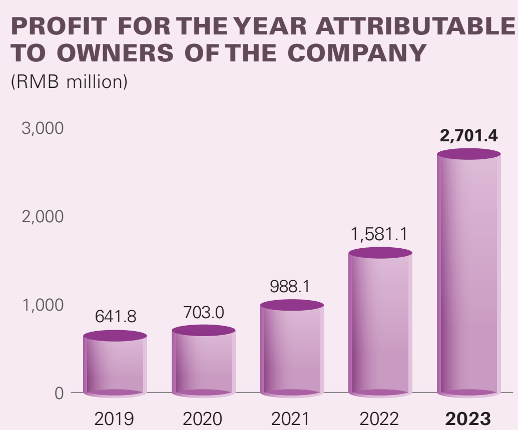
FINANCIAL HIGHLIGHTS

	2023 RMB'000	2022 RMB'000	Increase %
Revenue	**13,739,879**	11,334,262	21.2%
EBITDA	**3,976,692**	2,640,792	50.6%
Profit before taxation	**3,344,148**	2,006,766	66.6%
Profit for the year attributable to owners of the Company	**2,701,350**	1,581,094	70.9%
	RMB cents	RMB cents	
Earnings per share - Basic	**148.67**	86.89	71.1%
Dividend per share			
– Interim dividend	**12.0**	5.0	140.0%
– Final dividend	**28.0**	14.0	100.0%
– Special dividend	**12.0**	6.0	100.0%
– Full-year dividend	**52.0**	25.0	108.0%









CHAIRMAN'S STATEMENT

Mr. Tsoi Hoi Shan
Chairman

Dear shareholders and partners,

In 2023, China resisted the pressure from external challenges and internal downturn, achieved a well-organised recovery of the national economy and continued upgrade towards a high-quality development. The pharmaceutical industry being as an important component of the national economy has also presented a momentum of high-quality development, propelled by the national policy guide, market demand drive, proactively innovative research & development of enterprises and other factors.

2023 was a critical year that played a linking role in the 14th Five-years Plan. With the continuous deepening of medical insurance system reform, the pharmaceutical industry embraced more opportunities accompanied with equal challenges. High-quality local generic drugs substituted imported drugs at a faster pace, driven by the joint effect of the national organised centralized procurement of drugs ("national centralized procurement"), national medical insurance negotiation and other policies. At the same time, innovative drugs were faster added to the National Drug List for Basic Medical Insurance, Occupational Injury Insurance and Maternity Insurance ("Medical Insurance List"). This has benefited more patients and provided incentive to enterprises for research, development and innovation. During the year, ten ministries and commissions, including the National Health Commission, jointly initiated a one-year centralised anti-corruption campaign in the medical sector in China, further advanced the healthcare system reform and boosted the healthy development of the pharmaceutical industry. Pharmaceutical enterprises can realise the long-term and high-quality development only by embracing the new opportunity, strengthening research, development and innovation and becoming more competitive in the market without cease.

CHAIRMAN'S STATEMENT

REVIEW OF 2023

In 2023, we achieved satisfactory operating results thanks to our active efforts to promote R&D, production and supply, and sales services. On behalf of the board of directors (the "Board") of The United Laboratories International Holdings Limited (the "Company" or "The United Laboratories"), I am pleased to present to our shareholders and partners the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023 (the "Year").

In the course of the year, the Group recorded revenue of approximately RMB13,739.9 million, representing an increase of approximately 21.2% year-on-year. Profit attributable to owners of the Company was RMB2,701.4 million, representing a year-on-year increase of 70.9%. Earnings per share were RMB148.67 cents. The Board recommends the payment of a final dividend of RMB28 cents per share and a special dividend of RMB12 cents per share for the year ended 31 December 2023. The dividend for the full year was RMB52 cents together with the distributed interim dividend of RMB12 cents per share.

Made continuous breakthroughs in new drug research and development

The GLP-1 drug pipeline grew vigorously with emerging new blockbuster drugs, and the coverage of multiple new indications further gave birth to enormous market potential. The Group devised a differentiated product pipeline integrating both innovative drugs and biosimilars focusing on the GLP-1 target. During the year, Class 1 innovative drug UBT251 Injection successively obtain the clinical trial approvals in China and the United States, and the Group became the first enterprise in China and the second in the world to be approved for the clinical trials of a long-acting triple agonist of GLP-1 (glucagon-like peptide-1)/ GIP (glucose-dependent insulinotropic polypeptide)/ GCG (glucagon) prepared by chemical synthetic polypeptide. Meanwhile, the Semaglutide Injection and the Liraglutide Injection also made positive progress. The Group focused on metabolism, autoimmunity, ophthalmology, anti-infection and other fields and kept expanding the ongoing new drug pipeline. During the year, the Group obtained the clinical trial approvals for TUL12101 Eye Drops, a Class 1 new drug for dry eye syndrome, and TUL01101 Tablets, a Class 1 new drug for the medium and severe atopic dermatitis. During the year, the Group earmarked the R&D spending of up to RMB808.3 million, representing an increase of 36.2% year-on-year.

Innovation is the fundamental driving force for our development. Relying on the sound R&D system and mature R&D platforms, the Group will continue to promote the process of new drug R&D and listing, expand the layout of research fields with an international vision, improve the formation of high-caliber talent teams, and continuously enhance the competitiveness and creativity of the Group.

CHAIRMAN'S STATEMENT

Intermediate products and bulk medicine segments hit new highs

During the year, the rebounding demand mainly from overseas markets caused market prices of relevant intermediate and bulk medicine to climb. The domestic kept growing steadily and the foreign market grew at a faster pace, presenting an overall good trend. The Group has extended its upstream products to cover near 80 countries and regions on the globe, and serving more than 600 customers in China and worldwide. It has been achieved by establishing trade relations with the BRICK countries and those along the "Belt and Road" and continuously expanding the global sales network and partner network. We will keep the commitment to building a world-leading producer of antibiotic bulk medicines.

In November 2023, the Group initiated a construction of Zhuhai United Laboratories (Gaolan Port) API Project, which will produce bulk medicine for sterile cephalosporin, sterile enzyme inhibitor and other products. It will build an intensive, automatic, intelligent and large-scale pharmaceutical production base, boost the industrial upgrading and enhance the high-quality development of the Group.

Finished products segment realised steady transformation

During the year, the eighth national centralised procurement was initiated and successively implemented, covering drugs for common diseases and chronic diseases like infection, cardiovascular and cerebrovascular diseases, allergy and mental diseases in which the Group's piperacillin sodium and tazobactam sodium for injection (specification: 4.5g) has won the bidding. As the national centralised procurement is becoming normalised and mature, it will gradually tend to alleviate the impact on drug prices. Following the policy guide, the Group carried forward R&D, innovation and product upgrade and further enhanced the comprehensive competitive edges. The Group will continue to implement the brand strategy, expedite market development and explore the growth potential from multiple dimensions such as market, academic knowledge and product. Meanwhile, the Group will improve sales team management and perfect the talent pipeline. The Group will assure the fast and healthy development of the finished products segment with multifaceted measures, including diversified product and business portfolio and differentiated competitive edges.

Animal healthcare business leaped forward

China's veterinary drug industry became increasingly standardised and regularized amid the optimization of regulatory rules. The Group expedited the development of the animal healthcare business by seizing the opportunity derived from the systematic upgrade of the industry and relying on our advantages in brand and industrial chain. During the year, the production base construction projects of The United Animal Healthcare (Inner Mongolia) Co., Ltd. and Zhuhai United Animal Healthcare were officially launched. The production base construction of Henan Lianmu Veterinary Medicine Co., Ltd. is also progressing steadily. All these facilities will provide capacity guarantee for the rapid growth of animal healthcare business. Adhering to the principle of "ensuring animal health and protecting human safety", the Group will continue to put effort into promotion the development of animal healthcare business in South China, North China and Central Regions, cover and serve all animal husbandry regions in China with a view to developing a leading brand of drugs for animal healthcare.

CHAIRMAN'S STATEMENT

Marched ahead for one decade, and peak up again in the future

It has been ten years since I took over as the Chairman of the Board in 2013. I have deeply felt a profound responsibility and mission in this decade-long journey full of opportunities and challenges. I have always held fast to the development concept of seeking truth and being pragmatic, open-minded and innovative. Benefiting from the struggle and contribution of all colleagues of the Group as well as the attention and support of all shareholders and partners, The United Laboratories has successively stepped out of the plight and made impressive achievements.

Over the past decade, the Group has doubled its revenue by way of taking a series of measures: We optimized the organizational structure, increased the operating efficiency, adjusted the resource allocation, enriched the product portfolio and strengthened external collaboration. At the same time, the Group has built up the scientific research capacity, expanded study fields and international visions, and formed a R&D system with multi-platform and all-round development. In the midst of business expansion, the Group has actively ushered different types of professionals, perfected the incentive mechanism and professional training system and fully inspired the innovative vitality of the team. In October 2023, the Group announced the adoption of the share award scheme for the first time. This has achieved a high level of interest synergy between the core members and the Group and further released the corporate value.

As a Chinese pharmaceutical enterprise, we have always kept it in mind to perform the corporate social responsibility. Over the past decade, we have created 5,000 more job positions for the society and continuously earmarked resources for a number of fields like education, epidemic control, disaster relief, poverty alleviation and community care to pay back to the society with real moves. At the same time, the Group has carried forward the green plant project and helped the state achieve the "carbon peak" and "carbon neutral" objectives. Keeping the corporate objective of "Making Life More Valuable" in mind, the Group will create a green, healthy, friendly and efficient social ecosystem hand in hand with all stakeholders.

Looking forward, in face of complex and volatile external climates, the Group will uphold the market-oriented principle, carry forward research, development and innovation as the drive, and seize new development opportunities. Standing at the new start, the Group will lay a solid foundation of the core competitive strengths, accelerate the research, development and commercialisation pace and expand business cooperation. We will refine the diversified business portfolio, continuously enhance comprehensive competitive strengths, realize a high-quality and sustainable development, and create more values for the shareholders and society.

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

Tsoi Hoi Shan
Chairman

Hong Kong, 26 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Leung Wing Hon
Vice-Chairman

BUSINESS REVIEW AND FINANCIAL RESULTS

For the year ended 31 December 2023, the Group recorded revenue of approximately RMB13,739.9 million, an increase of approximately 21.2% as compared with last year. EBITDA was approximately RMB3,976.7 million, representing a year-on-year increase of 50.6%. Profit attributable to owners of the Company was RMB2,701.4 million, representing a year-on-year increase of 70.9%. Earnings per share were RMB148.67 cents. The Board recommended the payment of a final dividend of RMB28 cents per share and a special dividend of RMB12 cents per share for the year ended 31 December 2023. Together with the interim dividend of RMB12 cents per share already paid, the total dividend for the year was RMB52 cents per share.

During the year, segmental revenue (including inter-segment sales) of intermediate products, bulk medicine and finished products increased by 33.2%, 22.3% and 10.2% respectively as compared with last year. Segmental result of intermediate products and bulk medicine increased by 116.0% and 102.7% respectively as compared with last year. Segmental result of finished products decreased by 26.1% as compared with last year.

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

Intermediate Products and Bulk Medicine

During the year, the intermediate products and bulk medicine segment recorded external sales of approximately RMB2,316.9 million and RMB6,399.2 million, respectively, representing a year-on-year increase of 44.9% and 23.7%, respectively. The rebound in demand represented by overseas markets has led to a steady rise in the market prices of intermediate products and bulk medicine related products. Overseas export recorded sales of RMB2,615.6 million, representing a year-on-year increase of 10.3% and accounted for 19.0% of total revenue of the Group. The Group continued to occupy a leading position in the domestic and export market of intermediate products and bulk medicine.

The bulk medicine production base of the Group located in Gaolan Port, Zhuhai City, commenced construction in November 2023. The base plans to cover a total floor area of approximately 120,000 square meters. It will mainly construct three bulk medicine workshops for sterile cephalosporin, one workshop for sterile enzyme inhibitors, one workshop for ordinary chemical drug and a series of associated facilities. It will improve the intensive, automatic and intelligent level of the Group's bulk medicine production, and expand the business scale.

Finished Products

During the year, the external sales of finished products was approximately RMB5,023.8 million, representing a year-on-year increase of 10.2%.

Diabetic drugs recorded the sales revenue of approximately RMB1,117.6 million, representing a decrease of 4.9% year-on-year. Among them, the human insulin recorded the sales revenue of approximately RMB506.6 million. The insulin analog recorded the total sales revenue of approximately RMB611.0 million, and the sales volume remained rapid growth during the year.

Antibiotic products, including veterinary drugs, recorded the sales revenue of RMB3,532.8 million, representing an increase of 15.3% year-on-year. In detail, the tazobactam sodium for injection recorded the sales revenue of RMB676.6 million, representing an increase of 0.6% year-on-year. Amoxicillin capsules recorded sales revenue of RMB546.9 million, representing a decrease of 5.5% year-on-year. During the year, the tazobactam sodium for injection of the Group (specification: 4.5g) successfully won the bid for the eighth batch of centralised drug procurement of the state.

The veterinary drugs recorded sales revenue of RMB1,180.1 million, representing a significant increase of 48.1% year-on-year. During the year, United Laboratories (Inner Mongolia) Limited smoothly obtained the veterinary drug production license for TylosinTartrate and passed the GMP acceptance. Also, its oral solution production line successively passed the GMP certification. In addition, the veterinary drugs production base of the Group located in Gaolan Port, Zhuhai City, commenced construction in November 2023. The Group actively responds to national policies. This project is an important project to optimize the structure of the veterinary drug industry, enhance the level of intensive development, and promote industry transformation and upgrade. It is of great significance to the development of the Group's animal healthcare business. In addition, the production base construction of The United Animal Healthcare (Inner Mongolia) Co., Ltd. and Henan Lianmu Veterinary Medicine Co., Ltd. is also progressing steadily.

Progress of Pharmaceutical Research and Development

During the year, the Group invested a total of RMB808.3 million in pharmaceutical research and development, with a year-on-year increase in R&D of 36.2%, including expensed R&D investment of RMB757.2 million and capitalization R&D investment of RMB51.1 million. The Group had 39 new human drug products under development, of which 19 products are Class 1 new drugs. The Group has established a comprehensive research and development system composed of multiple platforms, including biological research and development, chemical drug research and development, innovative drug research and development, clinical research center, and external cooperation developing in synergy. We focus on endocrine, autoimmune, ophthalmology and high-end anti-infection fields.

During the year, the Group made the following major progress in R&D:

- In March 2023, Class 1 new drug **TUL12101 Eye Drops** was approved for clinical trials. TUL12101, a new-generation small-molecule RASP (reactive aldehydes) inhibitor developed by the Group, can relieve inflammatory reactions, break the vicious cycle of inflammation, and achieve the goal of treating dry eye syndrome. Currently, no other products adopting the same mechanism have been marketed in China and abroad.

- In April 2023, **Insulin Degludec/Liraglutide Injection** was approved for clinical trials. The Group is the first enterprise that has obtained the clinical trial approval for this biosimilar drug in China.

- In April 2023, the indication of weight management for **Semaglutide Injection** was approved for clinical trials. In July, the subjects were recruited for the phase III clinical trial treating the diabetes indication.

- In August 2023, the registration application of **Liraglutide Injection** was accepted. Liraglutide, a GLP-1 analog, is used to treat diabetes II of adults, and an injection a day can satisfy the glucose reduction need of patients.

– In August 2023, **UBT251 Injection**, a Class 1 new drug used to treat such diabetes II of adults, was approved for clinical trials. In September, it was approved to address the indications of overweight, obesity and non-alcohol fatty liver disease. In addition, in September, the clinical trial application for the new drug address diabetes II of adults, overweight or obesity indications was approved by the US Food and Drug Administration ("US FDA").

– In September 2023, Class 1 new drug **TUL01101 Tablets** was approved for clinical trials. The drug, used to treat medium and severe atopic dermatitis, features a definite efficacy and minor side effect.

As to the quality and efficacy consistency assessment of generic drugs ("Consistency Assessment"), the Group successively passed the Consistency Assessment with regard to amoxicillin capsules (specification: 0.5g), tazobactam sodium for injection (specification: 2.25g), Ibuprofen Sustained Release Capsules (specification: 0.3g) and the Meropenem for Injection (specifications: 0.25g; 0.5g). The Group will continuously advance the new drug research, development and Consistency Assessment, and provide more safe and high-quality drug choices for patients.

Optimising Financial Structure

In terms of finance, the Group continuously optimised the financial structure to improve liquidity by adjusting the ratio of onshore and offshore borrowings and reducing the finance costs. During the year, the finance cost of the Group were RMB66.9 million, representing a year-on-year decrease of 18.0%. As at 31 December 2023, the Group's net bank balances and cash (after deducting bank borrowings and trade payables under supplier finance arrangement) amounted to RMB1,755.5 million (2022: RMB1,394.6 million). The Group will actively adjust its financial structure by using onshore RMB as the main borrowing currency in its efforts to enhance financial flexibility and efficiency in the utilisation of funds and to maintain a healthy financial position.

Liquidity and Financial Resources

As at 31 December 2023, the Group had pledged bank deposits, bank balances and cash amounted to approximately RMB5,234.2 million (2022: RMB5,437.8 million).

As at 31 December 2023, the Group had interest-bearing borrowings of approximately RMB1,496.9 million denominated in Renminbi (2022: RMB2,455.1 million denominated in Hong Kong dollars and Renminbi) with maturity within five years. Borrowings of approximately RMB23.9 million is on a fixed rate basis while the remaining balance of approximately RMB1,473.0 million is on a floating rate basis. 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 2023, current assets of the Group amounted to approximately RMB13,787.2 million (2022: RMB12,514.9 million). Net current assets increased from RMB5,481.9 million as at 31 December 2022 to RMB7,160.5 million as at 31 December 2023. The Group's current ratio was approximately 2.08 as at 31 December 2023, as compared with 1.78 as at 31 December 2022. As at 31 December 2023, the Group had total assets of approximately RMB21,017.2 million (2022: RMB18,979.6 million) and total liabilities of approximately RMB8,269.6 million (2022: RMB8,370.2 million). Equity attributable to owners of the Company increased from RMB10,608.1 million at 31 December 2022 to RMB12,734.8 million at 31 December 2023. As at 31 December 2023, the Group's net bank balances and cash (after deducting bank borrowings and trade payables under supplier finance arrangement) amounted to RMB1,755.5 million (2022: RMB1,394.6 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 and Renminbi. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in exchange rates. Besides, the Group will conduct periodic review of its exposure to foreign exchange risk and may use financial instrument for hedging purpose when considered appropriate.

Employees and Remuneration

As at 31 December 2023, the Group had approximately 15,000 (2022: 14,000) employees in Hong Kong and Mainland China. The employees are remunerated with basic salary, bonus and other benefits in kind with reference to industry practice and their individual performance.

Contingent Liabilities

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

Adoption of Share Award Scheme

As announced on 4 August 2023, the Board proposed to adopt the share award scheme (the "2023 Share Award Scheme"). The purpose of the 2023 Share Award Scheme is to recognise the contributions by certain selected participants with an opportunity to acquire a proprietary interest in the Company, encourage and retain such individuals for the continual operation and development of the Group, provide additional incentives for them to achieve performance goals, attract suitable personnel for the further development of the Group and motivate the selected participants to maximize the value of the Company for the benefits of both the selected participants and the Company.

The 2023 Share Award Scheme was approved for adoption in the extraordinary general meeting held on 26 October 2023. On 13 November 2023, the Board resolved to grant a total of 12,096,900 award shares to selected participants in accordance with the terms of the 2023 Share Award Scheme.

Litigations

Reference is made to the Company's announcements dated 9 August 2019, 14 August 2019 and 9 November 2022 in relation to the investment and cooperation agreement with 恒大地產集團成都有限公司 (Evergrande Real Estate Group (Chengdu) Limited) ("Evergrande (Chengdu)"). The Group applied for the commencement of an action against, among others, Evergrande (Chengdu) on 7 March 2022 in the Guangzhou Intermediate People's Court for recovery of the outstanding consideration receivables of approximately RMB340 million and relevant damages and received a notice of acceptance on 14 March 2022 (the "Action"). Due to the large number of actions against China Evergrande Group commenced in the Guangzhou Intermediate People's Court, the Action is handled by the Chengdu Intermediate People's Court. The Chengdu Intermediate People's Court heard the case on 6 June 2023 and handed down the judgement dated 28 December 2023 allowing the Group's claim of approximately RMB136.3 million but rejecting other claims of the Group. The Group has appealed to the Sichuan Province Higher People's Court against the judgement. The Company will make further announcement(s) on the progress of the appeal as and when appropriate.

Save for the above, there was no other material litigation during the Year.

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 2023.

CORPORATE GOVERNANCE

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2023, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix C1 of Listing Rules, except for deviation which is summarised below:

– Code Provision C.2.1

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. During the year ended 31 December 2023, 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 for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix C3 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 three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi. The Audit Committee has reviewed with the management of the Company the consolidated financial statements for the year ended 31 December 2023, 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 Wednesday, 19 June 2024 and Thursday, 20 June 2024 on which no transfer of shares will be registered. In order to qualify for the final dividend and the special dividend (record date being Thursday, 20 June 2024), 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 Tuesday, 18 June 2024.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

DIRECTORS

Executive directors

Mr. Tsoi Hoi Shan (蔡海山先生), aged 46, is an executive director and the Chairman of the Company. Mr. Tsoi joined the Group in 2000 as a supervisor of the quality control department and was responsible for supervising the production process at the Hong Kong Yuen Long Plant and ensuring that it was in compliance with the Good Manufacturing Practice. Mr. Tsoi graduated from Tongji Medical University with a bachelor degree in pharmacy in 1998. Mr. Tsoi is the brother of Ms. Choy Siu Chit, who is an executive director of the Company.

Mr. Leung Wing Hon (梁永康先生), aged 62, is an executive director, the Vice-Chairman, the Chief Financial Officer and the Company Secretary of the Company. Mr. Leung is a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of International Accountants and a fellow member of The Taxation Institute of Hong Kong. He holds a Bachelor of Accountancy degree from University of Bolton and Postgraduate Certificate in Business Administration from University of Leicester in the United Kingdom. Mr. Leung has over 30 years' experience in accounting, finance management and business administration. Mr. Leung joined the Group in 1997 and is responsible for overseeing the financial matters of the Group.

Ms. Choy Siu Chit (蔡紹哲女士), aged 51, is an executive director of the Company. Ms. Choy joined the Group in 1990. She handled the Drug Master File submission relating to the Group's amoxicillin bulk medicine with the FDA pursuant to which the Group became the holder of Drug Master File Type II (no. DMF 15377) relating to its amoxicillin bulk medicine in 2001. Ms. Choy also holds directorship in certain subsidiaries of the Company. She passed the Private Equity Investment Fund Advanced Class organized by the Beijing University with distinction in 2010. She is the sister of Mr. Tsoi Hoi Shan, an executive director and the Chairman of the Company.

Mr. Fang Yu Ping (方煜平先生), aged 61, is an executive director of the Company and a vice president of the Group. Mr. Fang graduated from the Medical School of Southeast University in the PRC, with a bachelor degree in medicine in 1986. After graduation, he served as a teaching staff member of the School for 8 years. Mr. Fang joined the Group in 1995 and was promoted to vice president of the Group in 2008. He was the general manager of China Sales Division of Finished Products from 2011 to 2018.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Ms. Zou Xian Hong (鄒鮮紅女士), aged 59, is an executive director of the Company and a vice president of the Group. Ms. Zou graduated from China Pharmaceutical University in 1984 and obtained her Executive Master of Business Administration from Hunan University in 2005. In June 2010, Ms. Zou obtained a doctorate in management science of Central South University. Ms. Zou has over 30 years' experience in the PRC pharmaceutical industry. Ms. Zou was employed as a teacher at the Hunan Medical Middle School from 1988 to 1993 prior to joining the Group in 1994. Since joining the Group, she has been responsible for the sales management of the Group. She was the general manager of China Sales Division of Finished Products from 2008 to 2010.

Ms. Zhu Su Yan (朱蘇燕女士), aged 59, is an executive director of the Company and a vice president of the Group. Ms. Zhu graduated from Southeast University in the PRC in 1988. She was granted a degree of Executive Master of Business Administration from Business School of Nanjing University in 2005. Ms. Zhu worked in Nanjing Gulou Hospital as a neurosurgeon from 1988 to 1993, and joined Pfizer in 1994. She joined the Group in early 1995 and had served as regional manager of Jiangsu Province, vice president of national hospital development department and general manager of China Sales Division of Finished Products etc. Ms. Zhu has extensive experience in the sales and marketing of pharmaceutical products in the PRC and is principally responsible for the sales and marketing of the Group's products in the PRC.

Independent non-executive directors

Mr. Chong Peng Oon (張品文先生), aged 75, was appointed as an independent non-executive director on 31 March 2009. He is the chairman of the audit committee, remuneration committee and risk management committee, and a member of the nomination committee and sustainability committee of the Company. Mr. Chong was admitted as an Associate of the Institute of Chartered Accountant in England & Wales in April 1975 and was recognised as a Fellow Member of the Institute in 1981. He was in the accounting practice in Hong Kong for over 30 years. He has experience in auditing of companies ranging from small and medium enterprises to large listed groups in the service and other sectors including shipping, logistics, electronics and real estate. Mr. Chong retired from the accounting practice on 1 January 2009 and now acts as a consultant specialised in cross-border business and tax advisory business for companies in Hong Kong and China. He was a former member of the Foreign Experts Group for Independent Auditing Standards Committee of the Chinese Institute of Certified Public Accountants.

Prof. Song Ming (宋敏教授), aged 62, was appointed as an independent non-executive Director on 25 May 2007. He is the chairman of the nomination committee and a member of the audit committee, remuneration committee, risk management committee and sustainability committee of the Company. Prof. Song graduated from the Department of Economics of the Ohio State University in 1991 and obtained a PhD, majoring in financial economics. Prof. Song is currently Dean of Economics and Management School of Wuhan University. Prof. Song is also an independent non-executive director of Great Wall Pan Asia Holdings Limited (Stock Code: 583), a company listed on the main board of the Stock Exchange of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Dr. Fu Qiushi (傅秋實博士), aged 52, was appointed as an independent non-executive director of the Company on 30 June 2023. He is a member of audit committee, remuneration committee, nomination committee and sustainability committee of the Company. Dr. Fu has over 15 years of experience in investment management by acting as a partner of various venture capital institutions specialising in the investment in healthcare and biopharmaceutical industries. In July 2007, Dr. Fu started his venture capital career in Shenzhen Fortune Venture Capital Co. Ltd. (深圳市達晨財智創業投資管理有限公司), mainly responsible for the investment in the healthcare industry. Dr. Fu is currently a partner of Shanghai Lichen Private Equity Management Co., Ltd. (上海驪宸私募基金管理有限公司). Dr. Fu obtained his bachelor degree in science from Peking University in 1994, a master degree in life sciences from Peking University in 1997, and a Doctor of Philosophy degree from the University of Illinois in 2004.

SENIOR MANAGEMENT

Mr. Wu Shou Ting (吳守廷先生), aged 57, is the general manager of the Group's Zhuhai United Laboratories Co., Ltd. (Zhongshan Branch). Mr. Wu graduated from Jiangxi College of Chinese Medicine in 1990 and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Zhongshan University in 2002. Mr. Wu was employed by Yufeng Pharmaceutical, Nanchang City, Jiangxi Province for approximately three years before joining the Group in 1996. He had worked as supervisor of the powder injection workshop and manager of the production department at the Group's production plant in Zhongshan before being promoted to general manager in September 2003. Mr. Wu is primarily responsible for the overall management and operation of the Group's production plant in Zhongshan.

Mr. Liu Bing Yang (劉炳楊先生), aged 73, is the general manager of Guangdong Kaiping Kingly Capsules Limited of the Group. Mr. Liu graduated from Guangzhou Rubber Industrial Bureau's Employees University with diploma in industrial Automation in 1982. Mr. Liu joined the Group in 1996 and had served as general manager. Mr. Liu had over 20 years' experience in the field of pharmaceutical industry in China. He is currently responsible for the management of the Group's Guangdong Kaiping factory.

Mr. Zhang Wen Yu (張文玉先生), aged 55, is the general manager of United Laboratories (Inner Mongolia) Limited. Mr. Zhang graduated from school of microbiology of Shandong University. Mr. Zhang joined the Group in 2005 and had over 15 years' experience in the field of production management and is currently responsible for the management of the Group's Inner Mongolia factory.

BIOGRAPHICAL DETAILS OF DIRECTORS & SENIOR MANAGEMENT

Mr. Han Yu Bo (韓玉波先生), aged 50, is the general manager of Zhuhai United Laboratories Co., Ltd. Mr. Han graduated from East China University of Science and Technology in 1994. He has over 20 years' experience in pharmacy production management. Mr. Han joined the Group in 2005 and has worked in United Laboratories (Chengdu) and United Laboratories (Inner Mongolia). He is currently responsible for management of the Group's production plant in Zhuhai.

Mr. Liu Hong Chi (劉紅池先生), aged 44, is the general manager of The United Animal Healthcare (Inner Mongolia) Co., Ltd. of the Group. Mr. Liu graduated from Sichuan University of Science and Engineering in 2004 majoring in pharmaceutical manufacturing. He obtained a bachelor degree in veterinary medicine from Sichuan Agricultural University in 2017 and a master degree in business administration from Sichuan University in 2019. Mr. Liu joined the Group in 2004, and has worked in United Laboratories (Chengdu) and United Laboratories (Inner Mongolia). He has been responsible for the management of animal healthcare company of the Group in Inner Mongolia since 2014.

Mr. Zheng Shun Teng (鄭順騰先生), aged 47, is the operating senior general manager of the Group's intermediate and bulk medicine. Mr. Zheng graduated from China Pharmaceutical University in 2002, majoring in Pharmacy and graduated from the Advanced Level Research Class, Selected Course of the MBA for Managers in Office of Sun Yat-sen University in 2002. Joining in 1997, he worked successively as the head of the orally-taken solid workshop, the assistant to manager of the production department, the manager of the procurement department, and the director of the powder injection workshop of Zhongshan factory. From July 2006 to 2013, he had been the Eastern China regional manager and senior regional manager of the Group's intermediate and bulk medicine sales department, the sales director of the Eastern China region and the Southern China region, and the sales director of the regions of India, Middle East and Africa. Mr. Zheng has been the operating general manager of the Group's intermediate and bulk medicine sales department since 2014 and was promoted to senior general manager and assistant to executive director in 2022, primarily responsible for sales and management of the Group's intermediate and bulk medicine products.

Ms. Chen Min (陳敏女士), aged 52, is the general manager of Group's China Sales Division of Finished Products. Ms. Chen graduated from Zhengzhou University majoring in business administration. She joined the Group in 1997 and had served as regional manager and vice general manager of the Henan province etc. Ms. Chen has extensive experience in the sales and marketing of pharmaceutical products. She was promoted to the Group's vice president and was responsible for the sales of the Henan province in 2012. She has been responsible for the sales of the Henan province and Beijing since 2015. Ms. Chen has been the general manager of the China Sales Division of Finished Products since 1 January 2019.

Mr. Cao Chun Lai (曹春來先生), aged 45, is the general manager of United Bio-Technology (Hengqin) Co., Ltd. Mr. Cao obtained a master degree in fermentation engineering from South China University of Technology in 2005, and joined the Group in the same year. He was the director of the Biological Research Institute of Zhuhai United Laboratories Co., Ltd. and the director of the Guangdong Diabetes Biopharmaceutical Engineering Technology Center. He has been engaged in R&D of recombinant protein drugs especially diabetic drugs for 18 years.

The Board is pleased to submit their report together with the audited consolidated financial statements for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

Details of principal activities of the principal subsidiaries of the Company are set out in note 45 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and segment information for the year ended 31 December 2023 is set out in note 5 to the consolidated financial statements.

RESULTS AND DISTRIBUTIONS

The Group's results for the year ended 31 December 2023 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 40 and 41 of this annual report.

The Board recommends the payment of a final dividend of RMB28 cents per share and a special dividend of RMB12 cents per share respectively for the year ended 31 December 2023, subject to approval by the shareholders in the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the Group's result, and of the assets and liabilities for the past five financial years are set out on page 154 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 31 to the consolidated financial statements.

SHARE PREMIUM AND RESERVES

In accordance with the Companies Law, Chapter 22 (as revised) of the Cayman Islands, and the Company's articles of association, the Company may distribute its share premium to shareholders in the forms of dividend or fully paid bonus shares, provided that immediately following the distribution or payment of dividend, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

As at the reporting date, the directors were of the opinion that the distributable share premium and reserves of the Company was approximately RMB4,790.0 million.

Details of movements in the share premium and reserves of the Group during the year are set out in consolidated statement of changes in equity on page 44 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

In 2023, the aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the Group's total sales for the year.

In 2023, the aggregate purchases attributable to the Group's largest and five largest suppliers accounted for 19% and 44% respectively of the Group's total purchases for the year.

None of the directors or chief executive or any of their associates or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers and suppliers.

DIRECTORS

The directors of the Company during the year ended 31 December 2023 and up to the date of this report were as follows:

Executive Directors

Mr. Tsoi Hoi Shan *(Chairman)*
Mr. Leung Wing Hon *(Vice-Chairman)*
Ms. Choy Siu Chit
Mr. Fang Yu Ping
Ms. Zou Xian Hong
Ms. Zhu Su Yan

Independent Non-Executive Directors

Mr. Chong Peng Oon
Prof. Song Ming
Dr. Fu Qiushi (appointed on 30 June 2023)
Ms. Fu Xiao Nan (resigned on 31 March 2023)

In accordance with article 84 of the Company's articles of association, Mr. Leung Wing Hon, Mr. Fang Yu Ping and Dr. Fu Qiushi will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Biographical details of directors of the Company are set out on pages 17 to 19 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Tsoi Hoi Shan has entered into a service contract with the Company. Mr. Tsoi shall be subject to his re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company. The amount of Mr. Tsoi's basic emolument as an executive director is HK$4,608,000 per annum.

Mr. Leung Wing Hon has entered into a service contract with the Company under which the annual salary payable by the Company to Mr. Leung Wing Hon is HK$4,320,000 and is subject to review at the discretion of the Board and the remuneration committee after completion of 12 months of service. He will also be entitled to a discretionary bonus as decided by the Board and the remuneration committee.

Ms. Choy Siu Chit has entered into a service contract with the Company. She is required to retire by rotation at the annual general meeting of the Company in accordance with the articles of association of the Company. The basic emolument of Ms. Choy Siu Chit as an executive director is HK$3,060,000 per annum. She will also be entitled to a discretionary bonus as decided by the Board.

The basic emolument of Mr. Fang Yu Ping, Ms. Zou Xian Hong and Ms. Zhu Su Yan as an executive director is HK$1,980,000 per annum, and they are also entitled to a monthly performance bonus not exceeding RMB60,000 as determined by the executive directors of the Company with reference to performance of the Group. Their subsequent appointment shall also be subject to their re-election following retirement by rotation at any subsequent annual general meeting of the Company in accordance with the articles of association of the Company.

The amount of the annual salary increment and the bonus payable under such service contracts for executive directors is at the discretion of the Board and the remuneration committee of the Company, provided that the respective parties to such service contracts shall abstain from voting and not be counted in the quorum in respect of any such determination of the Board in relation to him or her.

Each of Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi has entered into a letter of appointment with the Company. The annual director's fee for each of the above independent non-executive directors is HK$256,800.

Save as disclosed in this annual report, none of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

MANAGEMENT CONTRACT

No contracts concerning the management or administration of the whole or any substantial part of the business were entered into or in existence during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS AND CONTRACTS

None of the directors have any interests in a business which competes with the business of the Group. Furthermore, no contracts of significance in relation to the Group's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the directors and chief executive of the Company had the following interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

Long position in the shares and underlying shares of the Company:

Name of directors	Number of shares held	Number of underlying shares held (note)	Total	Capacity	Percentage of interest
Mr. Tsoi Hoi Shan	16,306,875	575,100	16,881,975	Personal interest	0.93%
Mr. Leung Wing Hon	22,000	401,100	423,100	Personal interest	0.02%
Ms. Choy Siu Chit	117,875	268,800	386,675	Personal interest	0.02%
Mr. Fang Yu Ping	–	186,900	186,900	Personal interest	0.01%
Ms. Zou Xian Hong	200,000	186,900	386,900	Personal interest	0.02%
Ms. Zhu Su Yan	179	186,900	187,079	Personal interest	0.01%

Note: The interests represent the unvested award shares granted on 13 November 2023 pursuant to the 2023 Share Award Scheme.

Save as disclosed above, none of the directors, chief executive and their associates had any interests or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES AND DEBENTURES

During the year, the Company did not grant any rights to any directors, chief executive and their respective spouse or children under 18 of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company, and none of the above persons have exercised the said rights during the year. The Company, its holding company or any of its subsidiaries were not a party to any arrangements to enable the directors to acquire such benefits in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, the following shareholders, other than the directors or chief executive of the Company, were recorded in the register required to be kept by the Company under section 336 of the SFO as being interested (including short positions) in the shares or underlying shares of the Company:

Long and short positions in the ordinary shares of the Company:

Name	*Notes*	**Number of shares held**	**Percentage of Interest**
Heren Far East Limited ("Heren")		834,250,000(L)	45.91%
Heren Far East #4 Limited	*(1)*	834,250,000(L)	45.91%
IQ EQ Services (HK) Limited	*(2)*	834,250,000(L)	45.91%

L/S: Long position/short position

Notes:

(1) Heren Far East #4 Limited is interested in more than one-third of the issued share capital of Heren, and is deemed or taken to be interested in the 834,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

(2) IQ EQ Services (HK) Limited is the trustee of the respective trusts holding entire interest in each of Heren Far East #2 Limited, Heren Far East #3 Limited and Heren Far East #4 Limited (which together hold the entire issued share capital of Heren), and is deemed to be interested in the 834,250,000 shares of the Company beneficially owned by Heren for the purposes of Part XV of the SFO.

Save as disclosed above, no other person being recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares or underlying shares of the Company as at 31 December 2023.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Group is committed to complying with laws and regulations that govern our businesses. As a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange of Hong Kong, the Company is governed by the Companies Law of the Cayman Islands, as well as the Listing Rules of Stock Exchange of Hong Kong and the Securities and Futures Ordinance.

In addition, the Group operates its pharmaceutical business mainly through its subsidiaries in the PRC and accordingly, relevant laws and regulations in the PRC applicable for the research and development, manufacturing, sales and distribution of pharmaceutical products, including but not limited to the laws and regulations on quality, safety, production, environmental protection, intellectual property and labour, shall be complied with.

During the year ended 31 December 2023, to the best knowledge of the Board, the Group does not have any incidence of non-compliance with the relevant laws and regulations that would have a significant impact on the Group's business and operations.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 34 of this annual report.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, as at the date of this annual report, there is sufficient public float as required under the Listing Rules.

AUDITOR

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Tsoi Hoi Shan
Chairman and Executive Director

Hong Kong, 26 March 2024

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is of the view that best corporate governance is crucial to safeguard the interests of shareholders and to enhance the Group's performance. The Board is dedicated to maintaining and ensuring a high standard of corporate governance. For the year ended 31 December 2023, the Company has applied and complied with the applicable code provisions set out in the Corporate Governance Code ("CG Code") and Corporate Governance Report contained in Appendix C1 of the rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, except for deviation which is summarized below:

Code Provision C.2.1

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the year ended 31 December 2023, the Company did not have a chief executive officer. The Company will make appointment to fill the post as appropriate.

THE BOARD

The Board comprises six executive directors and three independent non-executive directors. The biographical details and the relationships of the members of the Board have been set out in the "Biographical Details of Directors & Senior Management" on pages 17 to 19. The Board has established five Board committees, namely Audit Committee, Remuneration Committee, Nomination Committee, Risk Management Committee and Sustainability Committee. The attendance rates of individual directors at board meetings, general meeting and other meetings of board committees are set out below. The duties of the Board and the Board committees are outlined in the later part of this report.

	Board	General Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Risk Management Committee	Sustainability Committee
Executive Directors							
Mr. Tsoi Hoi Shan	4/5	2/2	N/A	N/A	N/A	N/A	N/A
Mr. Leung Wing Hon	5/5	2/2	N/A	N/A	N/A	1/1	1/1
Ms. Choy Siu Chit	4/5	1/2	N/A	N/A	N/A	1/1	1/1
Mr. Fang Yu Ping	5/5	2/2	N/A	N/A	N/A	N/A	N/A
Ms. Zou Xian Hong	5/5	2/2	N/A	N/A	N/A	N/A	N/A
Ms. Zhu Su Yan	5/5	2/2	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors							
Mr. Chong Peng Oon	5/5	2/2	2/2	1/1	1/1	1/1	1/1
Prof. Song Ming	5/5	1/2	2/2	1/1	1/1	1/1	1/1
Dr. Fu Qiushi (Note 1)	3/3	1/1	1/1	0/0	0/0	N/A	1/1
Ms. Fu Xiao Nan (Note 2)	1/1	0/0	1/1	0/0	0/0	N/A	N/A

Notes:

1 Appointed on 30 June 2023

2 Resigned on 31 March 2023

The Board is responsible for setting the Group's objectives and strategies as well as to monitor the Group's performance. The Board also approves matters like annual and interim results, major transactions, appointment of directors, dividend and accounting policies and scrutinizes internal control procedures of the Group's operations. The Board has delegated the responsibility and authority of day-to-day operations to the management team.

All directors are provided with updated information in relation to governance and control matters regularly. The directors may seek independent professional advice according to prescribed procedures in order to assist them to discharge their duties at the expenses of the Company.

Four regular board meetings were held by the Board during the year. At least 14 days notices are given to all directors for all regular board meetings. Directors can include matters to be discussed in the agenda if necessary. Agenda of regular board meetings accompanied with board papers are dispatched to all directors within a reasonable time before the date of meeting. All draft minutes of the Board are circulated to all directors within a reasonable time for comments before being confirmed.

Minutes of the Board and Board committees are kept by the secretary duly appointed at such meetings. All directors are entitled to inspect the board papers and relevant information and access to sufficient information on a timely basis so as to enable the Board to make informed decisions on matters to be brought before meetings.

DIVERSITY

The Company has established policy to achieve balanced diversity at the Board as far as practicable. Board appointments will be based on merit and candidates will be considered against measurable objectives, taking into account the Company's business and needs. Selection of candidates will be based on a range of diversity criteria, including but not limited to gender, age, cultural and educational background, knowledge, professional experience and skills. The ultimate decision will be based on merit and the contribution that the selected candidates may bring to the Board.

The proportion of female Board representation is a measurable objective of the Company in assessing the implementation of the diversity policy. The Board currently has three female Directors out of nine Directors, achieving the gender diversity of the Board at 33.3%.

The nine Directors are from diverse and complementary backgrounds, including pharmacy industry management, corporate finance, investment and management, accounting and finance management. The valuable experience and expertise they bring to our business are critical for the long-term growth of the Group. The Board reviews the implementation and effectiveness of the Board diversity and is satisfied that the Board diversity policy has been properly implemented and is effective.

In striving to maintain gender diversity, similar considerations are used when recruiting and selecting senior management and general staff. As of 31 December 2023, a 59.6% male: 40.4% female gender ratio has been achieved in the workforce (including senior management). Further information about the composition of the Group's workforce can be found in the Environmental, Social and Governance Report 2023 separately released on the websites of The Stock Exchange of Hong Kong Limited and the Company.

CONTINUOUS PROFESSIONAL DEVELOPMENT

Under code provision C.1.4 of the CG Code, directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills. Each newly appointed director receives induction on the first occasion of his or her appointment, so as to ensure that he or she has appropriate understanding of the business and operations of the Company and that he or she is fully aware of his or her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Directors are also regularly updated on the Group's business and industry environments where appropriate in the management's monthly reports to the Board as well as briefings and materials circulated to the Board before board meeting.

During the year, the Company has arranged for all directors to undergo continuous trainings designed to develop and refresh their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant.

A record of training they received for the year ended 31 December 2023 was provided to the Company. The individual training record of each director for the year ended 31 December 2023 is set out below:

	Reading regulatory updates	Attending seminars/ workshops relevant to the business/directors' duties
Executive Directors		
Mr. Tsoi Hoi Shan	✓	✓
Mr. Leung Wing Hon	✓	✓
Ms. Choy Siu Chit	✓	✓
Mr. Fang Yu Ping	✓	✓
Ms. Zou Xian Hong	✓	✓
Ms. Zhu Su Yan	✓	✓
Independent Non-Executive Directors		
Mr. Chong Peng Oon	✓	✓
Prof. Song Ming	✓	✓
Dr. Fu Qiushi (appointed on 30 June 2023)	✓	✓
Ms. Fu Xiao Nan (resigned on 31 March 2023)	✓	✓

CHAIRMAN

The information of Mr. Tsoi Hoi Shan, the Chairman is set out in the Biographical Details of Directors & Senior Management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board currently has three independent non-executive directors. Among the three independent non-executive directors, one of them possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules. All the independent non-executive directors of the Company are appointed for a fixed term subject to retirement and re-appointment pursuant to the Company's articles of association.

Each of the independent non-executive directors has submitted a confirmation of his independence as required by Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive directors to be independent and that each of them satisfies the guidelines of independence set out in Rule 3.13 of the Listing Rules.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee to ensure that there are formal and transparent procedures to follow when determining the remuneration policies of the directors. The Remuneration Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi. Mr. Chong Peng Oon is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are consistent with the relevant provisions set out in the CG Code, but with a deviation from the code provision of the Remuneration Committee's responsibilities to determine the specific remuneration packages of all executive directors and senior management of a listed company. The Board considers that the Remuneration Committee of the Company should review (as opposed to determine) and make recommendations to the Board on the remuneration packages of directors only and not senior management for the following reasons:

(i) the Board believes that the Remuneration Committee is not properly in a position to evaluate the performance of senior executives and that this evaluation process is more effectively carried out by the executive directors;

(ii) the executive directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iii) there is no reason for executive directors to pay senior management more than industry standards and thus shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are posted on the Company's website.

The Remuneration Committee held one meeting during the year. It undertook a review of the remuneration and benefits of the directors. The Remuneration Committee ensures that no director is involved in determining his/ her own emoluments.

AUDIT COMMITTEE

The Audit Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi. Mr. Chong Peng Oon is the chairman of the Audit Committee.

The major duties of the Audit Committee include reviewing and monitoring the financial reporting system and internal control procedures of the Group. The Audit Committee held two meetings during the year. It reviewed the Group's financial reporting matters, and reviewed the internal control systems in relation to finance and accounting and submitted improvement proposals to the Board. The terms of reference of the Audit Committee are consistent with the relevant provisions set out in the CG Code. The terms of reference of the Audit Committee are posted on the Company's website.

NOMINATION COMMITTEE

The Board has established a Nomination Committee to ensure fair and transparent procedures for the appointment, re-election and removal of directors to the Board. The Nomination Committee currently comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi. Prof. Song Ming is the chairman of the Nomination Committee.

The Nomination Committee held one meeting during the year to discuss re-election of directors. During selection and recommendation of candidates for directors, the Committee will consider about experience, qualification, suitability of the candidates and diversity of board composition. The Board will approve the appointments based on the same criteria. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

RISK MANAGEMENT COMMITTEE

The Company has established a Risk Management Committee in February 2016. The Risk Management Committee comprises two independent non-executive directors, namely Mr. Chong Peng Oon and Prof. Song Ming, and two executive directors, namely Mr. Leung Wing Hon and Ms. Choy Siu Chit. Mr. Chong Peng Oon is the chairman of the Risk Management Committee.

The major duties of the Risk Management Committee include overseeing and reviewing the Group's risk management and internal control systems. The Risk Management Committee held one meeting during the year to review the Group's risk management and internal control systems.

SUSTAINABILITY COMMITTEE

The Company has established a Sustainability Committee in December 2023. The Sustainability Committee comprises three independent non-executive directors, namely Mr. Chong Peng Oon, Prof. Song Ming and Dr. Fu Qiushi and two executive directors, namely Mr. Leung Wing Hon and Ms. Choy Siu Chit. Ms. Choy Siu Chit is the Chairman of Sustainability Committee.

The major duties of the Sustainability Committee include formulating and updating the Group's ESG goals, strategies and management approaches as well as reviewing and monitoring the implementation and outcomes of ESG initiatives, reporting to the Board of Directors and providing recommendations.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix C3 to the Listing Rules as its own code of conduct for director's securities transactions. Having made specific enquiry, all directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2023.

To comply with code provision C.1.3 of the CG Code, the Company has adopted standard code for the code of conduct for relevant employees' securities transactions to regulate certain employees of the Group who are deemed to be in possession of unpublished price sensitive information of the Company when dealing in the securities of the Company.

ACCOUNTABILITY AND INTERNAL CONTROL

The Board acknowledges its responsibility for preparing the Group's financial statements. As at 31 December 2023, within the knowledge of the directors, there was no material event or condition that may cast significant doubt upon the Group's ability to continue as a going concern.

The Group has established sufficient internal control system. In the year under review, the Board considers the systems of internal control of the Group are sufficient and effective, hence the Company has complied with the code provisions relevant to the internal control in the CG Code.

AUDITOR'S REMUNERATION

For the year ended 31 December 2023, the auditor of the Company provided audit and non-audit services for the Company and the Group.

The service fees for audit and non-audit services in 2023 amounted to approximately RMB5,210,000 and RMB1,680,000 respectively.

COMPANY SECRETARY

Mr. Leung Wing Hon is the company secretary of the Company. Mr. Leung reports to Mr. Tsoi Hoi Shan, the Chairman of the Board. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of International Accountants. He undertook no less than 15 hours of relevant professional training during the year.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting by Shareholders

Pursuant to article 58 of the Company's Articles of Association, any one or more Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit, the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting Forward Proposals at General Meetings

A shareholder shall make a written requisition to the Board or the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong, specifying the shareholding information of the shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting regarding any specified transaction/business and its supporting documents.

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Making Enquiry to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the company secretary at the Company's office in Hong Kong at 6 Fuk Wang Street, Yuen Long Industrial Estate, New Territories, Hong Kong.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company has established a range of communication channels between itself, its shareholders and investors, including answering questions through the annual general meeting, the publications of annual and interim reports, notices, announcements and circulars on the website of the Company at www.tul.com.cn and www.irasia.com/listco/hk/unitedlab. During the year, the Board is not aware of any significant changes in the Company's constitutional documents.

Led by Mr. Leung Wing Hon, the Company's vice-chairman, and Ms. Karen Yang, the Investor Relationship Director, the Company is well positioned with an experienced investor relations team supporting the various investor relations initiatives. The team will continue to work towards further enhancing the communication with investors through various platforms such as roadshows, meetings, plant visits, conference calls and other forms of engagement. In addition, the investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the company to correctly reflect its valuation.

Effective investor relations communication is an integral part of the Company's management philosophy. The Company will continue to maintain effective communication with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business.

On behalf of the Board

Leung Wing Hon
Vice-Chairman and Executive Director

Hong Kong, 26 March 2024

Deloitte. 德勤

TO THE SHAREHOLDERS OF
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)

OPINION

We have audited the consolidated financial statements of The United Laboratories International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 153, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTER

Key audit matter is the matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTER *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
We identified the impairment assessment of the trade receivables as a key audit matter as the assessment of expected credit loss ("ECL") involved high level of estimation uncertainty. The Group estimates the ECL on trade receivables using a provision matrix. The loss rates are estimated based on historical credit loss experience adjusted for forward-looking factors specific to the debtor's industry and the macroeconomic environment. At 31 December 2023, the net carrying value of the trade receivables was approximately RMB2,366,179,000, with allowance for credit losses of approximately RMB12,459,000. Details relating to the Group's trade receivables and the ECL assessment are set out in Notes 24 and 39 to the consolidated financial statements, respectively.	Our audit procedures in relation to the valuation of the trade receivables included: • Obtaining an understanding of the process relating to the allowance for credit losses of trade receivables; • Evaluating the reasonableness of the key judgments and assumptions relating to calculation of historical default rates and forward-looking factor made in the ECL model; • Evaluating the completeness, accuracy and relevance of data used in the ECL model and checking the arithmetic accuracy of the calculations; • Obtaining the full aging report of trade receivables and testing the accuracy by checking the aging of selected invoices and instalment schedule on a sample basis; and • Reviewing the presentation and disclosure of the trade receivables for compliance with relevant HKFRSs.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matter communicated with those charged with governance, we determine the matter that was of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matter. We describe this matter in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Fung Hin Chiu.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	NOTES	**2023** **RMB'000**	2022 RMB'000
Revenue	*5*	**13,739,879**	11,334,262
Cost of sales		**(7,405,042)**	(6,365,272)
Gross profit		**6,334,837**	4,968,990
Other income	*6*	**212,475**	165,817
Other gains and losses, net	*7a*	**23,671**	(88,571)
Selling and distribution expenses		**(1,593,799)**	(1,662,435)
Administrative expenses		**(789,859)**	(703,354)
Other expenses	*7b*	**(778,386)**	(603,615)
Impairment losses reversed under expected credit loss model, net	*9*	**1,962**	11,718
Share of results of an associate	*21*	**143**	(189)
Finance costs	*8*	**(66,896)**	(81,595)
Profit before taxation		**3,344,148**	2,006,766
Tax expense	*11*	**(643,303)**	(425,743)
Profit for the year	*12*	**2,700,845**	1,581,023
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**425**	1,427
Total comprehensive income for the year		**2,701,270**	1,582,450

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	NOTE	2023 RMB'000	2022 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		**2,701,350**	1,581,094
Non-controlling interests		**(505)**	(71)
		2,700,845	1,581,023
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**2,701,775**	1,582,521
Non-controlling interests		**(505)**	(71)
		2,701,270	1,582,450
Earnings per share	*16*	**RMB cents**	RMB cents
– Basic		**148.67**	86.89

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	*17*	**6,483,406**	5,932,295
Right-of-use assets	*18*	**390,701**	255,586
Goodwill	*19*	**3,031**	3,031
Intangible assets	*20*	**133,959**	100,338
Interests in an associate	*21*	**7,304**	7,161
Deposit for acquisition of land use rights		**–**	7,262
Deposits for acquisition of property, plant and equipment		**130,278**	78,476
Financial asset at fair value through profit or loss	*22*	**500**	500
Deferred tax assets	*30*	**80,800**	80,030
		7,229,979	6,464,679
Current assets			
Inventories	*23*	**2,238,483**	2,163,626
Trade and bills receivables, other receivables, deposits and prepayments	*24*	**6,314,480**	4,911,704
Derivative financial instruments	*36*	**–**	1,841
Pledged bank deposits	*25*	**972,249**	694,704
Cash and cash equivalents	*25*	**4,261,989**	4,743,071
		13,787,201	12,514,946
Current liabilities			
Trade and other payables	*26*	**6,052,651**	5,317,876
Contract liabilities	*27*	**115,584**	132,484
Derivative financial instruments	*36*	**25,587**	10,087
Lease liabilities	*28*	**2,509**	3,744
Tax payables		**232,548**	209,478
Borrowings – due within one year	*29*	**197,853**	1,359,358
		6,626,732	7,033,027
Net current assets		**7,160,469**	5,481,919
Total assets less current liabilities		**14,390,448**	11,946,598

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	NOTES	2023 RMB'000	2022 RMB'000
Non-current liabilities			
Deferred tax liabilities	*30*	**288,080**	194,069
Deferred income in respect of government grants	*26 & 34*	**32,237**	43,413
Derivative financial instruments	*36*	**19,191**	–
Lease liabilities	*28*	**4,322**	3,896
Borrowings – due after one year	*29*	**1,299,000**	1,095,789
		1,642,830	1,337,167
		12,747,618	10,609,431
Capital and reserves			
Share capital	*31*	**16,965**	16,965
Reserves		**12,717,813**	10,591,121
Equity attributable to owners of the Company		**12,734,778**	10,608,086
Non-controlling interests		**12,840**	1,345
Total equity		**12,747,618**	10,609,431

The consolidated financial statements on pages 40 to 153 were approved and authorised for issue by the Board of Directors on 26 March 2024 and are signed on its behalf by:

TSOI HOI SHAN
DIRECTOR

LEUNG WING HON
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company										
	Share capital RMB'000	Share premium RMB'000	Treasury stock RMB'000	Special reserve RMB'000 *(Note b)*	Capital reserve RMB'000 *(Note a)*	Share-based compensation reserve RMB'000	Foreign exchange reserve RMB'000	Retained profits RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2022	17,125	3,782,428	(17,815)	277,100	1,146,168	–	7,682	4,127,804	9,340,492	(584)	9,339,908
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	1,427	–	1,427	–	1,427
Profit (loss) for the year	–	–	–	–	–	–	–	1,581,094	1,581,094	(71)	1,581,023
Total comprehensive income (expense) for the year	–	–	–	–	–	–	1,427	1,581,094	1,582,521	(71)	1,582,450
Capital contribution from the non-controlling interest of a subsidiary	–	–	–	–	–	–	–	–	–	2,000	2,000
Dividends recognised as distribution *(Note 15)*	–	–	–	–	–	–	–	(272,636)	(272,636)	–	(272,636)
Repurchase and cancellation of shares	(160)	(59,946)	18,062	–	–	–	–	–	(42,044)	–	(42,044)
Transaction costs attributable to repurchase and cancellation of shares	–	–	(247)	–	–	–	–	–	(247)	–	(247)
Appropriations	–	–	–	–	108,042	–	–	(108,042)	–	–	–
At 31 December 2022	16,965	3,722,482	–	277,100	1,254,210	–	9,109	5,328,220	10,608,086	1,345	10,609,431
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**–**	**425**	**–**	**425**	**–**	**425**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,701,350**	**2,701,350**	**(505)**	**2,700,845**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**425**	**2,701,350**	**2,701,775**	**(505)**	**2,701,270**
Capital contribution from the non-controlling interest of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,000**	**12,000**
Dividends recognised as distribution *(Note 15)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(581,448)**	**(581,448)**	**–**	**(581,448)**
Recognition of share-based compensation expense	**–**	**–**	**–**	**–**	**–**	**6,365**	**–**	**–**	**6,365**	**–**	**6,365**
Appropriations	**–**	**–**	**–**	**–**	**164,967**	**–**	**–**	**(164,967)**	**–**	**–**	**–**
At 31 December 2023	**16,965**	**3,722,482**	**–**	**277,100**	**1,419,177**	**6,365**	**9,534**	**7,283,155**	**12,734,778**	**12,840**	**12,747,618**

Notes:

(a) Capital reserve represents the PRC statutory reserve which must be provided for before declaring dividends to the shareholders as approved by the board of directors in accordance with the PRC regulations applicable to the Company's PRC subsidiaries until the fund reaches 50% of the registered capital of the respective subsidiaries.

(b) Included in special reserve is an amount of RMB203,263,000 which represents the portion of registered capital of the two PRC subsidiaries contributed by certain beneficial owners of the Company. The remaining amount of RMB73,837,000 represents the difference between the carrying amount of the non-controlling interests acquired and the fair value of considerations paid for acquisition of additional interests in subsidiaries in prior years.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
Operating activities		
Profit before taxation	**3,344,148**	2,006,766
Adjustments for:		
Write-down of inventories (reversal of write-down), net	**43,188**	(1,561)
(Reversal of write-down) write-down of deposits for property, plant and equipment	**(5,563)**	2,168
Impairment losses reversal under expected credit loss model, net	**(1,962)**	(11,718)
Amortisation of intangible assets	**17,447**	19,488
Depreciation of property, plant and equipment	**536,303**	521,834
Depreciation of right-of-use assets	**11,898**	11,109
Net loss (gain) on fair value changes of derivative financial instruments	**12,399**	(37,730)
Gain on disposal of financial assets at fair value through profit and loss	**(72,748)**	(17,973)
Finance costs	**66,896**	81,595
Release of government grants	**(22,274)**	(17,447)
Bank interest income	**(105,415)**	(70,737)
Share of results of an associate	**(143)**	189
Share-based payment expense	**6,365**	–
Net loss on disposal of property, plant and equipment	**3,703**	4,390
Written off of property, plant and equipment	**47,955**	78,176
Net unrealised foreign exchange (gain) loss	**(10,972)**	49,299
Operating cash flows before movements in working capital	**3,871,225**	2,617,848
Increase in inventories	**(118,045)**	(158,036)
Increase in trade and bills receivables, other receivables, deposits and prepayments	**(1,562,217)**	(392,217)
Increase in trade and other payables	**792,368**	238,364
(Decrease) increase in contract liabilities	**(16,901)**	24,431
Cash generated from operations	**2,966,430**	2,330,390
Income taxes paid	**(526,992)**	(299,847)
Net cash from operating activities	**2,439,438**	2,030,543

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
Investing activities		
Payments for purchase of property, plant and equipment	**(1,144,206)**	(701,072)
Payment for deposits of acquisition of property, plant and equipment	**(130,278)**	(78,476)
Capital contribution of interests in an associate	**–**	(7,350)
Proceeds on disposal of property, plant and equipment	**4,367**	7,586
Placement of pledged bank deposits	**(3,626,330)**	(3,901,184)
Withdrawal of pledged bank deposits	**3,348,785**	4,033,869
Placement of financial asset at fair value through profit and loss	**(2,365,774)**	(1,684,155)
Receipts of financial asset at fair value through profit and loss	**2,438,522**	1,702,128
Interest received	**105,415**	70,737
Receipts of government grants	**–**	1,909
Additions to right-of-use assets	**(136,383)**	(38,911)
Additions to intangible assets	**(51,068)**	–
Net cash used in investing activities	**(1,556,950)**	(594,919)
Financing activities		
Interest paid	**(78,431)**	(75,615)
Dividends paid	**(581,448)**	(272,636)
Capital contribution from the non-controlling interest of a subsidiary	**12,000**	2,000
Repayments of lease liabilities	**(4,177)**	(3,966)
New borrowings raised	**2,044,000**	2,951,824
Repayments of borrowings	**(2,778,755)**	(2,623,646)
Net settlement of the cross currency interest rate swap	**–**	(8,160)
Net settlement of foreign currency forwards	**24,133**	48,324
Payment on repurchase and cancellation of shares	**–**	(42,044)
Transaction costs attributable to repurchase and cancellation of shares	**–**	(247)
Net cash used in financing activities	**(1,362,678)**	(24,166)
Net (decrease) increase in cash and cash equivalents	**(480,190)**	1,411,458
Effect of foreign exchange rate changes	**(892)**	604
Total cash and cash equivalents at beginning of the year	**4,743,071**	3,331,009
Total cash and cash equivalents at end of the year	**4,261,989**	4,743,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

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 Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 45.

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 NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

Except as described below, the application of the new and 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. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.1 Impacts on application of Amendments to HKAS 8 Definition of Accounting Estimates

The Group has applied the amendments for the first time in the current year. The amendments define accounting estimates as "monetary amounts in financial statements that are subject to measurement uncertainty". An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current year has had no material impact on the Group's consolidated financial statements.

2.2 Impacts on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, the Group applies HKAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The application of the amendments in the current year has had no material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.3 Impacts on application of Amendments to HKAS 12 Income Taxes International Tax Reform – Pillar Two model Rules

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

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

2.4 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.4 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies *(Continued)*

HKFRS Practice Statement 2 *Making Materiality Judgements* (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments has had no material impact on the Group's financial positions and performance but has affected the disclosure of the Group's accounting policies set out in Note 3 to the consolidated financial statements.

2.5 Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") - Long Service Payment ("LSP") offsetting mechanism in Hong Kong

As disclosed in Note 45, the Group has several subsidiaries operating in Hong Kong which are obliged to pay LSP to employees under certain circumstances. Meanwhile, the Group makes mandatory MPF contributions to the trustee who administers the assets held in a trust solely for the retirement benefits of each individual employee. Offsetting of LSP against an employee's accrued retirement benefits derived from employers' MPF contributions was allowed under the Employment Ordinance (Cap.57). In June 2022, the Government of the HKSAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance") which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset severance payment and LSP (the "Abolition"). The Abolition will officially take effect on 1 May 2025 (the "Transition Date"). In addition, under the Amendment Ordinance, the last month's salary immediately preceding the Transition Date (instead of the date of termination of employment) is used to calculate the portion of LSP in respect of the employment period before the Transition Date.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

New and amendments to HKFRSs that are mandatorily effective for the current year *(Continued)*

2.5 Change in accounting policy as a result of application of the HKICPA guidance on the accounting implications of the abolition of the Mandatory Provident Fund ("MPF") - Long Service Payment ("LSP") offsetting mechanism in Hong Kong *(Continued)*

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" which provides guidance for the accounting for the offsetting mechanism and the impact arising from abolition of the MPF-LSP offsetting mechanism in Hong Kong. In light of this, the Group has implemented the guidance published by the HKICPA in connection with the LSP obligation retrospectively so as to provide more reliable and more relevant information about the effects of the offsetting mechanism and the Abolition.

The Group considered the accrued benefits arising from employer MPF contributions that have been vested with the employee and which could be used to offset the employee's LSP benefits as a deemed contribution by the employee towards the LSP. Historically, the Group has been applying the practical expedient in paragraph 93(b) of HKAS 19 to account for the deemed employee contributions as a reduction of the service cost in the period in which the related service is rendered.

Based on the HKICPA's guidance, as a result of the Abolition, these contributions are no longer considered "linked solely to the employee's service in that period" since the mandatory employer MPF contributions after the Transition Date can still be used to offset the pre-transition LSP obligation. Therefore, it would not be appropriate to view the contributions as "independent of the number of years of service" and the practical expedient in paragraph 93(b) of HKAS 19 is no longer applicable. Instead, these deemed contributions should be attributed to periods of service in the same manner as the gross LSP benefit applying paragraph 93(a) of HKAS 19.

The application of the amendments in the current year has had no material impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs in issue but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[2]
Amendments to HKAS 21	Lack of Exchangeability[3]

1 Effective for annual periods beginning on or after a date to be determined.
2 Effective for annual periods beginning on or after 1 January 2024.
3 Effective for annual periods beginning on or after 1 January 2025.

Except for the amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs in issue but not yet effective *(Continued)*

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)* (the "2020 Amendments") and Amendments to HKAS 1 *Non-current Liabilities with Covenants* (the "2022 Amendments")

The 2020 Amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that the classification should not be affected by management intentions or expectations to settle the liability within 12 months.

For rights to defer settlement for at least twelve months from reporting date which are conditional on the compliance with covenants, the requirements introduced by the 2020 Amendments have been modified by the 2022 Amendments. The 2022 Amendments specify that only covenants with which an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date. Covenants which are required to comply with only after the reporting period do not affect whether that right exists at the end of the reporting period.

In addition, the 2022 Amendments specify the disclosure requirements about information that enables users of financial statements to understand the risk that the liabilities could become repayable within twelve months after the reporting period, if the entity classify liabilities arising from loan arrangements as non-current when the entity's right to defer settlement of those liabilities is subject to the entity complying with covenants within twelve months after the reporting period.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs in issue but not yet effective *(Continued)*

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)* (the "2020 Amendments") and Amendments to HKAS 1 *Non-current Liabilities with Covenants* (the "2022 Amendments") *(Continued)*

The 2022 Amendments also defer the effective date of applying the 2020 Amendments to annual reporting periods beginning on or after 1 January 2024. The 2022 Amendments, together with the 2020 Amendments, are effective for annual reporting periods beginning on or after 1 January 2024, with early application permitted. If an entity applies the 2020 amendments for an earlier period after the issue of the 2022 Amendments, the entity should also apply the 2022 Amendments for that period.

Based on the Group's outstanding liabilities as at 31 December 2023, the application of the 2020 and 2022 Amendments will not result in reclassification of the Group's liabilities.

Amendments to HKAS 7 and HKFRS 7 *Supplier Finance Arrangements*

The amendments add a disclosure objective to HKAS 7 Cash flow statements stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, HKFRS 7 Financial Instruments: Disclosures was amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The term 'supplier finance arrangements' is not defined. Instead, the amendments describe the characteristics of an arrangement for which an entity would be required to provide the information.

To meet the disclosure objective, an entity will be required to disclose in aggregate for its supplier finance arrangements:

- The terms and conditions of the arrangements;
- The carrying amount and associated line items presented in the entity's statement of financial position, of the liabilities that are part of the arrangements, and the non-cash changes in the carrying amounts of these financial liabilities;

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRSs in issue but not yet effective *(Continued)*

Amendments to HKAS 7 and HKFRS 7 *Supplier Finance Arrangements* *(Continued)*

- The carrying amount, and associated line items for which the suppliers have already received payment from the finance providers;

- Ranges of payment due dates for both those financial liabilities that are part of a supplier finance arrangement and comparable trade payables that are not part of a supplier finance arrangement; and liquidity risk information

The amendments, which contain specific transition reliefs for the first annual reporting period in which an entity applies the amendments, are applicable for annual reporting periods beginning on or after 1 January 2024. Earlier application is permitted.

The application of the amendments is not expected to have impact on the financial position or performance of the Group but may affect the disclosures of liabilities, cash flows and the Group's exposure to liquidity risk related to the supplier finance arrangements entered into by the Group. The impacts of application, if any, will be disclosed in the Group's future consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

3.2 Material accounting policy information

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income and expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in a subsidiary is presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Revenue from contracts with customers

Information about the Group's accounting policies relating to contracts with customers is provided in Notes 5 and 27.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Right-of-use assets

The cost of right-of-use assets includes the amount of the initial measurement of the lease liability, lease payment made at or before commencement date for land use rights, any initial direct costs incurred by the Group and an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Lease payments included in the measurement of the lease liability comprise fixed lease payments.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments. The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Leases *(Continued)*

The Group as a lessee (Continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of foreign exchange reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

3.2 Material accounting policy information *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Share-based payments

Equity-settled share-based payment transactions

Shares granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Share-based payments *(Continued)*

Equity-settled share-based payment transactions (Continued)

Shares granted to employees *(Continued)*

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based compensation reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based compensation reserve.

When shares granted are vested, the amount previously recognised in share-based compensation reserve will be transferred to share capital and share premium.

When trustee of the share award scheme purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is deducted from total equity and is presented as treasury stock. No gain or loss is recognised on the transactions of the Company's own shares.

When the trustee transfers the Company's granted shares to grantees upon vesting, the related costs of the granted shares vested are reversed from treasury share stock and the related expense of the granted shares vested is reversed from share-based compensation reserve. The difference arising from such transfer is debited/credited to retained profits.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Taxation

Income tax expense represents the sum of current and deferred income tax expense.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Taxation *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognised a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognised in profit or loss.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment losses. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

3.2 Material accounting policy information *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of internal project to develop new pharmaceutical products) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Intangible assets *(Continued)*

Internally-generated intangible assets – research and development expenditure (Continued)

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment losses. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment losses (if any). Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of property, plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Impairment on property, plant and equipment, right-of-use assets and intangible assets other than goodwill *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand; and

(b) cash equivalents which represents short-term deposits (generally with original maturity of three months or less). Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers*. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets *(Continued)*

All other financial assets are subsequently measured at fair value.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Financial asset at FVTPL

Financial asset at FVTPL is measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses, net" line item.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables and banker's acceptance bills receivables, commercial bills receivables, consideration receivables, other receivables and refundable deposits, pledged bank deposits, and bank balances) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(i) Significant increase in credit risk *(Continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward-looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION

(Continued)

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

(v) Measurement and recognition of ECL *(Continued)*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables, where the corresponding adjustment is recognised through a loss allowance account.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'Other gains and losses' line item (Note 7a) as part of the net foreign exchange gain (loss).
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'Other gains and losses' line item as part of the net gain on fair value changes of derivative financial instrument and gain on disposal of financial assets at FVTPL (Note 7a).

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase or cancellation of the Company's own equity instruments.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

Financial liabilities including trade payables and trade payables under supplier finance arrangement, other payables and borrowings are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the 'Other gains and losses' line item in profit or loss (Note 7a) as part of net foreign exchange gain (loss) for financial liabilities that are not part of a designated hedging relationship.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognised in profit or loss for financial liabilities that are not part of a designated hedging relationship.

3. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

3.2 Material accounting policy information *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognised amounts; and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3.2, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision of ECL for trade receivables

The Group estimates the ECL on trade receivables using a provision matrix. During the years ended 31 December 2023 and 2022, the loss rates for the trade receivables are estimated based on historical credit loss experience, adjusted for forward-looking factors specific to the debtor's industry and the macroeconomic environment.

At every reporting date, all available historical observed default rates are reassessed and changes in the forward-looking information are considered. The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables is disclosed in Notes 39 and 24, respectively.

5. REVENUE AND SEGMENT INFORMATION

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

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1) Intermediate products – mainly represent sales of 6-APA products and penicillin G potassium products;

2) Bulk medicine – mainly represent sales of amoxicillin products; and

3) Finished products – mainly represent sales of insulin series products, antibiotics products, nervous system drugs, ophthalmic products and veterinary drugs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2023					
	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
– 6-APA	1,344,293	–	–	1,344,293	–	1,344,293
– Antibiotics products	–	6,393,056	3,532,798	9,925,854	–	9,925,854
– Insulin Products	–	–	1,063,813	1,063,813	–	1,063,813
– Others	972,585	6,124	427,210	1,405,919	–	1,405,919
Revenue from contracts with customers	2,316,878	6,399,180	5,023,821	13,739,879	–	13,739,879
Inter-segment sales	3,436,223	993,005	–	4,429,228	(4,429,228)	–
Segment revenue	5,753,101	7,392,185	5,023,821	18,169,107	(4,429,228)	13,739,879

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(i) Disaggregation of revenue from contracts with customers *(Continued)*

	For the year ended 31 December 2022					
	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments Total RMB'000	Elimination RMB'000	Consolidated RMB'000
Types of products						
– 6-APA	800,893	–	–	800,893	–	800,893
– Antibiotics products	–	5,168,835	3,062,977	8,231,812	–	8,231,812
– Insulin Products	–	–	1,095,957	1,095,957	–	1,095,957
– Others	798,312	5,891	401,397	1,205,600	–	1,205,600
Revenue from contracts with customers	1,599,205	5,174,726	4,560,331	11,334,262	–	11,334,262
Inter-segment sales	2,718,504	870,178	–	3,588,682	(3,588,682)	–
Segment revenue	4,317,709	6,044,904	4,560,331	14,922,944	(3,588,682)	11,334,262

All of the Group's revenue is recognised at a point in time during the years ended 31 December 2023 and 2022.

(ii) Performance obligations for contracts with customers and revenue recognition policies

Revenue is recognised at a point of time when control of the goods has been transferred, being when the goods have been delivered to port of discharge or the customer's specific location as stipulated in the sales agreement. The Group satisfied its performance obligations upon shipment or upon delivery in accordance with the contract signed with customers, who start to bear the risks of obsolescence and loss in relation to the goods.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

Contracts for sale of pharmaceutical products are typically non-cancellable. The contracts for sales of products have expected duration of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information

HKFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") (i.e. executive directors of the Company) for the purpose of allocating resources to segments and assessing their performance.

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 2023

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	2,316,878	6,399,180	5,023,821	13,739,879	–	13,739,879
Inter-segment sales	3,436,223	993,005	–	4,429,228	(4,429,228)	–
Segment revenue	5,753,101	7,392,185	5,023,821	18,169,107	(4,429,228)	13,739,879
RESULT						
Segment profit *(Note)*	1,984,461	781,837	588,488			3,354,786
Share of results of an associate						143
Unallocated other income						152,447
Unallocated corporate expenses						(166,674)
Unallocated other gains and losses, net						69,790
Impairment losses reversed under expected credit loss model, net						552
Finance costs						(66,896)
Profit before taxation						3,344,148

Note: Segments profit arrived after the deduction of research and development expenditures amounted to RMB757,248,000 of which included intermediate products of RMB113,744,000, bulk medicine of RMB187,563,000 and finished products of RMB455,941,000 for the year ended 31 December 2023.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results *(Continued)*

Year ended 31 December 2022

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Segments total RMB'000	Elimination RMB'000	Consolidated RMB'000
REVENUE						
External sales	1,599,205	5,174,726	4,560,331	11,334,262	–	11,334,262
Inter-segment sales	2,718,504	870,178	–	3,588,682	(3,588,682)	–
Segment revenue	4,317,709	6,044,904	4,560,331	14,922,944	(3,588,682)	11,334,262
RESULT						
Segment profit *(Note)*	918,762	385,722	796,191			2,100,675
Share of results of an associate						(189)
Unallocated other income						104,125
Unallocated corporate expenses						(97,343)
Unallocated other gains and losses, net						(22,378)
Impairment losses reversed under expected credit loss model, net						3,471
Finance costs						(81,595)
Profit before taxation						2,006,766

Note: Segments profit arrived after the deduction of research and development expenditures amounted to RMB593,598,000 of which included intermediate products of RMB102,103,000, bulk medicine of RMB184,351,000 and finished products of RMB307,144,000 for the year ended 31 December 2022.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(a) Segment revenue and results *(Continued)*

Measurement

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.2. Performance is measured based on segment results that is used by the CODM for the purposes of resource allocation and assessment of segment performance. Taxation is not allocated to reportable segments.

Other than the segment revenue and segment results analysis presented above, information about assets and liabilities was not regularly provided to the CODM. Hence, no segment asset or segment liability information is presented.

Inter-segment revenue is charged at prevailing market rates.

Reportable segment results represent the profit earned by each segment without allocation of certain other income, share of results of an associate, corporate expenses and other gains and losses (net), impairment losses reversed under expected credit loss model, net and finance costs.

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information

Amounts included in the measurement of segment profit or loss:

For the year ended 31 December 2023

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Amortisation of intangible assets	2,031	–	15,416	–	17,447
Depreciation of right-of-use assets	3,324	5,270	2,874	430	11,898
Depreciation of property, plant and equipment	388,205	87,827	60,198	73	536,303
Net loss on disposal of property, plant and equipment	1,603	1,151	949	–	3,703
Written off of property, plant and equipment	23,454	22,737	1,764	–	47,955
Impairment losses (reversed) recognised	(1,216)	(1,688)	1,494	(552)	(1,962)

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(b) Other segment information *(Continued)*

For the year ended 31 December 2022

	Intermediate products RMB'000	Bulk medicine RMB'000	Finished products RMB'000	Unallocated RMB'000	Consolidated RMB'000
Amortisation of intangible assets	1,840	–	17,648	–	19,488
Depreciation of right-of-use assets	3,203	5,065	1,511	1,330	11,109
Depreciation of property, plant and equipment	379,587	85,602	51,912	4,733	521,834
Net loss on disposal of property, plant and equipment	2,194	2,049	147	–	4,390
Written off of property, plant and equipment	32,265	29,208	330	16,373	78,176
Impairment losses (reversed) recognised	(5,746)	(3,761)	1,260	(3,471)	(11,718)

(c) 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	
	2023	2022
	RMB'000	RMB'000
PRC, including Hong Kong (country of domicile)	**11,124,265**	8,962,740
Europe	**783,732**	631,282
India	**673,922**	556,336
Middle East	**46,834**	48,294
South America	**340,391**	297,594
Other Asian regions	**603,726**	587,835
Other regions	**167,009**	250,181
	13,739,879	11,334,262

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment information *(Continued)*

(c) Geographical information *(Continued)*

The information about its non-current assets is presented based on the geographical location of the assets, as below:

	Non-current assets	
	2023	2022
	RMB'000	RMB'000
PRC (excluding Hong Kong) (country of domicile)	**7,064,607**	6,296,196
Hong Kong	**84,072**	87,953
	7,148,679	6,384,149

Non-current assets excluded financial asset at FVTPL and deferred tax assets.

(d) Information about major customers

There is no customer who contributes more than 10% of the total sales of the Group.

6. OTHER INCOME

	2023	2022
	RMB'000	RMB'000
Bank interest income	**105,415**	70,737
Sales of scrap materials	**2,898**	5,925
Subsidy income *(Note)*	**92,490**	75,866
Sundry income	**11,672**	13,289
	212,475	165,817

Note: Subsidy income includes 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. Details of the subsidy income are set out in Note 34.

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For the year ended 31 December 2023

7. OTHER GAINS AND LOSSES, NET/OTHER EXPENSES

		2023 RMB'000	2022 RMB'000
(a)	**Other gains and losses, net**		
	Net loss (gain) on fair value changes of derivative financial instruments *(Note)*	**12,399**	(37,730)
	Gain on disposal of financial assets at FVTPL	**(72,748)**	(17,973)
	(Reversal of write-down) write-down of deposits for property, plant and equipment	**(5,563)**	2,168
	Net loss on disposal of property, plant and equipment	**3,703**	4,390
	Written off of property, plant and equipment	**47,955**	78,176
	Net foreign exchange (gain) loss	**(9,452)**	59,412
	Others	**35**	128
		(23,671)	88,571
(b)	**Other expenses**		
	Research and development expenditures	**757,248**	593,598
	Tax penalty	**5,424**	781
	Others	**15,714**	9,236
		778,386	603,615

Note: During the years ended 31 December 2023 and 2022, 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 three (2022: three) outstanding derivative financial instruments held by the Group as at 31 December 2023.

8. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on borrowings	**81,974**	87,971
Interest on lease liabilities	**443**	570
	82,417	88,541
Less: amounts capitalised in the cost of qualifying assets	**(15,521)**	(6,946)
	66,896	81,595

Borrowing costs capitalised during the current year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.35% (2022: 3.87%) per annum to expenditure on qualifying assets.

9. IMPAIRMENT LOSSES REVERSED UNDER EXPECTED CREDIT LOSS MODEL, NET

	2023 RMB'000	2022 RMB'000
Impairment losses recognised (reversed):		
– trade receivables	**5,620**	(15,470)
– banker's acceptance bills receivables	**(655)**	848
– other receivables	**(552)**	(3,471)
– commercial bills receivables	**(6,375)**	6,375
	(1,962)	(11,718)

Details of impairment assessment are set out in Note 39.

10. CONSIDERATION RECEIVABLES

On 7 August 2019, The United Laboratories Limited, a wholly-owned subsidiary of the Company, and 恒大地產集團成都有限公司 ("Evergrande Chengdu"), an independent third party, entered into an investment and cooperation agreement (the "Agreement").

Pursuant to the terms of the Agreement, the Group disposed its wholly owned subsidiary to Evergrande Chengdu at a consideration of RMB980,000,000 which will be settled in seven installments within 27 months from the date of disposal.

Consideration of RMB637,000,000 has been received from Evergrande up till 31 December 2021 and remaining consideration of RMB343,000,000 is still outstanding as at 31 December 2021. The entire balance of RMB343,000,000 was fully impaired by the management of the Group during the year ended 31 December 2021.

During the years ended 31 December 2023 and 2022, no repayment has been settled by Evergrande Chengdu. The Group has been exploring and considering the possible action against Evergrande Chengdu to recover the consideration receivables, including application of an action against Evergrande Chengdu in the Guangzhou Intermediate People's Court (the "Court") for recovery of the consideration receivables and relevant damages which is still under process by the Court during the years ended 31 December 2023 and 2022. The management of the Group is of the opinion that no reversal of impairment loss in respect of the consideration receivables is recognised during the years ended 31 December 2023 and 2022 as the probability of recovery of the consideration receivables is uncertain, after considering various factors, including but not limited to the recoverable amount of the underlying assets, potential transaction cost of recovering the consideration receivables, the financial position of Evergrande Chengdu as well as the controlling shareholder of Evergrande Chengdu was ordered to be wound up by the High Court announced on 29 January 2024.

11. TAX EXPENSE

	2023	2022
	RMB'000	RMB'000
The tax charge comprises:		
Current tax		
Hong Kong Profits tax	**1,547**	–
PRC Enterprise Income Tax ("EIT")	**499,827**	332,625
PRC withholding tax on interest income	**5,908**	7,316
PRC withholding tax on royalty income	**79**	–
PRC withholding tax on distributed profits of PRC subsidiaries	**42,701**	61,290
	550,062	401,231
Deferred tax charge *(Note 30)*	**93,241**	24,512
	643,303	425,743

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Hong Kong Profits Tax is calculated at 16.5% of the estimated 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 2023 and 2022.

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

11. TAX EXPENSE *(Continued)*

The tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023 **RMB'000**	2022 RMB'000
Profit before taxation	**3,344,148**	2,006,766
Tax at the PRC EIT rate of 25% (2022: 25%)	**836,037**	501,692
Tax effect of share of results of an associate	**(36)**	47
Tax effect of expenses not deductible for tax purpose	**115,599**	104,877
Tax effect of income not taxable for tax purpose	**(44,822)**	(34,494)
Tax effect of super deduction of research and development expenses *(Note)*	**(89,191)**	(51,098)
Tax effect of tax losses not recognised	**18,516**	17,652
Utilisation of tax losses previously not recognised	**(18,152)**	(3,103)
Tax effect of deductible temporary differences not recognised	**–**	(3,320)
PRC withholding tax on distributable profits of the PRC subsidiaries	**136,712**	83,050
PRC withholding tax on interest income	**5,908**	7,316
PRC withholding tax on royalty income	**79**	–
Effect of tax concessionary rates granted to the PRC subsidiaries	**(315,972)**	(196,285)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(795)**	–
Others	**(580)**	(591)
Tax expense for the year	**643,303**	425,743

Note: Pursuant to State Administration of Taxation Announcement No. 7, 2023 (2022: Caishui [2021] circular No. 13), the Group is able to enjoy super deduction of 200% on qualifying research and development expenditures for the years ended 31 December 2023 and 2022.

12. PROFIT FOR THE YEAR

	2023 RMB'000	2022 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**5,210**	4,704
Depreciation		
Depreciation of right-of-use assets	**11,898**	11,109
Depreciation of property, plant and equipment	**536,303**	521,834
Amortisation of intangible assets (included in cost of sales)	**17,447**	19,488
Staff costs, including directors' emoluments		
Salaries and other benefits	**1,491,162**	1,260,225
Share-based compensation expenses	**6,365**	–
Contributions to retirement benefit schemes	**151,218**	136,781
	1,648,745	1,397,006
Write-down of inventories, net of reversal (included in cost of sales)	**43,188**	(1,561)
Cost of inventories recognised as expenses	**7,405,042**	6,365,272

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

2023

(a) Executive directors

	Tsoi Hoi Shan RMB'000 *(Note i)*	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	4,185	4,054	2,779	1,798	1,798	1,798	16,412
Bonus	–	102	–	720	720	720	2,262
Contributions to retirement benefit schemes	16	16	16	28	–	–	76
Sub-total	4,201	4,172	2,795	2,546	2,518	2,518	18,750

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The directors' share-based compensation expenses are disclosed in Note 33.

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Song Ming RMB'000	Fu Qiushi RMB'000 *(Note ii)*	Fu Xiao Nan RMB'000 *(Note iii)*	Total RMB'000
Fees	234	234	118	59	645

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	19,395

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

2022

(a) Executive directors

	Tsoi Hoi Shan RMB'000 *(Note i)*	Leung Wing Hon RMB'000	Choy Siu Chit RMB'000	Fang Yu Ping RMB'000	Zou Xian Hong RMB'000	Zhu Su Yan RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–
Other emoluments							
Salaries and other benefits	3,983	3,858	2,645	1,711	1,711	1,711	15,619
Bonus	–	105	–	720	720	720	2,265
Contributions to retirement benefit schemes	16	16	16	41	–	–	89
Sub-total	3,999	3,979	2,661	2,472	2,431	2,431	17,973

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) Independent non-executive directors

	Chong Peng Oon RMB'000	Song Ming RMB'000	Fu Xiao Nan RMB'000 *(Note iii)*	Total RMB'000
Fees	222	222	222	666

The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Total	18,639

Notes:

(i) Tsoi Hoi Shan is the executive director and chairman of the Company for the years ended 31 December 2023 and 2022.

(ii) Fu Qiushi was appointed as independent non-executive director on 30 June 2023.

(iii) Fu Xiao Nan resigned on 31 March 2023.

14. FIVE HIGHEST PAID EMPLOYEES

For the years ended 31 December 2023 and 2022, all the five highest paid individuals of the Group are directors of the Company, details of which are included in Note 13.

15. DIVIDENDS

	2023	2022
	RMB'000	RMB'000
Dividends for ordinary shareholders of the Company recognised as distribution during the current year		
– 2023 interim dividend RMB12 cents (2022: 2022 interim dividend RMB5 cents) per share	**218,043**	90,879
– 2022 final dividend RMB14 cents (2022: 2021 final dividend RMB8 cents) per share	**254,384**	145,406
– 2022 special dividend RMB6 cents (2022: 2021 special dividend RMB2 cents) per share	**109,021**	36,351
	581,448	272,636

Subsequent to the end of the reporting period, a final dividend of RMB28 cents (2022: RMB14 cents) per ordinary share and a special dividend of RMB12 cents (2022: RMB6 cents) per ordinary share in respect of the year ended 31 December 2023, in an aggregate amount of RMB726,811,000 (2022: RMB363,405,000), have been proposed by the directors of the Company and are subject to approval by the shareholders in the forthcoming annual general meeting.

16. EARNINGS PER SHARE

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

Earnings

	2023	2022
	RMB'000	RMB'000
Earnings for the purposes of basic earnings per share being profit for the year attributable to owners of the Company	**2,701,350**	1,581,094

Number of shares

	2023	2022
	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,817,027**	1,819,730

As defined and disclosed in Note 33, the Group granted award shares to the Group's directors and employees under the Share Award Scheme, the award shares are antidilutive as the Group will repurchase the shares from the open market for the award shares upon the vesting conditions underlying the respective award shares are met.

No diluted earnings per share for both 2023 and 2022 were presented as there were no potential ordinary shares in issue for both 2023 and 2022.

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17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2022	4,458,046	7,713,672	120,164	39,489	120,647	12,452,018
Additions	58,136	221,111	18,274	5,826	398,639	701,986
Disposals	(14,610)	(536)	(179)	(1,141)	–	(16,466)
Write-off	(41,214)	(182,789)	(2,571)	(853)	–	(227,427)
Reclassification	82,974	158,786	13,326	–	(255,086)	–
At 31 December 2022	**4,543,332**	**7,910,244**	**149,014**	**43,321**	**264,200**	**12,910,111**
Additions	**28,521**	**144,381**	**23,291**	**26,683**	**920,563**	**1,143,439**
Disposals	**(363)**	**(51,048)**	**(555)**	**(1,983)**	**–**	**(53,949)**
Write-off	**(27,204)**	**(216,267)**	**(6,179)**	**(2,086)**	**–**	**(251,736)**
Reclassification	**372,984**	**395,978**	**2,293**	**–**	**(771,255)**	**–**
At 31 December 2023	**4,917,270**	**8,183,288**	**167,864**	**65,935**	**413,508**	**13,747,865**
DEPRECIATION						
At 1 January 2022	1,397,113	5,085,026	88,253	39,331	–	6,609,723
Charge for the year	145,450	365,015	9,050	2,319	–	521,834
Eliminated on disposals	(3,214)	(366)	(94)	(816)	–	(4,490)
Eliminated on write-off	(11,658)	(134,890)	(2,070)	(633)	–	(149,251)
At 31 December 2022	**1,527,691**	**5,314,785**	**95,139**	**40,201**	**–**	**6,977,816**
Charge for the year	**161,162**	**356,830**	**13,223**	**5,088**	**–**	**536,303**
Eliminated on disposals	**(119)**	**(43,442)**	**(518)**	**(1,800)**	**–**	**(45,879)**
Eliminated on write-off	**(11,897)**	**(186,513)**	**(3,442)**	**(1,929)**	**–**	**(203,781)**
At 31 December 2023	**1,676,837**	**5,441,660**	**104,402**	**41,560**	**–**	**7,264,459**
CARRYING AMOUNTS						
At 31 December 2023	**3,240,433**	**2,741,628**	**63,462**	**24,375**	**413,508**	**6,483,406**
At 31 December 2022	3,015,641	2,595,459	53,875	3,120	264,200	5,932,295

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment less their residual values over their estimated useful lives, except for construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and buildings	Over the lease term
Plant and machinery	5% – 20%
Furniture, fixtures and equipment	20% – 25%
Motor vehicles	20% – 30%

The carrying amount of land and buildings shown above comprises properties situated on:

	2023 **RMB'000**	2022 RMB'000
Leasehold land and buildings in Hong Kong	**60,097**	62,783
Buildings in the PRC	**3,180,336**	2,952,858
	3,240,433	3,015,641

Note: At 31 December 2023, the Group was in the process of obtaining the real estate ownership certificate for buildings in the PRC with an aggregate carrying amount of RMB557,196,000 (2022: RMB623,215,000).

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18. RIGHT-OF-USE ASSETS

	Leasehold lands RMB'000	Leased properties RMB'000	Motor vehicles RMB'000	Total RMB'000
At 1 January 2022	217,372	6,489	3,313	227,174
Additions	38,911	610	–	39,521
Depreciation	(7,267)	(2,186)	(1,656)	(11,109)
At 31 December 2022	**249,016**	**4,913**	**1,657**	**255,586**
Additions	**143,645**	**3,368**	**–**	**147,013**
Depreciation	**(7,921)**	**(2,320)**	**(1,657)**	**(11,898)**
At 31 December 2023	**384,740**	**5,961**	**–**	**390,701**

	2023 RMB'000	2022 RMB'000
Total cash outflow for leases	**141,003**	43,447

For the years ended 31 December 2023 and 2022, the Group leases staff quarters, office buildings and vehicles for its operations. Lease contracts are entered into for fixed term of 3 years to 10 years.

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located and office buildings. The Group is the registered owner of these property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

19. GOODWILL

	RMB'000
COST	
At 1 January 2022 and 31 December 2022 and 2023	**3,031**

Goodwill has been allocated to two individual cash-generating units, including one subsidiary which operates in the Bulk medicine segment and one subsidiary which operates in the Finished products segment. The carrying amounts of goodwill at the end of the reporting period allocated to these units are as follows:

	2023 RMB'000	2022 RMB'000
Bulk medicine	**774**	774
Finished products	**2,257**	2,257
	3,031	3,031

20. INTANGIBLE ASSETS

	Development cost RMB'000 *(Note i)*	Know-how RMB'000 *(Note ii)*	Total RMB'000
COST			
At 1 January 2022 and 31 December 2022	185,981	47,100	233,081
Additions	51,068	–	51,068
At 31 December 2023	**237,049**	**47,100**	**284,149**
AMORTISATION			
At 1 January 2022	71,397	23,898	95,295
Charge for the year	17,655	1,833	19,488
At 31 December 2022	**89,052**	**25,731**	**114,783**
Charge for the year	**15,743**	**1,704**	**17,447**
At 31 December 2023	**104,795**	**27,435**	**132,230**
IMPAIRMENT			
At 1 January 2022 and 31 December 2022 and 2023	–	17,960	17,960
CARRYING AMOUNTS			
At 31 December 2023	**132,254**	**1,705**	**133,959**
At 31 December 2022	96,929	3,409	100,338

20. INTANGIBLE ASSETS *(Continued)*

Notes: At 31 December 2023 and 2022, cost of intangible assets comprise of:

i. An amount of RMB20,237,000 (2022: RMB20,237,000), representing development cost incurred in obtaining licenses for manufacturing finished products granted by the relevant PRC authorities. The licenses granted allow the Group to apply for the relevant technical know-how to manufacture finished products for five years from the date of granting relevant licenses. The costs of these intangible assets are therefore amortised over the useful lives of five years and were fully amortised in prior years.

A total amount of RMB216,812,000 (2022: RMB165,744,000), representing the capitalised development costs incurred in obtaining licenses for manufacturing finished products:

(a) During the year ended 31 December 2023, the development cost of Semaglutide of RMB48,538,000 (2022: nil) and insulin degludec and liraglutide injection of RMB2,530,000 (2022: nil) has been capitalised as the management of the Group consider the recognition criteria of internally generated intangible asset has been satisfied as all regulatory approvals before production have been obtained. There has been no amortisation for the development cost as the related products have not been put into production. In accordance with HKAS 36, the Group performed its annual impairment test for intangible asset not yet available to use by comparing its carrying amount with its recoverable amount. The calculation applied discounted cash flow methodology, of which the cash flow projections are based on financial budget endorsed by management. The management of the Group determined no impairment loss is required.

(b) During the year ended 31 December 2021, the capitalised development cost of insulin aspart (the "Insulin Aspart") of RMB77,129,000 and amoxicillin and clavulanate potassium granules (the "Amoxicillin and Clavulanate") of RMB7,590,000 has started to amortise from the date when it was put into production process.

(c) During the year ended 31 December 2019, the development cost of 6-Aminopenicillanic Acid (the "6-Aminopenicillanic Acid") of RMB2,417,000 has started to amortise from the date when it was put into production process.

(d) The development cost of Clavulanate Potassium (the "Clavulanate Potassium") of RMB9,200,000 has started to amortise from the date when it was put into production process since the year ended 31 December 2018.

(e) The capitalised development cost of insulin glargine (the "Insulin Glargine") of RMB69,408,000 has started to amortise from the date when it was put into production process since the year ended 31 December 2017.

The capitalised development cost of Insulin Aspart, 6-Aminopenicillanic Acid and Insulin Glargine and Amoxicillin and Clavulanate is amortised over 10 years and the capitalised development cost of Clavulanate Potassium is amortised over 5 years which are the expected period for which they will bring future economic benefits to the Group.

20. INTANGIBLE ASSETS *(Continued)*

Notes: At 31 December 2023 and 2022, cost of intangible assets comprise of: *(Continued)*

ii. An amount of RMB47,100,000 (2022: RMB47,100,000), representing externally acquired technical know-how ("Know-how") in identifying processes for manufacturing finished products and protocols for fermentation/purification methodology. During the year ended 31 December 2015, two of the Know-how at a total cost of RMB29,140,000 had commenced amortisation starting from the date when they were put into production process. It is amortised over 10 years which is the expected period for which they will bring future economic benefits to the Group. Due to suspension of a product development, the management estimated the recoverable amount of it to be minimal as the future economic benefits are not probable to bring to the Group based on value in use calculation. As a result, a full impairment loss of RMB17,960,000 has been recognised on one of the know-how of the relevant product development during the year ended 31 December 2018.

21. INTERESTS IN AN ASSOCIATE

	2023	2022
	RMB'000	RMB'000
Cost of investment in an associate	**7,350**	7,350
Share of post-acquisition loss and other comprehensive expense	**(46)**	(189)
	7,304	7,161

Details of the Group's associate as at 31 December 2022 and 2023 are as follows:

Name of an associate	**Place of incorporation/ principal place of business**	**Proportion of ownership interest held by the Group**		**Proportion of voting rights held by the Group**		**Principal activity**
		2022	**2023**	**2022**	**2023**	
寧波普邦生物科技有限公司 ("Ningbo Pubang")	The PRC	49%	49%	49%	49%	Sale of veterinary drugs in PRC

The Group has 49% ownership interest and voting rights in Ningbo Pubang. By considering that the Group has no sufficiently dominant voting rights to direct the relevant activities of Ningbo Pubang unilaterally, the directors of the Group conclude that the Group only has significant influence over Ningbo Pubang and therefore it is classified as an associate of the Group.

21. INTERESTS IN AN ASSOCIATE *(Continued)*

Summarised financial information of Ningbo Pubang

The summarised financial information below represents amounts shown in Ningbo Pubang's financial information prepared in accordance with HKFRSs.

Ningbo Pubang is accounted for using the equity method in these consolidated financial statements.

	2023 RMB'000	2022 RMB'000
Non-current assets	**2**	–
Current assets	**14,908**	14,614
Current liabilities	**4**	–
Profit (loss) for the year	**292**	(386)

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2023 RMB'000	2022 RMB'000
Net assets of the associate	**14,906**	14,614
Proportion of the Group's ownership interest in the associate	**49%**	49%
Carrying amount of Group's interest in the associate	**7,304**	7,161

22. FINANCIAL ASSET AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000
Equity securities of unlisted investments, classified as non-current assets	**500**	500

The above unlisted equity investments represent the Group's equity interest in a private entity established in the PRC, which are measured at FVTPL at the end of both reporting periods.

23. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	**775,573**	844,959
Work in progress	**269,695**	231,377
Finished goods	**1,193,215**	1,087,290
	2,238,483	2,163,626

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

	2023 RMB'000	2022 RMB'000
Trade receivables from contracts with customers	**2,378,638**	2,110,751
Less: allowance for credit losses	**(12,459)**	(6,839)
Banker's acceptance bills receivables	**3,496,731**	2,360,224
Less: allowance for credit losses	**(193)**	(848)
Commercial bills receivables	**–**	18,909
Less: allowance for credit losses	**–**	(6,375)
Consideration receivables *(Note 10)*	**339,574**	339,574
Less: allowance for credit losses	**(339,574)**	(339,574)
Value added tax receivables	**141,454**	115,866
Other receivables, deposits and prepayments	**316,253**	326,512
Less: allowance for credit losses	**(5,944)**	(6,496)
	6,314,480	4,911,704

At 1 January 2022, gross carrying amount of trade receivables from contracts with customers amounted to RMB1,624,198,000.

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

The Group normally allows a credit period ranging from 45 days to 120 days (2022: 60 days to 120 days) to its trade customers, and may be extended to selected customers subject to their trade volume and historical settlement records with the Group. The banker's acceptance bills receivables and commercial bills receivables have a general maturity period of between 90 days and 1 year (2022: between 90 days and 1 year).

The following is an analysis of trade receivables by age, net of allowance for credit losses, presented based on dates of transferring control of the goods, and an analysis of banker's acceptance bills receivables and commercial bills receivables by age, net of allowance for credit losses, presented based on the bills issuance date, at the end of the reporting period:

	2023	2022
	RMB'000	RMB'000
Trade receivables from contracts with customers		
0 to 30 days	**920,770**	1,026,413
31 to 60 days	**617,185**	478,510
61 to 90 days	**316,779**	262,065
91 to 120 days	**237,530**	143,763
121 to 180 days	**201,745**	127,389
Over 180 days	**72,170**	65,772
	2,366,179	2,103,912
Banker's acceptance bills receivables		
0 to 30 days	**695,328**	574,224
31 to 60 days	**581,264**	430,013
61 to 90 days	**628,692**	323,647
91 to 120 days	**631,535**	410,900
121 to 180 days	**875,400**	591,962
Over 180 days	**84,319**	28,630
	3,496,538	2,359,376
Commercial bills receivables		
91 to 120 days	**–**	12,534

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

At 31 December 2023, out of the total bills receivables of RMB3,496,731,000 (2022: RMB2,360,224,000), bills of RMB23,853,000 (2022: RMB251,378,000) and RMB1,465,401,000 (2022: RMB854,862,000) were further discounted to banks and endorsed to suppliers respectively with full recourse. The Group continues to recognise their full carrying amounts at the end of the reporting period and details are disclosed below. All bills received by the Group are with a maturity period of less than one year.

At 31 December 2023, included in the Group's trade receivables balance, net are debtors with aggregate carrying amount of RMB778,531,000 (2022: RMB447,466,000) which are past due but not impaired at the reporting date. Out of the past due balances, RMB31,012,000 (2022: RMB46,733,000) has been past due 90 days or more. The directors of the Company are in the view that there have been no significant increase in credit risk nor default because based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade receivables, banker's acceptance bills receivables and commercial bills receivables, consideration receivables and other receivables are set out in Note 39.

24. TRADE AND BILLS RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

Transfer of financial assets

The following were the Group's financial assets at 31 December 2023 and 2022 that were transferred to banks or suppliers by discounting or endorsing those bills receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as a secured borrowing (see Note 29) for discounted bills receivables or it continues to recognise the full carrying amount of the bills receivables and the full carrying amount of the trade and other payables for endorsed bills receivables. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

At 31 December 2023

	Bills receivables discounted to banks with full recourse RMB'000	**Bills receivables endorsed to suppliers with full recourse RMB'000**	**Total RMB'000**
Carrying amount of transferred assets	**23,853**	**1,465,401**	**1,489,254**
Carrying amount of associated liabilities	**(23,853)**	**(1,465,401)**	**(1,489,254)**

At 31 December 2022

	Bills receivables discounted to banks with full recourse RMB'000	Bills receivables endorsed to suppliers with full recourse RMB'000	Total RMB'000
Carrying amount of transferred assets	251,378	854,862	1,106,240
Carrying amount of associated liabilities	(251,378)	(854,862)	(1,106,240)

25. PLEDGED BANK DEPOSITS, CASH AND CASH EQUIVALENTS

Deposits amounting to RMB972,249,000 (2022: RMB694,704,000) have been placed in designated banks as part of the security provided for general short-term banking facilities granted to the Group by banks and are therefore classified as current assets. The range of effective interest rates of the pledged bank deposits at 31 December 2023 was 0.3% to 2.5% (2022: 0.3% to 2.7%) per annum.

Cash and cash equivalents comprise cash held by the Group, bank balances and short-term bank deposits for the purpose of meeting the Group's short term cash commitments. The range of effective interest rates of the bank balances was 0.2% to 3.6% (2022: 0.01% to 3.7%) per annum at 31 December 2023.

The carrying amounts of the Group's monetary assets denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities at the end of the reporting period were as follows:

	2023 **RMB'000**	2022 RMB'000
Pledged bank deposits and bank balances		
– HK$	**101,780**	345,960
– USD	**1,467,513**	847,913
– Euro	**6,812**	21,100

26. 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:

	2023 RMB'000	2022 RMB'000
Trade payables		
0 to 90 days	**1,906,603**	1,551,147
91 to 180 days	**323,501**	367,388
Over 180 days	**8,048**	51,820
	2,238,152	1,970,355
Trade payables under supplier finance arrangement *(Note)*		
0 to 90 days	**1,021,012**	779,384
91 to 180 days	**960,917**	808,685
	1,981,929	1,588,069
Other payables and accruals	**485,088**	485,992
Other tax payable	**143,899**	158,654
Accrual of freight expense	**78,729**	76,441
Accrual of salary, staff welfare and unclaimed annual leave	**214,411**	191,578
Accrual of water, electricity fee & coal	**345,045**	370,618
Deferred income in respect of government grants *(Note 34)*	**73,585**	95,859
Payables in respect of the acquisition of property, plant and equipment	**524,050**	423,723
	6,084,888	5,361,289
Less: Amount due within one year shown under current liabilities	**(6,052,651)**	(5,317,876)
Amount shown under non-current liabilities	**32,237**	43,413

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. In the consolidated statement of cash flows, settlements of these bills are included within operating cash flows based on the nature of the arrangements.

27. CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Receipts in advances from customers	**115,584**	132,484

At 1 January 2022, contract liabilities amounted to RMB107,955,000.

The following table shows how much of the revenue recognised for the years relates to the contract liabilities at the beginning of the year:

	2023 RMB'000	2022 RMB'000
Revenue recognised during of the year	**132,484**	107,955

When the Group receives an amount from certain new customers before products are delivered to and received by the customer, this will give rise to a contract liability at the beginning of a contract, until the revenue recognised on the relevant contract exceeds the amount received.

28. LEASE LIABILITIES

	2023 RMB'000	2022 RMB'000
Lease liabilities payable:		
Within one year	**2,509**	3,744
Within a period of more than one year but not more than two years	**1,668**	1,757
Within a period of more than two years but not exceeding five years	**2,654**	2,139
	6,831	7,640
Less: Amount due for settlement with 12 months shown under current liabilities	**(2,509)**	(3,744)
Amount due for settlement after 12 months shown under non-current liabilities	**4,322**	3,896

The weighted average incremental borrowing rates applied to lease liabilities at 5.4% (2022: 6.33%).

29. BORROWINGS

	2023 RMB'000	2022 RMB'000
Bank loans	**1,473,000**	2,203,769
Discounted bills with recourse *(Note 24)*	**23,853**	251,378
	1,496,853	2,455,147
Analysed as:		
Secured	**23,853**	251,378
Unsecured	**1,473,000**	2,203,769
	1,496,853	2,455,147
The carrying amount of the bank loans are repayable:		
– Within one year	**94,000**	97,129
– Within a period of more than one year, but not exceeding two years	**479,000**	132,590
– Within a period of more than two years but not more than five years	**820,000**	963,199
	1,393,000	1,192,918
The carrying amount of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable*:		
– Within one year	**80,000**	124,113
– Within a period of more than one year, but not exceeding two years	**–**	434,398
– Within a period of more than two years but not more than five years	**–**	452,340
	1,473,000	2,203,769
The carrying amount of the non-bank loans are repayable:		
– Within one year	**23,853**	251,378
	1,496,853	2,455,147
Less: Amount due within one year shown under current liabilities	**(197,853)**	(1,359,358)
Amount shown under non-current liabilities	**1,299,000**	1,095,789

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

29. BORROWINGS *(Continued)*

Interest rate

	2023 **RMB'000**	2022 RMB'000
Fixed rate	**23,853**	251,378
HIBOR (2022: HIBOR plus 1.35% to 1.50%)	**–**	2,123,769
CNY HIBOR plus 0.70% (2022: CNY HIBOR plus 1.45%)	**80,000**	80,000
PRC Loan Prime Rate less 0.15% to 0.95% (2022: Nil)	**1,393,000**	–
	1,496,853	2,455,147

The range of effective interest rates of the floating rate borrowings at 31 December 2023 is 2.50% to 3.65% (2022: 3.63% to 5.85%) per annum. The range of effective interest rates of the fixed rate borrowings at 31 December 2023 is 0.68% to 1.86% (2022: 1.22% to 2.04%) per annum.

As at 31 December 2023, all borrowings are denominated in RMB. As at 31 December 2022, except for the borrowings of RMB2,123,769,000 denominated in HK$, all other remaining borrowings are denominated in RMB.

30. DEFERRED TAXATION

The followings are the deferred tax assets (liabilities) recognised and movements thereon for the current and prior years:

	Accelerated accounting depreciation RMB'000	Unrealised profit on inventories RMB'000	Withholding tax on undistributed profits of the PRC subsidiaries RMB'000	Total RMB'000
At 1 January 2022	64,500	18,282	(172,309)	(89,527)
Charge to profit or loss for the year	(1,421)	(1,331)	(21,760)	(24,512)
At 31 December 2022	**63,079**	**16,951**	**(194,069)**	**(114,039)**
(Charge) credit to profit or loss for the year	**(2,881)**	**3,651**	**(94,011)**	**(93,241)**
At 31 December 2023	**60,198**	**20,602**	**(288,080)**	**(207,280)**

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2023 RMB'000	2022 RMB'000
Deferred tax assets	**80,800**	80,030
Deferred tax liabilities	**(288,080)**	(194,069)
	(207,280)	(114,039)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30. DEFERRED TAXATION *(Continued)*

The Group's unrecognised deductible temporary differences are as follows:

	2023 RMB'000	2022 RMB'000
Tax loss carry forwards	**545,818**	544,361

During the years ended 31 December 2023 and 2022, no tax loss was expired. Included in unrecognised tax losses are losses of RMB6,060,000 (2022: RMB7,898,000) that will expire within five years, all other losses may be carried forward indefinitely. No deferred tax asset in respect of tax losses has been recognised because the amount of future taxable profit that will be available to realise such assets is uncertain.

The unused tax losses will be expired as follows:

	2023 RMB'000	2022 RMB'000
2023	**–**	6,924
2024	**–**	974
2025	**6,060**	–
	6,060	7,898

31. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each:		
Authorised:		
At 1 January 2022, 31 December 2022 and 2023	3,800,000,000	38,000
Issued and fully paid:		
At 1 January 2022	1,834,206,508	18,342
Treasury stock cancelled *(Note ii)*	(4,716,000)	(47)
Share repurchased and cancelled *(Note i)*	(12,464,000)	(125)
At 31 December 2022 and 2023	1,817,026,508	18,170

	RMB'000
Shown in the consolidated financial statements as:	
At 31 December 2022 and 2023	16,965

31. SHARE CAPITAL *(Continued)*

Notes:

(i) During the year ended 31 December 2022, the Company repurchased its own ordinary shares through the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares of HK$0.01 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
January	3,324,000	4.60	4.38	14,744
March	3,068,000	4.10	3.95	12,274
April	5,524,000	4.10	4.00	22,618
September	4,000	3.20	3.20	13
October	544,000	3.20	3.17	1,736

	RMB'000
Shown in the consolidated financial statements as:	
At 31 December 2022	42,044

(ii) 4,716,000 ordinary shares were repurchased during the year ended 31 December 2021 and have been cancelled during the year ended 31 December 2022.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during both years.

32. EMPLOYEE RETIREMENT BENEFITS

The Group participates in Mandatory Provident Fund Scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Schemes are registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Schemes are held separately from those of the Group in funds under the control of independent trustees. Under the scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. The obligation of the Group with respect of MPF Schemes is to make the required contributions under the MPF Schemes. No forfeited contribution is available to reduce the contributions payable in future years. The Group's contributions to the MPF Scheme of RMB993,000 (2022: RMB930,000) are charged to profit or loss during the current year.

Employees of the subsidiaries in the PRC are members of pension schemes operated by the Chinese local government. The subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of these employees to the pension schemes to fund the benefits. The only obligation for the Group with respect to the pension schemes is the required contributions under the pension schemes. The Group's contributions to the pension schemes of RMB150,225,000 (2022: RMB135,851,000) are charged to profit or loss during the current year.

For the Group's subsidiaries operating in Hong Kong, pursuant to the Employment Ordinance, Chapter 57, the Group has the obligation to pay LSP to qualifying employees in Hong Kong under certain circumstances (e.g. dismissal by employers or upon retirement), subject to a minimum of 5 years employment period, based on the following formula:

Last monthly wages (before termination of employment) × 2/3 × Years of service

Last monthly wages are capped at HK$22,500 while the amount of long service payment shall not exceed HK$390,000. This obligation is accounted for as a post -employment defined benefit plan.

Furthermore, the Mandatory Provident Fund Schemes Ordinance passed in 1995 permits the Group to utilise the Group's mandatory MPF contributions, plus/minus any positive/negative returns thereof (collectively, the "Eligible Offset Amount"), for the purpose of offsetting LSP payable to an employee (the "Offsetting Arrangement'). The LSP obligation, if any, is presented on a net basis.

The Amendment Ordinance was gazetted on 17 June 2022, which abolishes the use of the accrued benefits derived from employers' mandatory MPF contributions to offset the LSP. The Abolition will officially take effect on the Transition Date (i.e., 1 May 2025). Separately, the Government of the HKSAR is also expected to introduce a subsidy scheme to assist employers for a period of 25 years after the Transition Date on the LSP payable by employers up to a certain amount per employee per year.

Under the Amendment Ordinance, the Group's mandatory MPF contributions, plus/minus any positive/negative returns, after the Transition Date can continue to be applied to offset the pre-Transition Date LSP obligation but are not eligible to offset the post-Transition Date LSP obligation. Furthermore, the LSP obligation before the Transition Date will be grandfathered and calculated based on the Last monthly wages immediately preceding the Transition Date and the years of service up to that date.

33. SHARE-BASED PAYMENT TRANSACTIONS

Share award scheme

The Company's share award scheme (the "Share Award Scheme") was adopted by the shareholders of the Company at the extraordinary general meeting held on 26 October 2023 ("Date of Adoption") for the primary purpose of rewarding the directors and employees ("Selected Participants") of the Group for their hard work, contribution and loyalty and align their interest with those of shareholders of the Company.

An award granted by the board of directors ("the Board") of the Company to the Selected Participants is a right of the relevant participant to receive the shares of the Company. Each award may be subject to such other conditions as may be imposed by the Board at its absolute discretion. The total number of shares in respect of which shares may be granted under the Share Award Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares award which may be granted to any individual but unvested under the Share Award Scheme shall not exceed 1% of the total number of shares of the Company in issue at any point in time.

Subject to any early termination as may be determined by the Board pursuant to the rules of the Share Award Scheme, the Share Award Scheme shall be valid and effective for a term of 10 years commencing on the Date of Adoption, after which period no further awards will be granted but the provisions of the Share Award Scheme shall remain in full force and effect to the extent necessary to give effect to the vesting of any awards granted prior to the expiration of the Share Award Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Award Scheme.

During the current year, the Group granted award shares to the Group's directors and employees under the Share Award Scheme. The award shares granted would vest on specific dates, or in equal tranches from the grant date over 12 to 36 months, on condition that the directors and employees remains in service without any performance requirements. Once the vesting conditions underlying the respective award shares are met, the award shares are considered duly and validly issued to the holder, and free of restrictions on transfer.

33. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Share award scheme *(Continued)*

Details of movement in the numbers of award shares and the respective weighted average grant date fair value are follow:

Grantees	Date of grant	Vesting period	Granted during the year	As at 31 December 2023	Weighted average fair value per award shares HK$
Directors	13 November 2023	13 November 2024 to 13 November 2026	1,805,700	1,805,700	7.45
Employees	13 November 2023	13 November 2024 to 13 November 2026	10,291,200	10,291,200	7.45
Total			12,096,900	12,096,900	7.45

The fair value of award share is determined based on the closing price of the Group's publicly traded ordinary shares on the date of grant.

The Group has to estimate the expected yearly percentage of grantees that will stay within the Group at the end of the vesting periods of the award share (the "Expected Retention Rate") in order to determine the amount of share-based compensation expenses charged to profit or loss.

As at 31 December 2023, the Expected Retention Rate for the Group's directors and employees was assessed to be 100%. The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income for share-based awards granted to the Group's directors and employees are RMB950,000 and RMB5,415,000 for the year ended 31 December 2023, respectively (2022: Nil).

As at 31 December 2023, 169,605,750 award shares are available for future grant under the aforementioned scheme mandate limit.

34. GOVERNMENT GRANTS

Government grants comprise:

(i) Incentive subsidies of RMB68,232,000 (2022: RMB57,131,000) have been received in the current year to encourage the operations of certain PRC subsidiaries for the development of environmental friendly manufacturing, pollution prevention, development on export sales and advanced technology. Full amounts are recognised as income in profit or loss as there were no specific conditions attached to the grants and, therefore, the Group recognised the grants to profit or loss upon receipt. The subsidies were granted on a discretionary basis to the Group during the current year.

(ii) During the year ended 31 December 2023, the Group had recognised government grants of RMB529,000 (2022: RMB1,288,000) in respect of Covid-19-related subsidies and entire amount relates to Employment Support Scheme provided by the Hong Kong government and recognised RMB1,455,000 (2022: RMB nil) from Hong Kong Productivity Council.

(iii) Certain subsidies relate to the development of pharmaceutical products or improvement of production efficiency amounting of RMB41,348,000 (2022: RMB52,446,000) at 31 December 2023 are included as deferred income. The amounts are recognised as income when the Group has fulfilled the relevant conditions attaching to the grants, including but not limited to obtaining the medical licenses of the pharmaceutical products or the starting of commercial sales of the pharmaceutical products. During the current year, the Group has recognised the government grant of approximately RMB11,098,000 (2022: RMB5,541,000) as income in profit or loss.

(iv) Government subsidies granted for the acquisition of property, plant and equipment by the Group brought forward from prior year had been treated as deferred income and was transferred to income over the useful lives of the relevant assets. At 31 December 2023, an amount of RMB32,237,000 (2022: RMB43,413,000) were included in non-current liabilities. During the year ended 31 December 2023, RMB11,176,000 (2022: RMB11,906,000) was released to the profit or loss.

The aggregate subsidy income recognised to the profit or loss during the year ended 31 December 2023 amounted to RMB92,490,000 (2022: RMB75,866,000) (Note 6).

35. CAPITAL COMMITMENTS

	2023 RMB'000	2022 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**989,055**	355,691

36. DERIVATIVE FINANCIAL INSTRUMENTS

	2023 RMB'000	2022 RMB'000
Foreign currency forward contracts – assets	**–**	1,841
Foreign currency forward contracts – current liabilities	**(25,587)**	(10,087)
Foreign currency forward contracts – non-current liabilities	**(19,191)**	–
	(44,778)	(8,246)

36. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Major terms of the foreign currency forward contracts are as follows:

31 December 2023

Total notional amount	**Final Maturity**	**Exchange rate**
Sell USD 140,000,000	**30 October 2025**	**USD1: RMB7.025**
Sell USD 66,000,000	**29 October 2025**	**USD1: RMB6.960**
Sell USD 44,000,000	**29 October 2025**	**USD1: RMB6.960**

The forward contracts represent the multiple currency forward transactions to be settled on multiple settlement dates on a monthly basis, until the final maturity date.

31 December 2022

Major terms of the foreign currency forward contracts are as follows:

Notional amount	Maturity	Exchange rate
Buy USD5,000,000	14 March 2023	USD1: RMB6.685
Buy USD5,000,000	16 March 2023	USD1: RMB6.711
Buy USD40,000,000	25 October 2023	USD1: RMB7.035

37. PLEDGE OF OR RESTRICTIONS ON ASSETS

Pledge of assets

Other than deposits and property, plant and machinery made to financing institutions disclosed in Notes 25 and 29 of the consolidated financial statements, 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:

	2023 **RMB'000**	2022 RMB'000
Property, plant and equipment, at net book value	**22,440**	416,896
Right-of-use assets, at net book value	**38,354**	167,837
Banker's acceptance bills receivables	**23,853**	251,378

Restrictions on assets

In addition, lease liabilities of RMB6,831,000 (2022: RMB7,640,000) are recognised with related right-of-use assets of RMB5,961,000 (2022: RMB6,570,000) at 31 December 2023. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Furthermore, bills receivables issued by third parties endorsed with recourse for settlement of trade and other payables are disclosed in Note 24.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to maintain a balance between continuity of funding of cash flows from operating activities and the flexibility through the use of the finance from banks. The Group also monitors the current and expected liquidity requirements and its compliance with lending covenants regularly to ensure that it maintains sufficient working capital and adequate committed lines of funding to meet its liquidity requirement.

The capital structure of the Group consists of net debt, which includes borrowings (Note 29) and lease liabilities (Note 28), net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the associated risk, and takes appropriate actions to adjust the Group's capital structure.

39. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2023 RMB'000	2022 RMB'000
Financial assets		
Financial asset at FVTPL	**500**	500
Derivative financial instruments	**–**	1,841
Financial assets at amortised cost	**11,188,261**	9,999,071
Financial liabilities		
Financial liabilities at amortised cost	**6,249,313**	6,450,249
Derivative financial instrument	**44,778**	10,087

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables, banker's acceptance bills receivables, commercial bills receivables, other receivables, pledged bank deposits, cash and cash equivalents, financial asset at FVTPL, trade and other payables, borrowings and derivative financial instruments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Foreign currency risk

The Group has foreign currency sales and purchases, derivative financial instruments and certain bank balances denominated in USD, Euro and HK$ other than the functional currency of respective group entities, which expose the Group to foreign currency risks. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and using foreign exchange forward contracts to reduce the currency exposures.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

Foreign currency risk (Continued)

The carrying amounts of the Group's net monetary assets and monetary liabilities denominated in foreign currency, i.e. currency other than the functional currency of the respective group entities, at the end of the reporting period are as follows:

	Assets		**Liabilities**	
	2023	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**1,781,459**	1,156,506	**62,442**	44,837
Euro	**46,444**	30,453	**396**	160
HK$	**102,819**	345,960	**1,439**	2,125,993

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 5% (2022: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and foreign currency forward contracts, and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive (negative) number below indicates an increase (decrease) in post-tax profit for both years where RMB strengthens 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit for both years.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency sensitivity analysis *(Continued)*

	2023	2022
	RMB'000	RMB'000
USD	**(68,003)**	(42,820)
Euro	**(1,876)**	(1,174)
HK$	**(4,201)**	74,349

Fair value and cash flow interest rate risks

The Group has significant borrowings which bear interest rate risk. Floating rate borrowings, bank deposits and bank balances expose the Group to cash flow interest rate risk. Borrowings and leases liabilities at fixed rates expose the Group to fair value interest rate risk. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on the Group's Hong Kong dollar denominated borrowings. During the current year, the Group has not hedged its cash flow and fair value interest rate risk. The Group manages its interest rate exposures by assessing the potential impact arising from any interest rate movements based on interest rate level and outlook. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Foreign currency sensitivity analysis *(Continued)*

Interest rate sensitivity analysis

No sensitivity analysis was prepared for pledged bank deposits and bank balances as the financial impact arising on changes in interest rates was minimal due to limited changes in interest rate. The sensitivity analysis below has been determined based on the exposure to interest rates for the floating rate borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates of CNY HIBOR and LPR (2022: HIBOR) had been increased/decreased by 50 basis points and all other input variables remained constant, the Group's post-tax profit for the year ended 31 December 2023 would decrease/increase by RMB4,753,000 (2022: RMB8,418,000).

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk and impairment assessment

At 31 December 2023, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group normally accepts bills issued or guaranteed by PRC banks if trade receivables are settled by bills and therefore the Group consider the credit risk arising from the endorsed or discounted bills is insignificant. In this regard, the Group consider that the Group's credit risk is significantly reduced.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Trade receivables arising from contracts with customers

Trade receivables consist of a large number of customers so the concentration of credit risk is insignificant. The Group uses provision matrix to calculate ECL for trade receivables. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. An impairment loss of RMB5,620,000 (2022: reversal of impairment loss of RMB15,470,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

Bank balances, bank and other deposits

The credit risk on bank balances, bank and other deposits are limited because the counterparties are banks mostly with high credit ratings of grade A or above assigned by international credit-rating agencies. The Group assessed 12m ECL for bank balances, bank and other deposits by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances, bank and other deposits is considered to be insignificant and therefore no loss allowance was recognised.

Banker's acceptance bills receivables and commercial bills receivables, consideration receivables and other receivables

The management of the Group makes periodic individual and collective assessment on the recoverability of banker's acceptance bills receivables and commercial bills receivables, consideration receivables and other receivables based on probability of default and loss given default of the respective credit rating grades published by external credit rating agencies, historical settlement records, past experience, and also available reasonable and supportive forward-looking information. A reversal of impairment loss of RMB655,000 and RMB6,375,000 (2022: Impairment loss of RMB848,000 and RMB6,375,000) is recognised for banker's acceptance bills receivables and commercial bills receivables during the current year. A reversal of impairment loss of RMB552,000 (2022: reversal of impairment loss of RMB3,471,000) are recognised for other receivables. Details of the quantitative disclosures are set out below in this note.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Other financial assets
Low risk	Low risk types customers represent the counterparty has a low risk default and no material past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Normal risk	Normal risk types customers represent debtors frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
High risk	High risk types customers represent there have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The tables below detail the credit risk exposures of the Group's financial assets at 31 December 2023 and 2022 which are subject to ECL assessment:

2023	*Notes*	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB'000
Pledged bank deposits	*25*	Aa2 to Baa3	N/A	12m ECL	972,249
Bank balances	*25*	Aa1 to Baa3	N/A	12m ECL	4,261,804
Other receivables and refundable deposits	*24*	N/A	Note 1	12m ECL	97,250
Consideration receivables	*24*	N/A	Note 4	Lifetime ECL (credit-impaired)	339,574
Banker's acceptance bills receivables	*24*	A1 to Caa2	N/A	12m ECL	3,496,731
Trade receivables	*24*	N/A	Note 2	Lifetime ECL (provision matrix)	2,378,638

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

2022	*Notes*	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount RMB'000
Pledged bank deposits	*25*	Aa2 to Baa2	N/A	12m ECL	694,704
Bank balances	*25*	Aa2 to Caa1	N/A	12m ECL	4,742,721
Other receivables and refundable deposits	*24*	N/A	Note 1	12m ECL	91,970
Consideration receivables	*24*	N/A	Note 4	Lifetime ECL (credit-impaired)	339,574
Banker's acceptance bills receivables	*24*	A1 to Caa2	N/A	12m ECL	2,360,224
Commercial bills receivables	*24*	N/A	Note 3	12m ECL	18,909
Trade receivables	*24*	N/A	Note 2	Lifetime ECL (provision matrix)	2,110,751

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes:

(1) For the purposes of internal credit risk management, the Group uses repayment history or other relevant information to assess whether credit risk has increased significantly since initial recognition. At 31 December 2023, the balances of other receivables and refundable deposits are not past due and based on the historical default rates of these balances are considered as low risk.

(2) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group uses provision matrix to calculate ECL for trade receivables. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. The following ECL rates are about the exposure to credit risk for trade receivables which are assessed based on provision matrix taking into account the weighted average rate of various categories' debtors at 31 December 2023 and 2022 within lifetime ECL (not credit-impaired).

	2023			2022		
	Average loss rate	**Gross carrying amount RMB'000**	**Allowance amount RMB'000**	Average loss rate	Gross carrying amount RMB'000	Allowance amount RMB'000
Current (not past due)	**0.34%**	**1,599,211**	**11,563**	0.17%	1,662,589	6,143
1-30 days past due	**0.02%**	**327,335**	**143**	0.02%	198,625	75
31-60 days past due	**0.10%**	**229,856**	**504**	0.19%	136,756	340
61-90 days past due	**0.03%**	**191,076**	**101**	0.02%	65,792	25
More than 90 days past due	**0.23%**	**31,160**	**148**	0.08%	46,989	256
		2,378,638	**12,459**		2,110,751	6,839

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Notes: (Continued)

(3) The estimated loss rates are estimated based on a collective basis grouped by internal credit rating or other relevant information, including but not limited to the latest public available financial information of debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated. At 31 December 2022, the Group has therefore concluded that these balances are considered as normal risk.

(4) As at 31 December 2023, principal amount of RMB343,000,000 (2022: RMB343,000,000) has been due but not yet received by the Group. Based on the legal opinion from the PRC lawyer, who is independent and not connected to the Group, the Group can initiate a litigation against Evergrande Chengdu to recover the consideration receivables, after considering various factors, including but not limited to the recoverable amount of the underlying assets, potential transaction cost of recovering the consideration receivables as well as the financial position and the credit risk of Evergrande Chengdu, the management considers that there is evidence that the consideration receivables is credit-impaired. As at 31 December 2023, after taking into consideration of probability of recovery of the consideration receivables (see Note 10 for details), the management of the Group is of the opinion that no reversal of impairment loss is recognised during the year ended 31 December 2023.

During the current year, an impairment loss of RMB12,346,000 (2022: RMB5,660,000) has been recognised and amount of RMB6,726,000 (2022: RMB21,130,000) has been reversed for trade receivables, based on the provision matrix.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table shows the movement in lifetime ECL that has been recognised for all trade receivables under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000
At 1 January 2022	22,309
Changes due to trade receivables recognised at 1 January 2022:	
– Impairment losses reversed	(21,130)
Newly originated trade receivables	5,660
At 31 December 2022	**6,839**
Changes due to trade receivables recognised at 1 January 2023:	
– Impairment losses reversed	**(6,726)**
Newly originated trade receivables	**12,346**
At 31 December 2023	**12,459**

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Changes in the loss allowance for trade receivables are mainly due to:

	2023 Increase (decrease) in lifetime ECL Not credit-impaired RMB'000	2022 Increase (decrease) in lifetime ECL Not credit-impaired RMB'000
Newly originated trade receivable balance in 2023 with gross amount of RMB2,359,889,000 (2022: RMB2,096,565,000)	**12,346**	5,660
Settlement in full of trade debtors with a gross carrying amount of RMB2,077,816,000 (2022: RMB1,610,012,000)	**(6,726)**	(21,130)

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over three years past due, whichever occurs earlier.

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

The following table shows the movement in ECL that has been recognised for consideration receivables, banker's acceptance bills receivables and commercial bills receivables and other receivables.

	12m ECL RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
At 1 January 2022	9,967	339,574	349,541
Changes due to bills and other receivables recognised at 1 January 2022:			
– Impairment losses reversed	(9,967)	–	(9,967)
Newly originated bills and other receivables	13,719	–	13,719
At 31 December 2022	**13,719**	**339,574**	**353,293**
Changes due to bills and other receivables recognised at 1 January 2023:			
– Impairment losses reversed	**(13,719)**	**–**	**(13,719)**
Newly originated bills and other receivables	**6,137**	**–**	**6,137**
At 31 December 2023	**6,137**	**339,574**	**345,711**

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Credit risk and impairment assessment *(Continued)*

Changes in the loss allowance for bills and other receivables are mainly due to:

	2023 Increase (decrease) in 12m ECL RMB'000	2022 Increase (decrease) in 12m ECL RMB'000
Newly originated other receivables balance with gross amount of RMB97,250,000 (2022: RMB91,970,000)	**5,944**	6,496
Settlement in full of other receivables with a gross carrying amount of RMB91,970,000 (2022: RMB1,610,012,000)	**(6,496)**	(9,967)
Newly originated banker's acceptance bills receivables balance with gross amount of RMB3,496,731,000 (2022: RMB2,360,224,000)	**193**	848
Settlement in full of banker's acceptance bills receivables balance with gross amount of RMB2,360,224,000 (2022: RMB1,821,768,000)	**(848)**	–
Newly originated commercial bills receivables balance with gross amount of RMB nil (2022: RMB18,909,000)	**–**	6,375
Settlement in full of commercial bills receivables balance with gross amount of RMB18,909,000 (2022: RMB nil)	**(6,375)**	–

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting its financial obligations as and when they fall due. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures its compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. At the date of these consolidated financial statements, the Group has available unutilised banking facilities of RMB4,930,853,000 (2022: RMB6,791,536,000). The directors of the Company are of the view that the banking facilities could be renewed based on historical experience that the Group has not encountered any difficulties to obtain banking facilities.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the relevant market rates at the reporting date) of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1 – 3 months RMB'000	3 months to 1 year RMB'000	1 – 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2023							
Trade and other payables	–	719,487	2,699,056	1,333,917	–	4,752,460	4,752,460
Borrowings							
– floating-rate	2.86	177,220	6,440	29,518	1,438,106	1,651,284	1,473,000
– fixed-rate	1.40	3,474	15,079	5,463	–	24,016	23,853
Lease liabilities	5.40	1,075	1,420	2,248	6,312	11,055	6,831
		901,256	2,721,995	1,371,146	1,444,418	6,438,815	6,256,144
Derivative – net settlement							
Foreign currency forward contracts	2.71	2,139	4,278	19,250	21,389	47,056	44,778

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average interest rate %	On demand or less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At 31 December 2022							
Trade and other payables	–	820,516	1,864,450	1,310,136	–	3,995,102	3,995,102
Borrowings							
– floating-rate	4.74	1,015,848	9,993	131,725	1,189,025	2,346,591	2,203,769
- fixed-rate	1.59	35,888	69,618	147,336	–	252,842	251,378
Lease liabilities	6.33	234	780	3,071	4,210	8,295	7,640
		1,872,486	1,944,841	1,592,268	1,193,235	6,602,830	6,457,889
Derivative – net settlement							
Foreign currency forward contract	4.59	–	–	10,480	–	10,480	10,087

The table below summarises the maturity analysis of term loans of RMB80,000,000 (2022: RMB1,010,851,000) with a repayment on demand clause based on the agreed scheduled repayments set out in the loan agreements at 31 December 2023 and 2022. The amounts include interest payments computed using the specified fixed rates or variable rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise its discretion to demand immediate repayment. The directors of the Company believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity Analysis – Bank loans with a repayment on demand clause based on scheduled repayments					
	Less than 1 month RMB'000	**1–3 months** RMB'000	**3 months to 1 year** RMB'000	**1–5 years** RMB'000	**Total undiscounted cash outflows** RMB'000	**Carrying amount** RMB'000
31 December 2023	240	480	80,720	–	81,440	80,000
31 December 2022	3,586	7,172	156,303	934,297	1,101,358	1,010,851

39. FINANCIAL INSTRUMENTS *(Continued)*

Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Interest rate benchmark reform

As listed in Note 29, several of the Group's HIBOR bank borrowings have been subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators.

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist. The Group's bank loans linked to HIBOR will continue till maturity and hence, not subject to transition.

40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. at prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value at 31 December		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
	2023 RMB'000	2022 RMB'000				
Financial assets						
Financial asset at FVTPL – unquoted equity investment	**500**	500	Level 3	Method of comparables is used to evaluate the market value of the unquoted equity investments by using price to book ratio of listed entities in similar industries.	– discount for lack of marketability of 32% (2022: 32%), determined by reference to recent market research.	– A significant increase in the discount for lack of marketability would result in a significant decrease in the fair value.
Foreign currency forward contracts classified as financial instruments accounted for as FVTPL in the consolidated statement of financial position	**Liabilities (44,778)**	Liabilities (10,087) Assets 1,841	Level 2	Discounted cash flow Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

There is no transfer between the different levels of the fair value hierarchy for both years.

40. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

(Continued)

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For the unlisted equity investment, the third party qualified valuers were engaged by the Group to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The external valuers' findings are reported to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

41. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO OFFSETTING, ENFORCEABLE MASTER NETTING ARRANGEMENTS AND SIMILAR AGREEMENTS

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements ("ISDA Agreements") signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts.

No further disclosure on the netting arrangement is presented as the financial impact is insignificant.

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Treasury stock RMB'000	Borrowings RMB'000 *(Note 29)*	Non-controlling interests RMB'000	Lease liabilities RMB'000 *(Note 28)*	Derivative financial instruments RMB'000 *(Note 36)*	Dividend payable RMB'000 *(Note 15)*	Total RMB'000
At 1 January 2022	(17,815)	1,831,118	(584)	10,996	5,812	–	1,829,527
Financing cash flows	(42,291)	253,133	2,000	(4,536)	40,164	(272,636)	(24,166)
Fair value change (Note 7a)	–	–	–	–	(37,730)	–	(37,730)
Derecognition of bills receivables	–	(18,353)	–	–	–	–	(18,353)
Recognition of bills receivables discounted	–	251,378	–	–	–	–	251,378
Netting with other pledged deposits	–	(24,000)	–	–	–	–	(24,000)
Finance costs	–	87,971	–	570	–	–	88,541
Dividend declared	–	–	–	–	–	272,636	272,636
Exchange loss	–	73,900	–	–	–	–	73,900
Loss for the year attribute to non-controlling interest	–	–	(71)	–	–	–	(71)
New leases entered	–	–	–	610	–	–	610
Cancellation of treasury stock	60,106	–	–	–	–	–	60,106
At 31 December 2022	**–**	**2,455,147**	**1,345**	**7,640**	**8,246**	**–**	**2,472,378**
Financing cash flows	**–**	**(812,743)**	**12,000**	**(4,620)**	**24,133**	**(581,448)**	**(1,362,678)**
Fair value change (Note 7a)	**–**	**–**	**–**	**–**	**12,399**	**–**	**12,399**
Derecognition of bills receivables	**–**	**(251,378)**	**–**	**–**	**–**	**–**	**(251,378)**
Recognition of bills receivables discounted	**–**	**23,853**	**–**	**–**	**–**	**–**	**23,853**
Finance costs	**–**	**81,974**	**–**	**443**	**–**	**–**	**82,417**
Dividend declared	**–**	**–**	**–**	**–**	**–**	**581,448**	**581,448**
Loss for the year attribute to non-controlling interests	**–**	**–**	**(505)**	**–**	**–**	**–**	**(505)**
New leases entered	**–**	**–**	**–**	**3,368**	**–**	**–**	**3,368**
At 31 December 2023	**–**	**1,496,853**	**12,840**	**6,831**	**44,778**	**–**	**1,561,302**

43. MAJOR NON-CASH TRANSACTIONS

During the current year, short term borrowings drawn on discounted bills with recourse and bills receivables endorsed to suppliers with full recourse of RMB251,378,000 (2022: RMB18,353,000) and RMB609,196,000 (2022: RMB163,301,000), respectively, have been derecognised when the related receivables were matured. Discounted bills with recourse amount of RMB23,853,000 (2022: RMB251,378,000) and bills receivables endorsed to suppliers with full recourse amount of RMB661,921,000 (2022: RMB609,196,000) have been recognised for which the maturity dates of the related receivables have not yet fallen due at the end of the reporting period.

During the current year, the Group has non-cash additions to right-of-use assets by entered into new lease agreements for the use of leased office and staff quarters ranged from two year to three years (2022: one year to ten years). On the lease commencement, the Group recognised RMB3,368,000 (2022: RMB610,000) right-of-use assets and RMB3,368,000 (2022: RMB610,000) lease liabilities.

44. RELATED PARTY TRANSACTIONS

Compensation to key management personnel representing directors' remuneration has been disclosed in Note 13.

During the year, the Group entered into the following transaction with a related party:

Name of related party	**Nature of transaction**	**Relationship**	**2023** **RMB'000**	2022 RMB'000
寧波普邦生物科技有限公司	Sales of goods	Associate	**1,770**	–
	Trade advance	Associate	**7,500**	–

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 December 2023 and 2022 are as follows:

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2023	2022	Principal activities and place of operation
The United Laboratories (Hong Kong) Holding Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
The United Laboratories (Hong Kong) Group Limited	British Virgin Islands	USD50,000	**100%**	100%	Investment holding in Hong Kong
Bowden Trading Limited	Samoa	USD1,000	**100%**	100%	Trademark holding in Hong Kong
The United Laboratories Limited	Hong Kong	HK$15,000,000	**100%**	100%	Investment holding and manufacturing and sale of pharmaceutical products in the PRC
Team Crown Trading Limited	Hong Kong	HK$10,000	**100%**	100%	Trading of pharmaceutical products to overseas
Bear World Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding in the PRC
珠海聯邦康知樂實業有限公司 *(Note c)*	The PRC	RMB250,000,000	**100%**	100%	Investment holding in the PRC
Zhuhai United Laboratories Co., Ltd. *(Note d)*	The PRC	RMB1,678,396,000	**100%**	100%	Manufacturing and sale of pharmaceutical products in the PRC
珠海樂邦制藥有限公司 *(Note b)*	The PRC	RMB12,825,000	**100%**	100%	Investment holdings in the PRC
珠海市萬邦藥業有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC
珠海聯邦制藥銷售有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Trading of pharmaceutical products in the PRC and overseas

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(Continued)

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company (Note a) 2023	2022	Principal activities and place of operation
Guangdong Kaiping Kingly Capsules Limited *(Note b)*	The PRC	RMB31,250,000	**100%**	100%	Manufacturing and sale of soft capsules casings in the PRC
中山金億食品有限公司 *(Note b)*	The PRC	RMB8,015,000	**100%**	100%	Investment holding in the PRC
珠海市金德福企業策劃有限公司 *(Note c)*	The PRC	RMB15,000,000	**100%**	100%	Investment holding in the PRC
United Laboratories (Inner Mongolia) Limited *(Note b)*	The PRC	RMB2,984,000,000	**100%**	100%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
The United Animal Healthcare (Inner Mongolia) Co., Ltd. *(Note c)*	The PRC	RMB220,000,000	**100%**	100%	Manufacturing and sale of veterinary drugs in the PRC
富邦生物（內蒙古）有限公司 *(Note c)*	The PRC	RMB20,000,000	**75%**	75%	Manufacturing and sale of pharmaceutical intermediate products in the PRC
聯邦制藥（中國）有限公司 *(Note b)*	The PRC	RMB160,080,000	**100%**	100%	Investment holding in the PRC
珠海聯邦金龍營銷策劃有限公司 *(Note c)*	The PRC	RMB50,000,000	**100%**	100%	Providing management services in the PRC
成都樂邦生物醫藥科技有限公司 *(Note c)*	The PRC	RMB1,000,000	**100%**	100%	Investment holding in the PRC
成都智匯城有限公司 *(Note c)*	The PRC	RMB10,000,000	**100%**	100%	Investment holding in the PRC
The United Bio-Technology (Hengqin) Co., Ltd. *(Note b)*	The PRC	RMB100,000,000	**100%**	100%	Research and development of pharmaceutical products in the PRC

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

(Continued)

Name of subsidiaries	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company *(Note a)* 2023	2022	Principal activities and place of operation
珠海聯邦生物醫藥有限公司 *(Note c)*	The PRC	RMB100,000,000	**100%**	100%	Research and development of pharmaceutical products in the PRC
Henan Lianmu Veterinary Medicine Co., Ltd. *(Note c)*	The PRC	RMB35,000,000	**60%**	60%	Manufacturing and sale of veterinary drugs in the PRC
Kendor Technology (Zhejiang) Co., Ltd. *(Note b)*	The PRC	RMB15,500,000	**100%**	100%	Manufacturing and sale of medical device in the PRC
珠海聯邦動保有限公司 *(Note e)*	The PRC	RMB18,000,000	**100%**	N/A	Manufacturing and sale of veterinary drugs in the PRC

Notes:

(a) Other than The United Laboratories (Hong Kong) Holding Limited, all subsidiaries are indirectly held by the Company.

(b) A wholly foreign-owned enterprise established in the PRC.

(c) A company established in the PRC with limited liability.

(d) A joint stock limited liability company established in the PRC.

(e) A wholly foreign-owned company established in the PRC with limited liability during the year ended 31 December 2023.

46. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(a) Statement of financial position of the Company

	2023 RMB'000	2022 RMB'000
Non-current assets		
Interests in subsidiaries	**2,552,000**	4,260,026
Right-of-use assets	**3,015**	3,856
Property, plant and equipment	**184**	82
	2,555,199	4,263,964
Current assets		
Other receivables and prepayments	**7,723**	2,831
Amounts due from subsidiaries	**1,550,920**	2,706,364
Derivative financial instruments	**–**	1,841
Cash and cash equivalents	**1,027,597**	690,361
	2,586,240	3,401,397
Current liabilities		
Other payables and accrued charges	**8,187**	10,616
Amount due to a subsidiary	**196,199**	228,038
Borrowings – due within one year	**80,000**	1,107,980
Derivative financial instrument	**25,587**	10,087
Lease liabilities	**828**	806
Tax payables	**2,243**	564
	313,044	1,358,091
Net current assets	**2,273,196**	2,043,306
Total assets less current liabilities	**4,828,395**	6,307,270
Non-current liabilities		
Borrowings – due after one year	**–**	1,095,789
Derivative financial instrument	**19,191**	–
Lease liabilities	**2,244**	3,071
	21,435	1,098,860
Net assets	**4,806,960**	5,208,410
Capital and reserves		
Share capital	**16,965**	16,965
Reserves	**4,789,995**	5,191,445
Total equity	**4,806,960**	5,208,410

46. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

(b) Reserves

	Share premium RMB'000	Treasury stock RMB'000	Share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2022	3,782,428	(17,815)	–	315,549	4,080,162
Profit and total comprehensive income for the year	–	–	–	1,426,050	1,426,050
Dividends recognised as distribution *(Note 15)*	–	–	–	(272,636)	(272,636)
Repurchase and cancellation of shares	(59,946)	18,062	–	–	(41,884)
Transaction costs attributable to repurchase and cancellation of shares	–	(247)	–	–	(247)
At 31 December 2022	**3,722,482**	**–**	**–**	**1,468,963**	**5,191,445**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**173,633**	**173,633**
Dividends recognised as distribution *(Note 15)*	**–**	**–**	**–**	**(581,448)**	**(581,448)**
Recognition of share-based compensation expense	**–**	**–**	**6,365**	**–**	**6,365**
At 31 December 2023	**3,722,482**	**–**	**6,365**	**1,061,148**	**4,789,995**

FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	8,392,600	8,772,488	9,703,438	11,334,262	**13,739,879**
Profit before taxation	841,652	882,334	1,202,647	2,006,766	**3,344,148**
Tax expense	(199,888)	(181,416)	(213,062)	(425,743)	**(643,303)**
Profit for the year attributable to owners of the Company	641,764	702,989	988,098	1,581,094	**2,701,350**

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2020	2021	2022	2023
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	15,699,692	14,963,714	16,331,119	18,979,625	**21,017,180**
Total liabilities	(9,027,903)	(6,351,879)	(6,991,211)	(8,370,194)	**(8,269,562)**
Equity attributable to owners of the Company	6,671,789	8,613,906	9,340,492	10,608,086	**12,734,778**
Non-controlling interests	–	(2,071)	(584)	1,345	**12,840**