

APPENDIX I

ACCOUNTANTS’ REPORT

The following is the text of a report set out on pages I-1 to I-[●], received from the Company’s reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KEXING BIOPHARM CO., LTD. AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

Introduction

We report on the historical financial information of Kexing Biopharm Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-[●], which comprises the consolidated statements of financial position of the Group as at 31 December 2023, 2024 and 2025, the statements of financial position of the Company as at 31 December 2023, 2024 and 2025, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2023, 2024 and 2025 (the “Track Record Period”) and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-4 to I-[●] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [REDACTED] (the “Document”) in connection with the initial [REDACTED] of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, “Accountants’ Reports on Historical Financial Information in Investment Circulars” as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

APPENDIX I

ACCOUNTANTS’ REPORT

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants’ judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity’s preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants’ report, a true and fair view of the consolidated financial position of the Group as at 31 December 2023, 2024 and 2025, the financial position of the Company as at 31 December 2023, 2024 and 2025, and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-[4] have been made.

APPENDIX I

ACCOUNTANTS’ REPORT

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

Grant Thornton Hong Kong Limited

Certified Public Accountants

11th Floor, Lee Garden Two

28 Yun Ping Road

Causeway Bay

Hong Kong

[REDACTED]

[●]

Practising Certificate Number: [●]

APPENDIX I

ACCOUNTANTS’ REPORT

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants’ report.

The consolidated financial statements of the Group for the Track Record Period on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited in accordance with International Standards on Auditing as issued by the International Auditing and Assurance Standards Board (“IAASB”) (the “Underlying Financial Statements”).

The Historical Financial Information is presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand (RMB’000) except when otherwise indicated.

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of profit or loss and other comprehensive income

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
Revenue	5	1,259,036	1,406,925	1,534,028
Cost of revenue		(367,752)	(440,527)	(561,974)
Gross profit		891,284	966,398	972,054
Other income, gains and losses, net	6	18,677	7,017	121,266
Selling expenses		(689,290)	(596,765)	(574,296)
Research and development expenses		(344,797)	(168,050)	(199,554)
Administrative and other operating expenses		(101,849)	(104,890)	(110,052)
Reversal of provision/(Provision) for impairment of assets, net	8	366	(5,278)	(3,065)
Operating (loss)/profit		(225,609)	98,432	206,353
Finance income	7	6,643	3,627	2,968
Finance costs	7	(41,126)	(45,066)	(43,585)
Finance costs, net	7	(34,483)	(41,439)	(40,617)
Share of result of an associate	19	23	(91)	(36)
(Loss)/Profit before income tax	8	(260,069)	56,902	165,700
Income tax credit/(expense)	10	64,583	(29,854)	(12,955)
(Loss)/Profit for the year		(195,486)	27,048	152,745
Other comprehensive (loss)/income				
<i>Item that will not be reclassified subsequently to profit or loss:</i>				
– Fair value change on equity investment at fair value through other comprehensive income (“FVTOCI”), net of tax		–	731	(26)
<i>Item that will be reclassified subsequently to profit or loss:</i>				
– Exchange differences on translation of foreign operations		(6)	389	(155)
Other comprehensive (loss)/income for the year, net of tax		(6)	1,120	(181)
Total comprehensive (loss)/income for the year .		(195,492)	28,168	152,564

APPENDIX I

ACCOUNTANTS’ REPORT

		Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
(Loss)/Profit for the year attributable to:				
Owners of the Company	11	(190,290)	31,480	155,568
Non-controlling interests		(5,196)	(4,432)	(2,823)
		<u>(195,486)</u>	<u>27,048</u>	<u>152,745</u>
Total comprehensive (loss)/income for the year attributable to:				
Owners of the Company		(190,296)	32,600	155,387
Non-controlling interests		(5,196)	(4,432)	(2,823)
		<u>(195,492)</u>	<u>28,168</u>	<u>152,564</u>
(Loss)/Earnings per share attributable to owners of the Company				
Basic (in RMB per share)	13(a)	(0.96)	0.16	0.79
Diluted (in RMB per share)	13(b)	(0.96)	0.16	0.79

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of financial position

		As at 31 December		
	Notes	2023	2024	2025
		RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	14	1,180,178	1,152,756	1,094,139
Right-of-use assets	15	42,294	44,826	24,118
Investment properties	16	21,933	20,607	19,316
Intangible assets	17	138,941	236,772	293,513
Investment in an associate	19	4,023	3,932	3,896
Financial assets at fair value through profit or loss (“FVTPL”)	20	226,297	183,614	291,854
Financial assets at FVTOCI	21	15,000	15,860	15,830
Prepayments	23	134,828	98,839	62,819
Deferred tax assets	30	133,976	117,218	120,714
		1,897,470	1,874,424	1,926,199
Current assets				
Inventories	22	191,365	141,809	139,215
Trade and other receivables	23	317,142	528,186	729,165
Financial assets at FVTOCI	21	56,322	63,252	88,548
Pledged deposits	24	8,866	1,610	2,106
Cash and cash equivalents	24	559,931	552,952	648,322
		1,133,626	1,287,809	1,607,356
Current liabilities				
Trade and other payables	25	247,926	281,792	340,301
Contract liabilities	26	19,636	9,181	12,925
Bank borrowings	28	395,730	582,375	663,170
Lease liabilities	29	6,705	12,447	4,065
Income tax payable		—	602	796
		669,997	886,397	1,021,257
Net current assets		463,629	401,412	586,099
Total assets less current liabilities		2,361,099	2,275,836	2,512,298
Non-current liabilities				
Deferred income	27	5,322	3,151	11,278
Bank borrowings	28	695,840	611,179	727,705
Lease liabilities	29	17,786	14,784	1,816
Deferred tax liabilities	30	11,356	7,476	18,993
		730,304	636,590	759,792
Net assets		1,630,795	1,639,246	1,752,506
EQUITY				
Share capital	31(a)	199,199	199,642	201,257
Reserves	33	1,426,822	1,435,266	1,549,734
Equity attributable to owners of the Company		1,626,021	1,634,908	1,750,991
Non-controlling interests		4,774	4,338	1,515
Total equity		1,630,795	1,639,246	1,752,506

APPENDIX I

ACCOUNTANTS’ REPORT

Statements of financial position of the Company

		As at 31 December		
	Notes	2023	2024	2025
		RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	14	1,142,579	1,107,236	1,054,860
Right-of-use assets	15	21,057	25,581	19,609
Investment properties	16	21,933	27,124	25,460
Intangible assets	17	129,612	205,795	249,221
Investments in subsidiaries	18	361,005	368,737	385,845
Investment in an associate	19	4,023	3,932	3,896
Financial assets at FVTPL	20	226,297	183,614	291,854
Prepayments	23	114,323	92,247	51,881
Deferred tax assets	30	53,261	29,862	15,810
		2,074,090	2,044,128	2,098,436
Current assets				
Inventories	22	163,350	121,260	118,244
Trade and other receivables	23	272,343	453,015	714,022
Financial assets at FVTOCI	21	37,910	47,595	41,726
Pledged deposits	24	8,866	1,361	1,813
Cash and cash equivalents	24	397,892	370,423	413,602
		880,361	993,654	1,289,407
Current liabilities				
Trade and other payables	25	289,447	248,794	281,961
Contract liabilities	26	18,464	8,504	9,869
Bank borrowings	28	373,330	465,039	601,054
Lease liabilities	29	1,587	5,487	937
Income tax payable		–	602	205
		682,828	728,426	894,026
Net current assets		197,533	265,228	395,381
Total assets less current liabilities		2,271,623	2,309,356	2,493,817
Non-current liabilities				
Deferred income	27	1,379	1,178	4,113
Bank borrowings	28	557,540	566,979	566,081
Lease liabilities	29	–	937	–
Deferred tax liabilities	30	7,985	4,221	17,738
		566,904	573,315	587,932
Net assets		1,704,719	1,736,041	1,905,885
EQUITY				
Share capital	31(a)	199,199	199,642	201,257
Reserves	33	1,505,520	1,536,399	1,704,628
Total equity		1,704,719	1,736,041	1,905,885

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of changes in equity

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Treasury share	Capital reserve	Other reserve	Statutory reserve	Retained earnings	Sub-total		
	RMB'000 <i>(note 31(a))</i>	RMB'000 <i>(note 31(b))</i>	RMB'000 <i>(note 33)</i>	RMB'000 <i>(note 33)</i>	RMB'000 <i>(note 33)</i>	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023	198,701	–	1,274,074	–	19,852	315,742	1,808,369	(2,529)	1,805,840
Loss for the year	–	–	–	–	–	(190,290)	(190,290)	(5,196)	(195,486)
Other comprehensive loss	–	–	–	(6)	–	–	(6)	–	(6)
Total comprehensive loss	–	–	–	(6)	–	(190,290)	(190,296)	(5,196)	(195,492)
Exercise of restricted shares (as defined in <i>note 32</i>)	498	–	7,321	–	–	–	7,819	–	7,819
Equity settled share-based payments .	–	–	7,719	–	–	–	7,719	–	7,719
Contribution from non-controlling interests	–	–	–	–	–	–	–	4,909	4,909
Capital contribution to a subsidiary ..	–	–	(7,590)	–	–	–	(7,590)	7,590	–
Transactions with owners	498	–	7,450	–	–	–	7,948	12,499	20,447
As at 31 December 2023	199,199	–	1,281,524	(6)	19,852	125,452	1,626,021	4,774	1,630,795

APPENDIX I

ACCOUNTANTS’ REPORT

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Treasury share	Capital reserve	Other reserve	Statutory reserve	Retained earnings	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 31(a))	(note 31(b))	(note 33)	(note 33)	(note 33)				
As at 1 January 2024	199,199	–	1,281,524	(6)	19,852	125,452	1,626,021	4,774	1,630,795
Profit/(Loss) for the year	–	–	–	–	–	31,480	31,480	(4,432)	27,048
Other comprehensive income	–	–	–	1,120	–	–	1,120	–	1,120
Total comprehensive income/(loss)	–	–	–	1,120	–	31,480	32,600	(4,432)	28,168
Exercise of restricted shares	443	–	6,521	–	–	–	6,964	–	6,964
Equity settled share-based payments	–	–	4,444	–	–	–	4,444	–	4,444
Repurchase of shares	–	(31,120)	(5)	–	–	–	(31,125)	–	(31,125)
Capital contribution to a subsidiary	–	–	(3,996)	–	–	–	(3,996)	3,996	–
Appropriation of statutory reserve	–	–	–	–	5,104	(5,104)	–	–	–
Transactions with owners	443	(31,120)	6,964	–	5,104	(5,104)	(23,713)	3,996	(19,717)
As at 31 December 2024	199,642	(31,120)	1,288,488	1,114	24,956	151,828	1,634,908	4,338	1,639,246

APPENDIX I

ACCOUNTANTS’ REPORT

	Attributable to owners of the Company								
	Share capital	Treasury share	Capital reserve	Other reserve	Statutory reserve	Retained earnings	Sub-total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 31(a))	(note 31(b))	(note 33)	(note 33)	(note 33)				
As at 1 January 2025	199,642	(31,120)	1,288,488	1,114	24,956	151,828	1,634,908	4,338	1,639,246
Profit/(Loss) for the year	–	–	–	–	–	155,568	155,568	(2,823)	152,745
Other comprehensive loss	–	–	–	(181)	–	–	(181)	–	(181)
Total comprehensive (loss)/income	–	–	–	(181)	–	155,568	155,387	(2,823)	152,564
2024 final dividend (note 12)	–	–	–	–	–	(15,779)	(15,779)	–	(15,779)
Exercise of restricted shares	1,615	–	17,636	–	–	–	19,251	–	19,251
Equity settled share-based payments	–	–	6,471	–	–	–	6,471	–	6,471
Repurchase of shares	–	(49,242)	(5)	–	–	–	(49,247)	–	(49,247)
Appropriation of statutory reserve	–	–	–	–	20,915	(20,915)	–	–	–
Transactions with owners	1,615	(49,242)	24,102	–	20,915	(36,694)	(39,304)	–	(39,304)
As at 31 December 2025	201,257	(80,362)	1,312,590	933	45,871	270,702	1,750,991	1,515	1,752,506

APPENDIX I

ACCOUNTANTS’ REPORT

Consolidated statements of cash flows

		Year ended 31 December		
	Notes	2023	2024	2025
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
(Loss)/Profit before income tax		(260,069)	56,902	165,700
Adjustments for:				
Depreciation and amortisation	8	99,191	104,162	113,181
(Reversal of provision)/Provision for impairment of assets, net	8	(366)	5,278	3,065
Gain on disposal of a subsidiary	6	–	–	(15,274)
Loss/(Gain) on disposal of property, plant and equipment, net	6	1	(77)	40
Gain on early termination of leases	6	(282)	–	–
Gain on lease modification	6	–	–	(994)
Written-off of property, plant and equipment	6	1,604	172	610
Unrealised fair value changes on financial assets at FVTPL, net	6	(239)	29,189	(79,288)
Investment income from financial assets	6	(6,911)	(9,630)	(15,534)
Interest expense	7	41,126	45,066	43,585
Interest income	7	(6,643)	(3,627)	(2,968)
Share of result of an associate	19	(23)	91	36
Equity settled share-based payments	9(a)	7,719	4,444	5,231
Operating cash flows before working capital changes . .		(124,892)	231,970	217,390
Decrease in inventories		4,709	45,887	252
Decrease/(Increase) in trade and other receivables		42,957	(218,615)	(210,729)
(Decrease)/Increase in trade and other payables		(37,467)	36,655	75,123
Increase/(Decrease) in contract liabilities		2,254	(10,455)	3,744
Increase/(Decrease) in deferred income		4,573	(2,171)	8,127
(Increase)/Decrease in pledged deposits		(7,454)	7,256	(496)
Cash (used in)/generated from operations		(115,320)	90,527	93,411
Interest paid		(406)	(214)	(949)
Income taxes paid		(3,859)	(16,249)	(3,496)
Net cash (used in)/from operating activities		(119,585)	74,064	88,966
Cash flows from investing activities				
Acquisition of an associate	19	(4,000)	–	–
Proceeds from disposal of financial assets		1,990,960	1,957,389	1,779,231
Proceeds from disposal of property, plant and equipment		–	38	1,166
Proceeds from disposal of a subsidiary		–	–	13,500
Proceeds from disposal of other assets		20,957	1,891	577
Purchases of property, plant and equipment and intangibles assets		(191,201)	(93,991)	(86,563)

APPENDIX I

ACCOUNTANTS’ REPORT

	<i>Notes</i>	Year ended 31 December		
		2023	2024	2025
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of financial assets		(1,972,963)	(1,969,452)	(1,770,850)
Purchases of other assets		–	–	(2,687)
Acquisition of subsidiary		–	–	(1,072)
<i>Net cash used in investing activities</i>		<u>(156,247)</u>	<u>(104,125)</u>	<u>(66,698)</u>
Cash flows from financing activities				
Proceeds from exercise of restricted shares		12,728	6,964	19,251
Repurchase of shares		–	(31,125)	(49,247)
Proceeds from bank borrowings	35	453,074	661,450	916,430
Repayment of bank borrowings	35	(355,210)	(559,466)	(732,420)
Payment of lease liabilities	35	(17,676)	(10,307)	(9,693)
Interest paid	35	(44,219)	(44,824)	(42,331)
Dividend paid	12	–	–	(15,779)
Payment for [REDACTED] fee		–	–	(12,494)
Payment for bond issuance costs		–	–	[REDACTED]
Others		–	(1,001)	16
<i>Net cash from financing activities</i>		<u>48,697</u>	<u>21,691</u>	<u>73,313</u>
Net (decrease)/increase in cash and cash equivalents		(227,135)	(8,370)	95,581
Cash and cash equivalents at the beginning of the year		783,971	559,931	552,952
Effect of foreign exchange rate changes		3,095	1,391	(211)
Cash and cash equivalents at the end of the year	24	<u><u>559,931</u></u>	<u><u>552,952</u></u>	<u><u>648,322</u></u>

APPENDIX I

ACCOUNTANTS’ REPORT

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company is a joint stock company with limited liability incorporated in the People’s Republic of China (the “PRC”) on 22 August 1997 and subsequently the Company’s A shares are listed on the Shanghai Stock Exchange on 14 December 2020. The address of the Company’s registered office and its principal place of business is No. 2666, Chuangye Road, Bucun Street, Zhangqiu District, Jinan Shandong, the PRC.

The Company’s immediate holding is Shenzhen Keyi Pharmaceutical Holdings Co., Ltd. (深圳科益醫藥控股有限公司), a company incorporated in the PRC. The directors consider the ultimate holding is Genzon Investment Group Co., Ltd. (正中投資集團有限公司), a company incorporated in the PRC and controlled by Mr. Deng Xueqin.

The Company and its subsidiaries are principally engaged in the research, development, production and sales of pharmaceutical products.

In this Historical Financial Information, certain English names of the companies referred herein represent management’s best effort to translate the Chinese names of the companies as no English names have been registered.

At the date of this Historical Financial Information, the Company’s principal subsidiaries are as follows:

Company name	Place of establishment/ incorporation and operation	Share capital	Percentage of equity attributable to the Company			Equity attributable to the Company	Principal activity
			As at 31 December				
			2023	2024	2025		
		(in thousand)					
Shenzhen Kexing Pharmaceutical Co., Ltd. (深圳科興藥業有限公司) (note (a))	The PRC	RMB230,000	100%	100%	100%	Direct	Production, sales and research and development of pharmaceutical products
Shandong Tuoyi Technology Consulting Co., Ltd (山東拓 益科技諮詢有限公司) (note (b))	The PRC	RMB40,000	100%	100%	100%	Direct	Pharmaceutical promotion services
Kexing Risedo Pharm Co., Ltd. (深圳科興醫藥有限公司) (note (c))	The PRC	RMB5,000	100%	100%	100%	Direct	Sales of pharmaceutical products

Notes:

- (a) The audited financial statements of this entity for the year ended 31 December 2023 prepared in accordance with the PRC Accounting Standards for Business Enterprises (“PRC GAAP”) were audited by Da Hua Certified Public Accountants (Special General Partnership), the PRC.

The audited financial statements of this entity for the year ended 31 December 2024 prepared in accordance with the PRC GAAP were audited by Grant Thornton Zhitong Certified Public Accountants LLP, the PRC.

No audited financial statements were issued for this entity for the year ended 31 December 2025.

- (b) No audited financial statements were issued for this entity for the years ended 31 December 2023, 2024 and 2025.

- (c) No audited financial statements were issued for this entity for the year ended 31 December 2023. The audited financial statements of this entity for the year ended 31 December 2024 prepared in accordance with the PRC GAAP were audited by Grant Thornton Zhitong Certified Public Accountants LLP, the PRC.

No audited financial statements were issued for this entity for the year ended 31 December 2025.

APPENDIX I

ACCOUNTANTS’ REPORT

2. BASIS OF PRESENTATION AND PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”), which collective term includes all applicable individual IFRS accounting standards, International Accounting Standards (“IASs”) and Interpretations (“IFRS Accounting Standards”).

All IFRS Accounting Standards effective for the accounting period beginning on 1 January 2025, together with the relevant transitional provisions, have been consistently adopted by the Group in the preparation of the Historical Financial Information throughout the Track Record Period. The early adoption of the IFRS Accounting Standards do not have any significant impact on the financial positions or results of the Group during the Track Record Period.

The material accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the years presented in the Historical Financial Information, unless otherwise stated.

The Historical Financial Information has been prepared on the historical cost basis except for certain financial assets which are stated at fair value.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management’s best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4.

3.1 ISSUED BUT NOT YET EFFECTIVE IFRS ACCOUNTING STANDARDS

The Group has not early adopted the following new and amended IFRS Accounting Standards which have been issued but are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IFRS 9 and IFRS 7	Amendments to the Classification and Measurement of Financial Instruments ¹
Amendments to IFRS 9 and IFRS 7	Contracts Referencing Nature-dependent Electricity ¹
IFRS 18	Presentation and Disclosure in Financial Statements ²
IFRS 19	Subsidiaries without Public Accountability: Disclosures and related amendments ²
Amendments to IFRS Accounting Standards . . .	Annual Improvements to IFRS Accounting Standards — Volume 11 ¹
Amendments to IAS 21	Translation to Hyperinflationary Presentation Currency ²

1 Effective for annual periods beginning on or after 1 January 2026

2 Effective for annual periods beginning on or after 1 January 2027

3 Effective date not yet determined

IFRS 18 “Presentation and Disclosure in Financial Statements”, which sets out requirements on presentation and disclosures in financial statements, replaces IAS 1 “Presentation of Financial Statements”. This new IFRS Accounting Standard, while carrying forward many of the requirements in IAS 1, introduces new requirements to present specified categories and defined subtotals in the statement of profit or loss; provide disclosures on management-defined performance measures in the notes to the financial statements and improve aggregation and disaggregation of information to be disclosed in the financial statements. In addition, some IAS 1 paragraphs have been moved to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and IFRS 7 “Financial Instruments: Disclosures”. Minor amendments to IAS 7 “Statement of Cash Flows” and IAS 33 “Earnings per Share” are also made.

IFRS 18 and other amended IFRS Accounting Standards, will be effective for annual period beginning on or after 1 January 2027, with early adoption permitted. The adoption of the new standard is not expected to have material impact on the Group’s financial performance and financial position but is expected to affect the disclosures in the future financial statements. The Group will continue to assess the impact of IFRS 18 on the Group’s Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

Except for the IFRS 18, the directors of the Company anticipate that the adoption of these new and amended IFRS Accounting Standards will have no material impact on the Group’s Historical Financial Information in the foreseeable future.

3.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Historical Financial Information. Where unrealised losses on sales of intra-group asset are reversed on consolidation, the underlying asset is also tested for impairment from the Group’s perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the consolidated statements of financial position within the equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company.

Changes in the Group’s investments in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 “Financial Instruments” or, when applicable, the cost on initial recognition of an investment in an associate.

In the Company’s statements of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the end of the reporting period. All dividends whether received out of the investee’s pre or post-acquisition profits are recognised in the Company’s profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

Associate

Associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In Historical Financial Information, an investment in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group’s share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group’s share of the associate’s profit or loss in the period in which the investment is acquired.

Under the equity method, the Group’s investment in the associate is carried at cost and adjusted for the post-acquisition changes in the Group’s share of the associate’s net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The profit or loss for the year includes the Group’s share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in an associate recognised for the year. The Group’s other comprehensive income for the year includes its share of the associate’s other comprehensive income for the year.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group’s investment in the associate. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group’s perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate’s accounting policies to those of the Group when the associate’s financial statements are used by the Group in applying the equity method.

When the Group’s share of losses in an associate equals or exceeds its investment in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group’s investment in the associate is the carrying amount of the investment under the equity method together with the Group’s other long-term investments that in substance form part of the Group’s net investment in the associate, after applying the expected credit loss (“ECL”) model to such other long-term interests where applicable.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group’s investment in its associate. At the end of each reporting period, the Group determines whether there is any objective evidence that the investment in an associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (i.e., higher of value-in-use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value-in-use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate. If the retained interest in that former associate is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The difference between (i) the fair value of any retained interest and any proceeds from disposing of partial investment in the associate; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

APPENDIX I

ACCOUNTANTS’ REPORT

In the Company’s statements of financial position, investment in an associate are stated at cost less impairment losses, unless being classified as held for sale (or included in a disposal group that is classified as held for sale).

Foreign currency translation

The Historical Financial Information is presented in RMB, which is also the functional currency of the Company and its major subsidiaries.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions which are calculated and determined by the spot exchange rates or approximate exchange rates. At the end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation of monetary assets and liabilities at the end of the reporting period are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated (i.e., only translated using the exchange rates at the transaction date). When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income.

In the Historical Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Group’s presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the end of the reporting period. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in the other comprehensive income reserve in equity.

Fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into RMB at the rates prevailing at the end of each reporting period.

Property, plant and equipment

Property, plant and equipment (other than construction in progress as described below) are initially recognised at acquisition cost and/or manufacturing cost (including any cost directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management, including costs of testing whether the related assets are functioning properly). They are subsequently stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group’s accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values using the straight-line basis over their estimated useful lives as follow:

Properties and buildings	30 years
Machinery	5-10 years
Transportation equipment	5 years
Office and electronic equipment	5 years
Leasehold improvement	3-10 years or over the lease term, whichever is shorter

APPENDIX I

ACCOUNTANTS’ REPORT

Estimates of residual value and useful life are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Investment properties

Investment properties are interests in land and properties and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are measured at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis over their estimated useful lives. The estimated useful lives are as follows:

Leasehold land	50 years
Properties and buildings.	30 years

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the period of the retirement or disposal.

Right-of-use assets

Accounting policies of right-of-use assets (other than leasehold land) are set out in “Leases” below.

Leasehold land (which meet the definition of right-of-use assets) represents the land use rights in the PRC. It represents the upfront payment for long-term land lease in which the payment can be reliably measured. It is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the term of the lease/right-of-use except where an alternative basis is more representative of the time pattern of benefits to be derived by the Group from use of the land.

Intangible assets

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Amortisation commences when the intangible assets are available for use. The useful lives are as follows:

Patent rights	10 years
Patented technologies	10 years
License rights	5-10 years
Software	10 years

The assets’ amortisation methods and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets are tested for impairment as described in “Impairment of non-financial assets” below.

APPENDIX I

ACCOUNTANTS’ REPORT

Research and development

Costs associated with research activities are expensed in profit or loss as they incur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet all of the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is intention to complete the intangible asset and use or sell it;
- (iii) the Group’s ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

Research related costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all of its risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15 “Revenue from Contracts with Customers”, all financial assets are initially measured at fair value, in case of a financial asset not at FVTPL, plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost;
- FVTPL; or
- FVTOCI.

The classification is determined by both:

- the Group’s business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

APPENDIX I

ACCOUNTANTS’ REPORT

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, interest income or other financial items, except for ECL on financial assets which is included in “provision/reversal of provision for impairment of assets, net” in the consolidated statements of profit or loss and other comprehensive income.

Subsequent measurement of financial assets

Debt instruments

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

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

After initial recognition, these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in “finance income” in profit or loss. Discounting is omitted where the effect of discounting is immaterial. The Group’s pledged deposits, cash and cash equivalents, trade and other receivables fall into this category of financial instruments.

Financial assets at FVTOCI — recycling

If the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale, subsequent changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

Financial assets at FVTPL

Financial assets that are held within a different business model other than “hold to collect” or “hold to collect and sell” are categorised at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements under IFRS 9 apply.

Equity instruments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment, the Group elects to designate the investment at FVTOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income and accumulated in “other reserve” in equity. Such elections are made on an instrument-by-instrument basis, but only be made if the investment meets the definition of equity from the issuer’s perspective.

The equity instruments at FVTOCI are not subject to impairment assessment. The cumulative gain or loss in “other reserve” will not be reclassified to profit or loss upon disposal of the equity investments, and will be transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in “other income” in profit or loss.

APPENDIX I

ACCOUNTANTS’ REPORT

Financial liabilities

Classification and measurement of financial liabilities

The Group’s financial liabilities include trade and other payables, bank borrowings and lease liabilities.

Financial liabilities (other than lease liabilities) are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at FVTPL.

Subsequently, financial liabilities (other than lease liabilities) are measured at amortised cost using the effective interest method except for derivatives which are not designated as hedging instruments in hedge relationships and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss.

All interest-related charges and, if applicable, changes in an instrument’s fair value that are reported in profit or loss are included in finance costs or other income.

Accounting policies of lease liabilities are set out in “Leases” below.

Bank borrowings

Bank borrowings are recognised initially at fair value, net of transaction costs incurred. Bank borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless at the end of the reporting period the Group has a right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Trade and other payables

They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

IFRS 9’s impairment requirements use forward-looking information to recognise ECL — the “ECL model”. Instruments within the scope included loans and other debt-type financial assets measured at amortised cost and FVTOCI and trade and other receivables.

The Group considers a broader range of information when assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (“Stage 1”); and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (“Stage 2”).

“Stage 3” would cover financial assets that have objective evidence of impairment at the end of the reporting period.

“12-month ECL” are recognised for the Stage 1 category while “lifetime ECL” are recognised for the Stage 2 category.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

APPENDIX I

ACCOUNTANTS' REPORT

Trade receivables

For trade receivables, the Group applies a simplified approach in calculating ECL and recognises a loss allowance based on lifetime ECL at the end of each reporting period. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. In calculating the ECL, the Group has established a provision matrix that is based on its historical credit loss experience and external indicators, adjusted for forward-looking factors specific to the debtors and the economic environment.

To measure the ECL, except for trade receivables with significant outstanding balances which are assessed individually, the remaining trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Other financial assets measured at amortised cost and bills receivable measured at FVTOCI

The Group measures the loss allowance for other receivables equal to 12-month 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 increase in the likelihood of risk of default occurring since initial recognition.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial assets at the end of each reporting period with the risk of default occurring on the financial assets 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.

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 and the credit default swap prices for the debtor;
- existing or forecast adverse changes in regulatory, business, financial, economic conditions, or technological environment that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations; and
- an actual or expected significant deterioration in the operating results of the debtor.

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.

Despite the foregoing, the Group assumes that the credit risk on trade and bills receivables measured at FVTOCI has not increased significantly since initial recognition if the bills receivable measured at FVTOCI is determined to have low credit risk at the end of each reporting period. Bills receivable measured at FVTOCI is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

For internal credit risk management, the Group considers an event of default occurs when (i) 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 collateral held by the Group); or (ii) the financial asset is 90 days past due.

Detailed analysis of the ECL assessment of trade receivables, other financial assets measured at amortised cost and bills receivable measured at FVTOCI are set out in note 38.5.

APPENDIX I

ACCOUNTANTS’ REPORT

Inventories

The Group’s inventories mainly include raw materials, low-value consumables, work in progress, finished goods and goods in transit, etc. Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads.

The perpetual inventory system is maintained and low-value consumables are charged in profit or loss when incurred.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in note 24.

Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue. A contract liability would also be recognised if the Group has an unconditional right to receive consideration in advance of performance. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Leases

(a) Definition of a lease and the Group as a lessee

At inception of a contract, the Group considers whether a contract is, or contains a lease. A lease is defined as “a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration”. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the consolidated statements of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

APPENDIX I

ACCOUNTANTS’ REPORT

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group’s incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

The Group remeasures lease liabilities whenever:

- there are changes in lease term or in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments changes due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

For 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 modification.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of 12 months or less.

On the consolidated statements of financial position, leasehold land and properties and buildings that do not meet the definition of investment property have been included in “right-of-use-assets” under non-current assets. Right-of-use assets that meet the definition of investment property are presented within “investment properties”.

(b) The Group as a lessor

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

The Group also earns rental income from operating leases of its investment properties. Rental income is recognised on a straight-line basis over the term of the lease.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

APPENDIX I

ACCOUNTANTS’ REPORT

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract (which includes both incremental costs and an allocation of other costs that relate directly to fulfilling that contract).

Probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered as contingent assets.

Share capital

Share capital are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs (i.e. recognised in “capital reserve”) associated with the issue of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Treasury shares

Repurchase of the Company’s own equity instruments which held by the Company or the Group (treasury shares) is recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss and other comprehensive income on the purchase, sale, issue or cancellation of the Group’s own equity instruments.

Revenue recognition

Revenue from contracts with customers mainly arises from the following major sources:

- (i) sales of pharmaceutical products; and
- (ii) provision of services;

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when or as performance obligations are satisfied

In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when the Group satisfies performance obligations by transferring the promised goods or services to its customers.

When another party is involved in providing goods or services to a customer, the Group shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent). The Group is a principal if it controls the specified goods or service before that goods or service is transferred to a customer. The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. The Group recognises revenue on gross basis if the Group is acting as a principal; and on a net basis if the Group is acting as an agent in the relevant transactions.

APPENDIX I

ACCOUNTANTS’ REPORT

Further details of the Group’s revenue and other income recognition policies are as follows:

Revenue from sale of pharmaceutical products

Revenue from sale of pharmaceutical products between the Group and its customers generally only includes a performance obligation for the transfer of pharmaceutical products, which is recognised when the performance obligation has been satisfied at a point in time.

Revenue for sale of goods in Mainland China is recognised when the Group has delivered the products to the customers in accordance with the contract terms, and has received acceptance and other proof of receipt from the customers.

Revenue from the export sale of goods is recognised when the Group fulfilled its primary delivery obligations under the sale contract and has obtained documentation evidencing the transfer of control in accordance with the contract terms including signed receipts from the customer and carrier, and customs declarations.

The Group has entered into contracts with certain customers that include sale rebate terms. Such sale rebates give rise to variable consideration. For the contracts that contain sales rebate, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled. The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

Any products that have been accepted upon delivery cannot be returned, unless under specific circumstance. Expected sales returns are estimated at the time of sale on a portfolio basis using the expected value method, based on historical experience, and appropriate adjustments are made for amounts expected to be refunded to customers.

The Group also takes into account products expected to be returned, with a corresponding adjustment to cost of sales. Based on accumulated experience, the effect is insignificant.

Revenue from provision of services

Revenue from provision of services between the Group and its customers generally include providing professional marketing services for products authorised by customers. According to the contract, the Group recognised revenue upon completing the relevant promotional obligations that satisfied at a point in time.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

Rental income

Accounting policies for rental income are set out in “Leases” above.

Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in profit or loss over the period necessary to match them with the costs that the grants are intended to compensate. Government grants relating to the purchase of assets are included in liabilities as “deferred income” in the consolidated statements of financial position and are recognised in profit or loss on a straight-line basis over the expected lives of the related assets.

APPENDIX I

ACCOUNTANTS’ REPORT

Government grants relating to income is presented in gross under “other income” in the consolidated statements of profit or loss and other comprehensive income.

If the government disburses the interest subsidy to the lending bank, the borrowing shall be initially recognised at the actual amount received, and the borrowing cost shall be calculated based on the principal amount and the preferential interest rate. If the government disburses the interest subsidy directly to the Group, the subsidy shall be used to offset the borrowing cost.

Impairment of non-financial assets

The following assets are subject to impairment testing:

- Property, plant and equipment;
- Right-of-use assets;
- Investment properties;
- Intangible assets;
- Investment in an associate; and
- The Company’s investments in subsidiaries.

Intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset’s carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset’s carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e., a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Corporate assets are allocated to individual CGUs, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value-in-use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset’s recoverable amount and only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Retirement benefits

Pension scheme

Retirement benefits to employees are provided through defined contribution plans. The employees of the Group’s subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group’s obligations under these plans are limited to the fixed percentage contributions payable.

Housing funds, medical insurances and other social insurances

Employees of the Group’s subsidiaries which operate in the PRC are entitled to participate in various government- supervised housing funds, medical insurance and other employee social insurance plan. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees, subject to certain ceiling. The Group’s liability in respect of these funds is limited to the contributions payable in each year. Contributions to the housing funds, medical insurances and other social insurances are expensed as incurred.

APPENDIX I

ACCOUNTANTS’ REPORT

Short-term employee benefits

Salaries and bonuses are accrued and recognised as an expense in profit or loss in which the associated services are rendered by employees during the year.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for any related restructuring.

Share-based employee compensation

The Group operates equity settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based payment are measured at their fair values. These are indirectly determined by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets and performance conditions).

All share-based payment is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the “capital reserve” in equity. If vesting conditions apply, the expense is recognised over the vesting period based on the best available estimate of the number of equity instruments expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates. Any adjustment to cumulative share-based payment resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

At the time when the restricted shares are exercised, the amount previously recognised in “capital reserve” will be transferred to “share capital”. After vesting date, when the vested restricted shares are later forfeited or are still not exercised at the expiry date, the amount previously recognised in “capital reserve” will be transferred to “retained earnings”.

Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the end of the reporting period between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

APPENDIX I

ACCOUNTANTS’ REPORT

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss and does not give rise to equal taxable and deductible temporary differences.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associate, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies the requirements in IAS 12 to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to the 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 is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of each reporting period.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

When different tax rates apply to different levels of taxable income, deferred tax assets and liabilities are measured using the average tax rates that are expected to apply to the taxable income of the periods in which the temporary differences are expected to reverse.

The determination of the average tax rates requires an estimation of (i) when the existing temporary differences will reverse and (ii) the amount of future taxable profit in those years. The estimate of future taxable profit includes:

- income or loss excluding reversals of temporary differences; and
- reversals of existing temporary differences.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker (the “CODM”) for their decisions about resources allocation to the Group’s business components and for their review of the performance of those components. The business components in the internal financial information reported to the CODM are determined by the Group’s major product and service lines.

APPENDIX I

ACCOUNTANTS’ REPORT

The CODM has been identified as the executive directors of the Company, who determine the operating segments of the Group and review the Group’s internal reporting in order to assess performance and allocate resources. All of the Group’s business operations relate to the sales of pharmaceutical products and provision of services with similar economic characteristics. Accordingly, the executive directors review the performance of the Group as a single business segment. No separate analysis of the segment results by reportable segment is necessary.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person’s family and if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group.
- (b) the party is an entity and if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group.
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) the entity and the Group are joint ventures of the same third party.
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) the entity is controlled or jointly controlled by a person identified in (a).
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimation of fair value of financial instruments not traded in an active market

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Details of the valuation techniques, inputs and key assumptions used in the determination of the fair value of financial assets at Level 3 fair value hierarchy are set out in note 38.7.

APPENDIX I

ACCOUNTANTS’ REPORT

Impairment of property, plant and equipment, right-of-use assets, investment properties and intangible assets

Property, plant and equipment, right-of-use assets, investment properties and intangible assets are stated at costs less accumulated depreciation or amortisation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgment and make estimation, particularly in assessing: (i) whether an event has occurred or any indicators that may affect the asset value; (ii) whether the carrying amount of an asset can be supported by the recoverable amount, in the case of value-in-use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (iii) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the CGU to which the assets belongs. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the net present value used in the impairment test.

As at 31 December 2023, 2024 and 2025, the aggregate carrying amount of property, plant and equipment, right-of-use assets, investment properties and intangible assets amounted to RMB1,383,346,000, RMB1,454,961,000 and RMB1,431,086,000, respectively. No impairment loss was recognised during the Track Record Period.

Net realisable value of inventories

Net realisable value of inventories is based on estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period. If the actual net realisable values of inventories are more or less than expected as a result of change in market condition, material reversal of or provision for impairment loss may result.

As at 31 December 2023, 2024 and 2025, the carrying amount of inventories amounted to RMB191,365,000, net of provision for inventories of RMB2,501,000, RMB141,809,000, net of provision for inventories of RMB1,927,000 and RMB139,215,000, net of provision for inventories of RMB450,000, respectively.

Estimation of impairment of trade and bills receivables

The Group makes allowance of trade and bills receivables based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group’s past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. As at 31 December 2023, 2024 and 2025, the aggregate carrying amount of trade and bills receivables amounted to RMB285,720,000, net of ECL allowance of RMB24,916,000, RMB500,565,000, net of ECL allowance of RMB26,314,000 and RMB638,755,000, net of ECL allowance of RMB27,126,000, respectively.

The provision of ECL is sensitive to changes in estimates. When the actual future cash flows are different from expected, such difference will impact the carrying amount of trade and bills receivables and credit losses in the periods in which such estimate has been changed.

Critical accounting judgments

Research and development activities

Careful judgment by management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the best information available at the end of each reporting period. In addition, all internal activities related to the research and development of new software, products or know how are continuously monitored by management.

Income taxes

The Group is subject to income taxes in jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

APPENDIX I

ACCOUNTANTS’ REPORT

5. REVENUE AND SEGMENT INFORMATION

5.1 Revenue

The Group’s principal activities are disclosed in note 1 to the Historical Financial Information. The Group derives revenue from the transfer of goods and services at a point in time or services over time are analysed as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Revenue from contract with customers			
Sales of pharmaceutical products	1,209,085	1,302,892	1,390,134
Provision of services	46,709	98,227	123,608
Others	1,027	3,342	18,161
	<u>1,256,821</u>	<u>1,404,461</u>	<u>1,531,903</u>
Revenue from other sources			
Rental income	2,215	2,464	2,125
	<u>1,259,036</u>	<u>1,406,925</u>	<u>1,534,028</u>
Timing of revenue recognised			
Goods and services transferred at a point in time.	<u>1,256,821</u>	<u>1,404,461</u>	<u>1,531,903</u>

5.2 Segment information

The operating segment is reported in a manner consistent with the internal reporting provided to the CODM. Management reviews the performance of the Group as a single operating segment based on the internal organisation structure, management requirements and internal reporting system. No separate analysis of the segment results by reportable segment is necessary.

Geographical information

The following table sets out the information about the geographical location of the Group’s revenue from external customers. The geographical location of customers is based on the location at which the goods are delivered or the services are provided.

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
The PRC	1,120,507	1,182,401	1,167,740
European Union	32	40,898	163,685
Others	138,497	183,626	202,603
	<u>1,259,036</u>	<u>1,406,925</u>	<u>1,534,028</u>

The Group’s non-current assets (other than financial instruments, deferred tax assets and prepayments) are divided into the following geographical location, which is based on the physical location of the assets.

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
The PRC	1,387,296	1,458,857	1,434,954
Others	73	36	28
	<u>1,387,369</u>	<u>1,458,893</u>	<u>1,434,982</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Information about major customer

Revenue from external customer which individually contributed over 10% of the Group’s revenue during the Track Record Period is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Customer A	266,584	275,576	252,318

Note: All the revenue contributed from the above customer are derived from sales of pharmaceutical products.

6. OTHER INCOME, GAINS AND LOSSES, NET

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Government grants (<i>note (i)</i>)	8,617	25,534	6,368
Gain on disposal of a subsidiary (<i>note (ii)</i>)	–	–	15,274
Sundry income	939	392	695
Foreign exchange gains, net.	3,294	745	3,763
Unrealised fair value changes on financial assets at FVTPL, net	239	(29,189)	79,288
Investment income from financial assets	6,911	9,630	15,534
(Loss)/Gain on disposal of property, plant and equipment, net.	(1)	77	(40)
Gain on early termination of leases	282	–	–
Gain on lease modification	–	–	994
Written-off of property, plant and equipment . . .	(1,604)	(172)	(610)
	18,677	7,017	121,266

Notes:

- (i) During the Track Record Period, the Group received certain government grants from the PRC government primarily aimed at supporting research and development activities and listing-related subsidies which either (i) immediately recognised as other income upon fulfilment of all the relevant granting criteria; or (ii) were recognised as deferred income (*note 27*) and were amortised.
- (ii) On 5 June 2025, the Group entered into a sale agreement to dispose of its 100% equity interests in a subsidiary, Shenzhen Jiatong Pharmaceutical Co., Ltd. (formerly known as Shenzhen Tongan Pharmaceutical Co., Ltd.) to Guangxi Zhuang Autonomous Region Pharmaceutical Research Institute Co., Ltd. (廣西壯族自治區藥物研究所有限公司) for a cash consideration of RMB15,000,000. The disposal was completed on 30 June 2025.

As at 30 June 2025, the subsidiary had total deficits amounted to RMB274,000. These comprised other receivables of RMB2,000 and trade and other payables of RMB276,000.

APPENDIX I

ACCOUNTANTS’ REPORT

7. FINANCE COSTS

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Finance income			
Bank interest income	6,643	3,627	2,968
Finance costs			
Interest charges on:			
– bank borrowings	44,021	44,526	41,929
– bills receivable	406	214	949
– lease liabilities	1,585	1,281	726
	46,012	46,021	43,604
Less: interest capitalised (<i>note 14</i>)	(4,886)	(955)	(19)
	41,126	45,066	43,585
Finance costs, net	(34,483)	(41,439)	(40,617)

8. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		
		2023	2024	2025
		RMB'000	RMB'000	RMB'000
Depreciation and amortisation				
– Property, plant and equipment	14	65,973	68,946	72,565
– Right-of-use assets	15	15,732	13,615	12,137
– Investment properties	16	1,308	1,326	1,291
– Intangible assets.	17	16,178	20,275	27,188
		99,191	104,162	113,181
(Reversal of ECL allowance)/ECL allowance of trade and bills receivables	23	(3,282)	1,398	812
ECL allowance/(Reversal of ECL allowance) of other receivables	23	354	211	(89)
Provision for inventories.	22	2,562	3,669	2,342
(Reversal of provision)/Provision for impairment of assets, net		(366)	5,278	3,065
Cost of inventories recognised as an expense		338,083	384,418	479,235
Outgoings in respect of investment properties		1,308	1,308	1,310
Auditors’ remuneration		1,600	1,150	1,150
Short-term lease charges		3,197	3,484	1,273

APPENDIX I

ACCOUNTANTS’ REPORT

9. EMPLOYEE BENEFIT EXPENSES

(a) Employee benefit expenses are analysed as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Salaries, wages, allowances and other benefits . .	206,337	193,451	200,767
Retirement scheme contributions	37,624	35,863	38,157
Equity settled share-based payments	7,719	4,444	5,231
	<u>251,680</u>	<u>233,758</u>	<u>244,155</u>

(b) Directors’, chief executives’ and supervisors’ emoluments

	Fees	Salaries, allowances and other benefits	Retirement scheme contributions	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2023					
Executive directors					
Mr. Deng Xueqin	—	—	—	—	—
Mr. Zhao Yanqing	—	973	97	—	1,070
Ms. Zhu Yumei (note (a))	—	—	—	—	—
Ms. Cui Ning	—	601	91	—	692
Independent executive directors					
Ms. Tao Jianhong	180	—	—	—	180
Mr. An Tang	180	—	—	—	180
Mr. Cao Hongzhong	180	—	—	—	180
Supervisors					
Ms. Wen Jia (note (b))	—	—	—	—	—
Ms. Jiang Haiyan	—	—	—	—	—
Ms. Li Die	—	199	41	—	240
Ms. Liu Haoyun (note (c))	—	—	—	—	—
	<u>540</u>	<u>1,773</u>	<u>229</u>	<u>—</u>	<u>2,542</u>
Year ended 31 December 2024					
Executive directors					
Mr. Deng Xueqin	—	—	—	—	—
Mr. Zhao Yanqing	—	973	104	380	1,457
Ms. Wang Xiaojin (note (d))	—	647	104	253	1,004
Ms. Cui Ning	—	601	97	253	951
Independent executive directors					
Ms. Tao Jianhong	180	—	—	—	180
Mr. An Tang	180	—	—	—	180
Mr. Cao Hongzhong	180	—	—	—	180
Supervisors					
Ms. Jiang Haiyan	—	—	—	—	—
Ms. Li Die	—	243	46	—	289
Ms. Liu Haoyun	—	—	—	—	—
	<u>540</u>	<u>2,464</u>	<u>351</u>	<u>886</u>	<u>4,241</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Fees	Salaries, allowances and other benefits	Retirement scheme contributions	Equity settled share-based payments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December					
2025					
Executive directors					
Mr. Deng Xueqin	–	–	–	–	–
Mr. Zhao Yanqing	–	1,400	114	260	1,774
Ms. Wang Xiaoqin	–	906	114	173	1,193
Ms. Cui Ning.	–	745	98	173	1,016
Independent executive directors					
Ms. Tao Jianhong (note (e))	120	–	–	–	120
Mr. An Tang (note (e)) . . .	120	–	–	–	120
Mr. Cao Hongzhong (note (e))	120	–	–	–	120
Mr. He Ruyi (note (f)) . . .	73	–	–	–	73
Mr. Zhang Hanbin (note (f))	73	–	–	–	73
Mr. Fong Chun Fai (note (f))	73	–	–	–	73
Supervisors					
Ms. Jiang Haiyan (note (g))	–	–	–	–	–
Ms. Li Die (note (g))	–	160	35	–	195
Ms. Liu Haoyun (note (c))	–	–	–	–	–
Employee director					
Mr. Huang Kaikun (note (h))	–	149	36	87	272
	<u>579</u>	<u>3,360</u>	<u>397</u>	<u>693</u>	<u>5,029</u>

Notes:

- (a) Ms. Zhu Yumei resigned as executive director of the Company on 8 October 2023.
- (b) Ms. Wen Jia resigned as supervisor of the Company on 10 August 2023.
- (c) Ms. Liu Haoyun was appointed as supervisor of the Company on 10 August 2023 and resigned as supervisor of the Company on 29 August 2025.
- (d) Ms. Wang Xiaoqin was appointed as executive director of the Company on 16 January 2024.
- (e) Ms. Tao Jianhong, Mr. An Tang and Mr. Cao Hongzhong resigned as independent executive directors of the Company on 29 August 2025.
- (f) Mr. He Ruyi, Mr. Zhang Hanbin and Mr. Fong Chun Fai were appointed as independent executive directors of the Company on 29 August 2025.
- (g) Ms. Jiang Haiyan and Ms. Li Die resigned as supervisors of the Company on 29 August 2025.
- (h) Mr. Huang Kaikun was appointed as employee director of the Company on 29 August 2025.

APPENDIX I

ACCOUNTANTS’ REPORT

During the Track Record Period, no emoluments were paid by the Group to any directors, chief executives and supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No director, chief executive and supervisor of the Company has waived or agreed to waive any emoluments during the Track Record Period.

(c) Five highest paid individuals

During the Track Record Period, the five individuals whose emoluments were the highest in the Group included, nil, 1, and 2 director(s) respectively, whose emoluments are reflected in note 9(b) above. The aggregate emoluments payable to the remaining 5, 4, and 3 individuals to the five highest paid individuals during the Track Record Period are as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Salaries, allowances and other benefits	6,586	6,450	4,427
Retirement scheme contributions	442	397	325
Equity settled share-based payments	2,738	223	468
	<u>9,766</u>	<u>7,070</u>	<u>5,220</u>

The emoluments fell within the following bands:

	Year ended 31 December		
	2023	2024	2025
HK\$1,000,001- HK\$1,500,000	–	1	–
HK\$1,500,001- HK\$2,000,000	1	2	2
HK\$2,000,001- HK\$2,500,000	3	–	1
HK\$2,500,001- HK\$3,000,000	1	–	–
HK\$3,000,001- HK\$3,500,000	–	1	–

10. INCOME TAX (CREDIT)/EXPENSE

PRC Enterprise Income Tax (the “PRC EIT”)

The Company and one of the Group’s subsidiaries, Shenzhen Kexing Pharmaceutical Co., Ltd. were approved as High and New Technology Enterprise with a validity period of three years on 17 August 2020 and 7 December 2023, and 11 December 2020 and 16 October 2023, respectively, and therefore entitled to a preferential tax rate of 15% for the Track Record Period.

The Group’s other subsidiaries in the PRC are subject to the PRC EIT at the rate of 25%.

According to the relevant laws and regulations promulgated by the State Administration of Taxation of the PRC, certain PRC entities of the Group engaging in research and development activities is entitled to claim 200% for the Track Record Period of its research and development expenses so incurred as tax deductible expenses when determining its assessable profit for the Track Record Period (“Super Deduction”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s PRC entities in ascertaining its assessable profit for the Track Record Period.

Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profits, while the Group has no assessable profits arising from Hong Kong for the Track Record Period.

APPENDIX I

ACCOUNTANTS’ REPORT

Corporate income tax in other jurisdictions

Taxation for overseas entities is charged at the appropriate current rates of taxation ruling in the relevant countries.

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Current tax			
The PRC EIT	5,729	17,105	3,691
Deferred tax			
Current year	(70,312)	12,749	9,264
Income tax (credit)/expense	(64,583)	29,854	12,955

Reconciliation between tax (credit)/expense and accounting (loss)/profit at applicable tax rates is as follow:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
(Loss)/Profit before income tax	(260,069)	56,902	165,700
Tax on (loss)/profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned and the preferential tax rates	(39,010)	8,535	24,855
Tax effect of			
– different tax rates	(5,672)	(4,556)	(5,468)
– non-deductible expenses	2,818	2,108	12,439
– deductible temporary differences not recognised	20,182	12,268	6,603
– utilisation of tax losses previously not recognised	–	–	(4,697)
– Super Deduction	(48,629)	(24,224)	(28,853)
– adjustments in respect of current income tax of previous periods	5,728	35,723	12,511
– deduction arising from share-based payments	–	–	(4,435)
Income tax (credit)/expense	(64,583)	29,854	12,955

11. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The (loss)/profit attributable to owners of the Company for the Track Record Period were RMB(190,290,000), RMB31,480,000, and RMB155,568,000, respectively.

12. DIVIDENDS

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
2024 final dividend (note)	–	–	15,779

APPENDIX I

ACCOUNTANTS’ REPORT

Note: Pursuant to a written resolution passed on 8 May 2025, a final dividend of RMB0.8 per 10 shares in respect of the year ended 31 December 2024 amounted to RMB15,779,000 has been declared and paid on 12 June 2025. The final dividend has not been recognised as a liability as at 31 December 2024, but reflected as an appropriation of retained earnings for the year ended 31 December 2024.

13. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the Track Record Period, excluding treasury shares as these shares are not considered outstanding for (loss)/earnings per share calculation purposes.

The following table illustrates the (loss)/earnings and share information used in the calculation of basic (loss)/earnings per share:

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
(Loss)/Profit attributable to owners of the Company	(190,290)	31,480	155,568
Weighted average number of ordinary shares in issue (thousand shares)	198,950	197,875	197,871
Basic (loss)/earnings per share (RMB)	(0.96)	0.16	0.79

(b) Diluted (loss)/earnings per share

The restricted shares under the incentive plans granted by the Company have potential dilutive effect on the (loss)/earnings per share. Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding, excluding treasury shares, by the assumption of the conversion of all potential dilutive ordinary shares arising from incentive plans (collectively forming the denominator for computing the diluted (loss)/earnings per share).

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
(Loss)/Profit attributable to owners of the Company	(190,290)	31,480	155,568
Weighted average number of ordinary shares in issue (thousand shares).	198,950	197,875	197,871
Adjustments for potential shares arising from incentive plans (thousand shares)	–	2,603	231
Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share (thousand shares)	198,950	200,478	198,102
Diluted (loss)/earnings per share (RMB)	(0.96)	0.16	0.79

No adjustment has been made to the basic loss per share for the year ended 31 December 2023 as the impact of the restricted shares had an anti-dilutive effect on the basic loss per share presented.

APPENDIX I

ACCOUNTANTS’ REPORT

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Properties and buildings	Machinery	Transportation equipment	Office and electronic equipment	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023							
Cost	609,200	304,471	1,293	20,536	51,286	256,567	1,243,353
Accumulated depreciation	(52,052)	(112,825)	(776)	(11,312)	(37,534)	–	(214,499)
Net carrying amount	557,148	191,646	517	9,224	13,752	256,567	1,028,854
Year ended 31 December 2023							
Opening net carrying amount.	557,148	191,646	517	9,224	13,752	256,567	1,028,854
Additions.	–	39,204	25	1,025	427	175,707	216,388
Interest capitalised	–	–	–	–	–	4,886	4,886
Disposals.	(3,043)	(524)	–	(93)	(317)	–	(3,977)
Depreciation	(20,423)	(31,726)	(121)	(2,769)	(10,934)	–	(65,973)
Transfers	57,397	7,205	–	–	–	(64,602)	–
Closing net carrying amount	591,079	205,805	421	7,387	2,928	372,558	1,180,178
As at 31 December 2023 and 1 January 2024							
Cost	662,949	348,522	1,318	20,577	51,396	372,558	1,457,320
Accumulated depreciation	(71,870)	(142,717)	(897)	(13,190)	(48,468)	–	(277,142)
Net carrying amount	591,079	205,805	421	7,387	2,928	372,558	1,180,178
Year ended 31 December 2024							
Opening net carrying amount.	591,079	205,805	421	7,387	2,928	372,558	1,180,178
Additions.	–	6,799	–	908	304	32,817	40,828
Interest capitalised	–	–	–	–	–	955	955
Disposals.	–	(119)	–	(115)	–	–	(234)
Depreciation	(23,912)	(40,284)	(124)	(2,461)	(2,165)	–	(68,946)
Transfers	91,297	138,213	–	–	–	(229,510)	–
Exchange realignment	–	–	–	(25)	–	–	(25)
Closing net carrying amount	658,464	310,414	297	5,694	1,067	176,820	1,152,756
As at 31 December 2024 and 1 January 2025							
Cost	754,246	492,061	1,318	20,836	51,700	176,820	1,496,981
Accumulated depreciation	(95,782)	(181,647)	(1,021)	(15,142)	(50,633)	–	(344,225)
Net carrying amount	658,464	310,414	297	5,694	1,067	176,820	1,152,756
Year ended 31 December 2025							
Opening net carrying amount.	658,464	310,414	297	5,694	1,067	176,820	1,152,756
Additions.	–	10,109	–	1,721	156	4,421	16,407
Interest capitalised	–	–	–	–	–	19	19
Disposals.	(675)	(1,222)	(10)	(106)	(411)	(55)	(2,479)
Depreciation	(24,937)	(44,854)	(108)	(2,296)	(370)	–	(72,565)
Transfers	24,589	46,007	–	–	–	(70,596)	–
Exchange realignment	–	–	–	1	–	–	1
Closing net carrying amount	657,441	320,454	179	5,014	442	110,609	1,094,139
As at 31 December 2025							
Cost	778,160	532,883	1,122	20,668	50,551	110,609	1,493,993
Accumulated depreciation	(120,719)	(212,429)	(943)	(15,654)	(50,109)	–	(399,854)
Net carrying amount	657,441	320,454	179	5,014	442	110,609	1,094,139

APPENDIX I

ACCOUNTANTS’ REPORT

Notes:

- (a) The carrying amounts of properties and buildings amounted to RMB245,543,000 and RMB7,836,000 as at 31 December 2023 and 2024, respectively, are in the process of obtaining the property ownership certificates. The directors of the Company are of the opinion that the relevant certificates would be obtained in the near future, the Group is entitled to lawfully and validly occupy and use the buildings, and therefore the aforesaid matter did not have any significant impact on the Group’s consolidated statements of financial position as at 31 December 2023 and 2024. As at 31 December 2025, the property ownership certificates have been obtained for all of the above-mentioned properties.

No properties and buildings are in the process of obtaining the property ownership certificates as at 31 December 2025.

- (b) The Group has pledged certain property, plant and equipment with the following carrying amounts to secure bank borrowings granted to the Group. Details of the Group’s assets pledged for the Group’s bank borrowings are disclosed in note 34 to the Historical Financial Information.

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Properties and buildings	487,605	493,806	488,214
Construction in progress	51,237	13,488	–
	<u>538,842</u>	<u>507,294</u>	<u>488,214</u>

- (c) ***Impairment of property, plant and equipment and intangible assets***

Kehuang Capsule production line (“Kehuang CGUs”)

During the Track Record Period, management conducted the impairment assessments on the Kehuang CGUs. The value-in-use calculations were based on cash flow projections derived from the latest financial budgets approved by management. These projections cover a six-year period, which represents the remaining useful life of the key assets within the Kehuang CGUs, specifically the license rights, which typically follow a 10-year product life cycle.

Management considers the annual revenue growth rate to be a key assumption, as it is the primary driver for revenue and costs in each reporting period. The annual revenue growth rate is determined based on past performance and management’s expectations of market development. The pre-tax discount rate used reflects specific risks associated with the relevant business.

Based on management’s assessment on the recoverable amounts, no impairment was considered necessary as at 31 December 2023, 2024 and 2025.

Tianhe production line (“Tianhe CGUs”)

During the Track Record Period, management conducted the impairment assessments on the Tianhe CGUs. The value-in-use calculations were based on cash flow projections derived from the latest financial budgets approved by management. These projections cover a nine-year period, which represents the remaining useful life of the key assets within the Tianhe CGUs, specifically the license rights, which typically follow a 10-year useful life.

Management considers the annual revenue growth rate to be a key assumption, as it is the primary driver for revenue and costs in each reporting period. The annual revenue growth rate is determined based on past performance and management’s expectations of market development. The pre-tax discount rate used reflects specific risks associated with the relevant business.

Based on management’s assessment on the recoverable amounts, no impairment was considered necessary as at 31 December 2024 and 2025.

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	Properties and buildings	Machinery	Transportation equipment	Office and electronic equipment	Leasehold improvement	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023							
Cost	609,200	224,964	1,084	13,824	12,007	256,588	1,117,667
Accumulated depreciation	(52,052)	(56,252)	(575)	(6,798)	(6,020)	–	(121,697)
Net carrying amount	557,148	168,712	509	7,026	5,987	256,588	995,970
Year ended 31 December 2023							
Opening net carrying amount.	557,148	168,712	509	7,026	5,987	256,588	995,970
Additions.	–	34,999	24	855	–	171,942	207,820
Interest capitalised	–	–	–	–	–	4,886	4,886
Disposals.	(3,043)	(10,035)	–	(59)	(103)	–	(13,240)
Depreciation	(20,423)	(25,492)	(121)	(1,897)	(4,924)	–	(52,857)
Transfers	57,397	7,227	–	–	–	(64,624)	–
Closing net carrying amount	591,079	175,411	412	5,925	960	368,792	1,142,579
As at 31 December 2023 and 1 January 2024							
Cost	662,949	254,748	1,108	13,682	11,904	368,792	1,313,183
Accumulated depreciation	(71,870)	(79,337)	(696)	(7,757)	(10,944)	–	(170,604)
Net carrying amount	591,079	175,411	412	5,925	960	368,792	1,142,579
Year ended 31 December 2024							
Opening net carrying amount.	591,079	175,411	412	5,925	960	368,792	1,142,579
Additions.	–	1,634	–	773	–	28,761	31,168
Interest capitalised	–	–	–	–	–	955	955
Disposals.	–	(376)	–	(98)	–	–	(474)
Depreciation	(23,738)	(33,569)	(122)	(1,912)	(960)	–	(60,301)
Transfers	84,605	134,882	–	–	–	(219,487)	–
Transferred to investment properties (note 16)	–	–	–	–	–	(6,691)	(6,691)
Closing net carrying amount	651,946	277,982	290	4,688	–	172,330	1,107,236
As at 31 December 2024 and 1 January 2025							
Cost	747,554	389,947	1,108	13,996	11,904	172,330	1,336,839
Accumulated depreciation	(95,608)	(111,965)	(818)	(9,308)	(11,904)	–	(229,603)
Net carrying amount	651,946	277,982	290	4,688	–	172,330	1,107,236
Year ended 31 December 2025							
Opening net carrying amount.	651,946	277,982	290	4,688	–	172,330	1,107,236
Additions.	–	7,892	–	1,420	–	4,421	13,733
Interest capitalised	–	–	–	–	–	19	19
Disposals.	(533)	(133)	(10)	(25)	–	(55)	(756)
Depreciation	(24,705)	(38,616)	(107)	(1,944)	–	–	(65,372)
Transfers	24,589	41,517	–	–	–	(66,106)	–
Closing net carrying amount	651,297	288,642	173	4,139	–	110,609	1,054,860
As at 31 December 2025							
Cost	771,610	438,227	912	15,031	11,904	110,609	1,348,293
Accumulated depreciation	(120,313)	(149,585)	(739)	(10,892)	(11,904)	–	(293,433)
Net carrying amount	651,297	288,642	173	4,139	–	110,609	1,054,860

APPENDIX I

ACCOUNTANTS’ REPORT

15. RIGHT-OF-USE ASSETS

The movements in the net carrying amount of the Group’s right-of-use assets are analysed as follows:

The Group

	Leasehold land	Properties and buildings	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2023	20,322	37,413	57,735
Addition	–	3,768	3,768
Depreciation	(539)	(15,193)	(15,732)
Early termination	–	(3,477)	(3,477)
As at 31 December 2023 and 1 January 2024 . . .	19,783	22,511	42,294
Lease modification	–	16,147	16,147
Depreciation	(539)	(13,076)	(13,615)
As at 31 December 2024 and 1 January 2025 . . .	19,244	25,582	44,826
Lease modification	–	(8,571)	(8,571)
Depreciation	(540)	(11,597)	(12,137)
As at 31 December 2025	18,704	5,414	24,118

Certain right-of-use assets are pledged for the Group’s bank borrowings, details are disclosed in note 34 to the Historical Financial Information.

The Company

	Leasehold land	Properties and buildings	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2023	20,322	8,973	29,295
Depreciation	(539)	(7,675)	(8,214)
Early termination	–	(24)	(24)
As at 31 December 2023 and 1 January 2024 . . .	19,783	1,274	21,057
Lease modification	–	10,865	10,865
Depreciation	(539)	(5,802)	(6,341)
As at 31 December 2024 and 1 January 2025 . . .	19,244	6,337	25,581
Depreciation	(540)	(5,432)	(5,972)
As at 31 December 2025	18,704	905	19,609

16. INVESTMENT PROPERTIES

The Group

	Leasehold land	Properties and buildings	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2023	1,932	21,309	23,241
Depreciation	(76)	(1,232)	(1,308)
As at 31 December 2023 and 1 January 2024 . . .	1,856	20,077	21,933
Depreciation	(76)	(1,250)	(1,326)
As at 31 December 2024 and 1 January 2025 . . .	1,780	18,827	20,607
Depreciation	(76)	(1,215)	(1,291)
As at 31 December 2025	1,704	17,612	19,316

APPENDIX I

ACCOUNTANTS’ REPORT

Certain investment properties are pledged for the Group’s bank borrowings, details are disclosed in note 34 to the Historical Financial Information.

The Group’s investment properties are situated in the PRC.

Details of the Group’s investment properties and information about the fair value hierarchy and valuation technique are as follows:

As at 31 December 2023				
	Carrying amount	Fair value at Level 3	Valuation technique	Major unobservable input
	<i>RMB’000</i>	<i>RMB’000</i>		
Land, properties and buildings . . .	21,933	29,791	Income approach	Projected future cash flows and discount rate
As at 31 December 2024				
	Carrying amount	Fair value at Level 3	Valuation technique	Major unobservable input
	<i>RMB’000</i>	<i>RMB’000</i>		
Land, properties and buildings . . .	20,607	26,114	Income approach	Projected future cash flows and discount rate
As at 31 December 2025				
	Carrying amount	Fair value at Level 3	Valuation technique	Major unobservable input
	<i>RMB’000</i>	<i>RMB’000</i>		
Land, properties and buildings . . .	19,316	25,640	Income approach	Projected future cash flows and discount rate

The Company

	Leasehold land	Properties and buildings	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 1 January 2023	1,932	21,309	23,241
Depreciation	(76)	(1,232)	(1,308)
As at 31 December 2023 and 1 January 2024 . . .	1,856	20,077	21,933
Transferred from property, plant and equipment (note 14)	–	6,691	6,691
Depreciation	(76)	(1,424)	(1,500)
As at 31 December 2024 and 1 January 2025 . . .	1,780	25,344	27,124
Depreciation	(76)	(1,447)	(1,523)
Disposal	–	(141)	(141)
As at 31 December 2025	1,704	23,756	25,460

APPENDIX I

ACCOUNTANTS’ REPORT

17. INTANGIBLE ASSETS

The Group

	Patent rights	Patented technologies	License rights	Software	Development cost	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023						
Cost	23,815	13,257	141,509	15,585	–	194,166
Accumulated amortisation . . .	(23,815)	(13,257)	(9,434)	(2,161)	–	(48,667)
Net carrying amount	–	–	132,075	13,424	–	145,499
Year ended 31 December 2023						
Opening net carrying amount . .	–	–	132,075	13,424	–	145,499
Additions	5,059	–	3,600	961	–	9,620
Amortisation	(333)	–	(14,271)	(1,574)	–	(16,178)
Closing net carrying amount . .	4,726	–	121,404	12,811	–	138,941
As at 31 December 2023 and 1 January 2024						
Cost	28,874	13,257	145,109	16,546	–	203,786
Accumulated amortisation . . .	(24,148)	(13,257)	(23,705)	(3,735)	–	(64,845)
Net carrying amount	4,726	–	121,404	12,811	–	138,941
Year ended 31 December 2024						
Opening net carrying amount . .	4,726	–	121,404	12,811	–	138,941
Additions	–	–	84,368	2,859	30,879	118,106
Amortisation	(506)	–	(17,976)	(1,793)	–	(20,275)
Closing net carrying amount . .	4,220	–	187,796	13,877	30,879	236,772
As at 31 December 2024 and 1 January 2025						
Cost	28,874	13,257	229,477	19,405	30,879	321,892
Accumulated amortisation . . .	(24,654)	(13,257)	(41,681)	(5,528)	–	(85,120)
Net carrying amount	4,220	–	187,796	13,877	30,879	236,772
Year ended 31 December 2025						
Opening net carrying amount . .	4,220	–	187,796	13,877	30,879	236,772
Additions	–	–	31,464	603	51,862	83,929
Amortisation	(506)	–	(24,712)	(1,970)	–	(27,188)
Closing net carrying amount . .	3,714	–	194,548	12,510	82,741	293,513
As at 31 December 2025						
Cost	28,874	13,257	260,941	20,008	82,741	405,821
Accumulated amortisation . . .	(25,160)	(13,257)	(66,393)	(7,498)	–	(112,308)
Net carrying amount	3,714	–	194,548	12,510	82,741	293,513

Note: Except for development cost mentioned below, the impairment assessment of intangible assets refers to note 14(c) for details.

APPENDIX I

ACCOUNTANTS’ REPORT

Impairment of development cost not yet available for use

The carrying amount of development cost allocated to each CGU is as follows:

	Year ended 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Human Interferon α lb (Mutant) Inhalation Solution (“GB05”)	–	9,825	24,059
Pegylated Human Granulocyte Colony-stimulating Factor Injection (“GB-K02”)	–	21,054	57,161
Recombinant Humanised Type III Collagen (“GB14”)	–	–	1,521
	–	30,879	82,741
Less: impairment	–	–	–
At the end of the year	–	30,879	82,741

The recoverable amounts for the development cost were determined based on value-in-use calculations. These calculations used cash flow projections based on financial budget approved by management covering a 10-year period for GB05, GB-K02, and GB14, respectively. These timeframes reflect the products typically follow a 10-year life cycle following commercialisation. The key assumptions used in estimating the recoverable amounts were as follows:

	2023	2024	2025
GB05			
Probability of successful commercialisation (“PSC”)	N/A	75.85%	76.31%
Pre-tax discount rate	N/A	16.99%	15.87%
GB-K02			
PSC	N/A	82.95%	90.83%
Pre-tax discount rate	N/A	17.56%	16.44%
GB14			
PSC	N/A	N/A	88.59%
Pre-tax discount rate	N/A	N/A	20.36%

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determine value
PSC	The PSC is derived from historical success rates of similar R&D projects in the PRC, together with management’s and internal experts’ expectations regarding the probability of success (“POS”) for each R&D phase (e.g., pre-clinical, Phase I, Phase II/III, and New Drug Application (“NDA”) approval). These expectations take into account available clinical data (e.g., safety and efficacy signals), the advantages of the clinical trial design, regulatory feedback, and the competitive landscape. The expected probabilities for each R&D stage are multiplied sequentially to calculate the overall PSC from the current development stage through to market launch.
Pre-tax discount rate	The pre-tax discount rate is determined using a risk-premium approach, based on a risk-free rate aligned with the cash flow projection period and adjusted for specific risk factors, including market risk, capital investment risk, technology development risk, quality control and execution risk. The rate reflects the relationship between the project’s cost of capital and its associated future cash flows.

APPENDIX I

ACCOUNTANTS’ REPORT

Based on management’s assessment on the recoverable amounts of development cost, no impairment was considered necessary as at 31 December 2024 and 2025, and the headroom of development cost is as follows:

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
GB05	N/A	342,100	295,520
GB-K02	N/A	65,082	5,583
GB14	N/A	N/A	242,803

Management has performed the sensitivity analysis based on reasonably possible changes to the above key assumptions, taking into account the volatility of the business and industry in which the development costs are engaged. The following table sets forth the changes to the key assumptions used in the impairment assessment and the corresponding changes in the recoverable amount, with each change taken in isolation, that would eliminate the remaining headroom as at 31 December 2024 and 2025, respectively.

Sensitivity of key assumptions

		As at 31 December		
	Change	2023	2024	2025
		RMB'000	RMB'000	RMB'000
GB05				
PSC	Increase/ Decrease 5%	N/A	Increase 38,965/ Decrease 37,064	Increase 34,638/ Decrease 32,934
Pre-tax discount rate	Increase/ Decrease 5%	N/A	Decrease 17,122/ Increase 18,219	Decrease 14,573/ Increase 15,365
GB-K02				
PSC	Increase/ Decrease 5%	N/A	Increase 11,774/ Decrease 11,206	Increase 6,392/ Decrease 7,503
Pre-tax discount rate	Increase/ Decrease 5%	N/A	Decrease 4,721/ Increase 4,986	Decrease 3,083/ Increase 3,265
GB14				
PSC	Increase/ Decrease 5%	N/A	N/A	Increase 25,046/ Decrease 23,810
Pre-tax discount rate	Increase/ Decrease 5%	N/A	N/A	Decrease 12,665/ Increase 12,724

As disclosed above, management has considered and assessed reasonably possible changes to the key assumptions and determined that no reasonably possible changes would result in the carrying amounts of the development cost exceeding their recoverable amounts as at 31 December 2024 and 2025, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	Patented technologies	License rights	Software	Development cost	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2023					
Cost	13,257	141,509	13,851	–	168,617
Accumulated amortisation . . .	(13,257)	(9,434)	(1,725)	–	(24,416)
Net carrying amount	–	132,075	12,126	–	144,201
Year ended 31 December 2023					
Opening net carrying amount.	–	132,075	12,126	–	144,201
Additions	–	–	961	–	961
Amortisation	–	(14,151)	(1,399)	–	(15,550)
Closing net carrying amount .	–	117,924	11,688	–	129,612
As at 31 December 2023 and 1 January 2024					
Cost	13,257	141,509	14,812	–	169,578
Accumulated amortisation . . .	(13,257)	(23,585)	(3,124)	–	(39,966)
Net carrying amount	–	117,924	11,688	–	129,612
Year ended 31 December 2024					
Opening net carrying amount.	–	117,924	11,688	–	129,612
Additions	–	70,368	2,859	21,055	94,282
Amortisation	–	(16,482)	(1,617)	–	(18,099)
Closing net carrying amount .	–	171,810	12,930	21,055	205,795
As at 31 December 2024 and 1 January 2025					
Cost	13,257	211,877	17,671	21,055	263,860
Accumulated amortisation . . .	(13,257)	(40,067)	(4,741)	–	(58,065)
Net carrying amount	–	171,810	12,930	21,055	205,795
Year ended 31 December 2025					
Opening net carrying amount.	–	171,810	12,930	21,055	205,795
Additions	–	31,464	603	36,106	68,173
Amortisation	–	(22,952)	(1,795)	–	(24,747)
Closing net carrying amount .	–	180,322	11,738	57,161	249,221
As at 31 December 2025					
Cost	13,257	243,341	18,274	57,161	332,033
Accumulated amortisation . . .	(13,257)	(63,019)	(6,536)	–	(82,812)
Net carrying amount	–	180,322	11,738	57,161	249,221

APPENDIX I

ACCOUNTANTS’ REPORT

18. INVESTMENTS IN SUBSIDIARIES

Details of the Company’s principal subsidiaries are set out in note 1 to the Historical Financial Information.

The directors of the Company considered that none of the non-wholly-owned subsidiaries have non-controlling interests that are material to the Group, therefore, no summarised financial information of these non-wholly-owned subsidiaries are presented separately.

19. INVESTMENT IN AN ASSOCIATE

The Group and the Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	–	4,023	3,932
Addition	4,000	–	–
Share of result	23	(91)	(36)
At the end of the year	4,023	3,932	3,896

The following list contains the particular of the associate of the Group, which is unlisted corporate entity whose quoted market price is not available.

Company name	Place of incorporation and operation	Particular of share capital	Ownership interest held			Principal activity
			as at 31 December			
			2023	2024	2025	
Shaanxi Mingkun Musk Deer Industry Science and Technology Co., Ltd. (陝西名坤麝業科技有限公司) (“Shaanxi Mingkun”)	The PRC	RMB20,000,000	20%	20%	20%	Captive breeding of national key protected terrestrial wildlife

During the year ended 31 December 2023, the Group and the Company acquired 20% equity interests in Shaanxi Mingkun at a consideration of RMB4,000,000.

The Group and the Company have not incurred any contingent liabilities or other commitments relating to its investment in an associate.

20. FINANCIAL ASSETS AT FVTPL

The Group and the Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Non-current			
Private fund	226,297	183,614	249,854
Unlisted equity investment	–	–	42,000
	226,297	183,614	291,854

APPENDIX I

ACCOUNTANTS’ REPORT

21. FINANCIAL ASSETS AT FVTOCI

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Non-current			
Unlisted equity investment (<i>note (a)</i>)	15,000	15,860	15,830
Current			
Bills receivable measured at FVTOCI (<i>note (b)</i>) .	56,322	63,252	88,548

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Current			
Bills receivable measured at FVTOCI (<i>note (b)</i>) .	37,910	47,595	41,726

Notes:

- (a) Financial assets at FVTOCI comprise unlisted equity investment which is not held for trading.
- (b) Certain bills held by the Group and the Company for the practice of discounting/endorsing to financial institutions before the bills maturity date and held for sale were classified as “bills receivable measured at FVTOCI” under financial assets at FVTOCI in the consolidated statements of financial position. At the end of each reporting period, all the bills are with a maturity period of less than 12 months. The Group and the Company consider the credit risk is limited because counterparties are financial institutions with good credit standing and are highly likely to be paid, and the ECL are considered as insignificant.

Transfer of derecognised financial assets

During the Track Record Period, the Group and the Company (i) endorsed certain bills receivable for the settlement of trade payables; and (ii) discounted certain bills receivable to banks for raising of cash. In the opinion of the directors, the Group and the Company have transferred the significant risks and rewards relating to these bills receivable, and the Group’s and the Company’s obligations to the corresponding counterparties were discharged in accordance with the commercial practice in the PRC and the risk of default in payment of the endorsed and discounted bills receivable is low because all endorsed and discounted bills receivable are issued and guaranteed by the reputable PRC banks. As a result, the relevant assets and liabilities were not recognised in the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

22. INVENTORIES

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Raw materials	49,059	39,603	43,157
Work in progress	65,801	52,028	33,587
Finished goods	44,732	26,537	23,344
Low-value consumables	28,731	21,764	27,451
Goods in transit	5,543	3,804	11,654
Consigned processing materials.	–	–	472
	193,866	143,736	139,665
Less: provision for inventories	(2,501)	(1,927)	(450)
	191,365	141,809	139,215

Movements in the provision for inventories are as follows:

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	552	2,501	1,927
Provision for inventories.	2,562	3,669	2,342
Written off	(613)	(4,243)	(3,819)
At the end of the year	2,501	1,927	450

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Raw materials	42,759	32,949	36,147
Work in progress	57,399	50,482	31,985
Finished goods	36,940	17,616	16,815
Low-value consumables	23,691	17,484	23,650
Goods in transit	5,017	3,530	9,797
	165,806	122,061	118,394
Less: provision for inventories	(2,456)	(801)	(150)
	163,350	121,260	118,244

APPENDIX I

ACCOUNTANTS’ REPORT

Movements in the provision for inventories are as follows:

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	533	2,456	801
Provision for inventories	2,466	2,463	768
Written off	(543)	(4,118)	(1,419)
At the end of the year	2,456	801	150

23. TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Non-current			
Prepayments	134,828	98,839	62,819
Current			
Trade receivables (<i>note (a)</i>)	299,439	501,590	606,910
Bills receivable (<i>note (a)</i>)	11,197	25,289	58,971
Trade and bills receivables, gross	310,636	526,879	665,881
Less: ECL allowance	(24,916)	(26,314)	(27,126)
Trade and bills receivables, net.	285,720	500,565	638,755
Value-added tax recoverable.	2,046	4,709	9,491
Prepayments	24,925	6,710	47,044
Deposits	2,866	13,777	15,895
[REDACTED] fee	–	–	[REDACTED]
Amounts due from related parties (<i>note (b)</i>)	361	1,703	1,825
Other receivables	3,053	1,963	3,670
	33,251	28,862	91,562
Less: ECL allowance	(1,829)	(1,241)	(1,152)
	31,422	27,621	90,410
	317,142	528,186	729,165
	451,970	627,025	791,984

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Non-current			
Prepayments	114,323	92,247	51,881
Current			
Trade receivables			
– third parties	194,707	305,972	400,967
– subsidiaries	–	1,582	29,646
Bills receivable	6,102	20,591	39,617
Trade and bills receivables, gross	200,809	328,145	470,230
Less: ECL allowance	(14,005)	(11,877)	(18,206)
Trade and bills receivables, net	186,804	316,268	452,024
Value-added tax recoverable	112	1,578	–
Prepayments	18,472	1,246	20,852
Deposits	2,698	13,671	13,690
[REDACTED] fee	–	–	[REDACTED]
Amounts due from related parties (<i>note (b)</i>)	–	993	1,134
Amounts due from subsidiaries	63,338	118,840	210,756
Other receivables	2,659	1,497	2,972
	87,279	137,825	263,041
Less: ECL allowance	(1,740)	(1,078)	(1,043)
	85,539	136,747	261,998
	272,343	453,015	714,022
	386,666	545,262	765,903

The credit period granted to customers is generally within 30 - 180 days after the date of invoice during the Track Record Period.

Notes:

- (a) Certain trade and bills receivables are restricted, details are disclosed in note 34 to the Historical Financial Information
- (b) The amounts represent rental deposits and will be settled upon the termination of the lease contracts. The amounts are non-trade in nature, unsecured and interest-free.

APPENDIX I

ACCOUNTANTS’ REPORT

The aging analysis of trade and bills receivables (based on date of revenue recognition), net of ECL allowance, is as follows:

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year.	282,089	499,390	635,319
1 - 2 years	2,243	1,077	3,411
2 - 3 years	1,388	98	25
	<u>285,720</u>	<u>500,565</u>	<u>638,755</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year.	184,713	315,999	451,479
1 - 2 years	1,229	213	526
2 - 3 years	862	56	19
	<u>186,804</u>	<u>316,268</u>	<u>452,024</u>

Movements in ECL allowance of trade and bills receivables are as follows:

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	28,198	24,916	26,314
ECL allowance (reversed)/recognised, net	(3,282)	1,398	812
At the end of the year	<u>24,916</u>	<u>26,314</u>	<u>27,126</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	16,295	14,005	11,877
ECL allowance (reversed)/recognised, net	(2,290)	(2,128)	1,073
Transfer	–	–	5,256
At the end of the year	<u>14,005</u>	<u>11,877</u>	<u>18,206</u>

APPENDIX I

ACCOUNTANTS’ REPORT

Movements in ECL allowance of other receivables are as follows:

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	1,522	1,829	1,241
ECL allowance recognised/(reversed), net	354	211	(89)
Written off	(47)	(799)	–
At the end of the year	1,829	1,241	1,152

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
At the beginning of the year	1,277	1,740	1,078
ECL allowance recognised/(reversed), net	510	137	(35)
Written off	(47)	(799)	–
At the end of the year	1,740	1,078	1,043

24. PLEDGED DEPOSITS AND CASH AND CASH EQUIVALENTS

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Cash at bank	559,931	552,952	648,322
Pledged deposits	8,866	1,610	2,106
	568,797	554,562	650,428
Less: pledged deposits	(8,866)	(1,610)	(2,106)
Cash and cash equivalents per consolidated statements of cash flows	559,931	552,952	648,322

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Cash at bank	397,892	370,423	413,602
Pledged deposits	8,866	1,361	1,813

Note: Pledged deposits mainly include guarantee deposits for insurance.

APPENDIX I

ACCOUNTANTS’ REPORT

25. TRADE AND OTHER PAYABLES

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade payables	63,163	99,512	122,520
Salaries payable	24,600	29,523	35,696
Value-added tax payables	747	2,600	8,156
Deposits received	4,366	11,334	9,681
Amounts due to related parties (<i>note</i>)	181	150	140
Provision of sale rebates	–	1,779	1,449
Other payables	154,869	136,894	162,659
	<u>247,926</u>	<u>281,792</u>	<u>340,301</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Trade payables	52,823	80,228	98,697
Salaries payables	18,529	20,732	24,724
Value-added tax payables	145	53	5,046
Deposits received	3,354	3,416	4,321
Amounts due to related parties (<i>note</i>)	156	133	117
Amounts due to subsidiaries	108,237	48,769	49,423
Provision of sale rebates	–	1,371	987
Other payables	106,203	94,092	98,646
	<u>289,447</u>	<u>248,794</u>	<u>281,961</u>

The Group and the Company are granted by its suppliers a credit period of 30 - 150 days after the date of invoice.

Note: The amounts represent utilities payables and will be settled by invoice due date. The amounts due are non-trade in nature, unsecured and interest-free.

Based on the invoice dates, the aging analysis of the trade payables is as follows:

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year.	63,158	99,505	122,514
Over 1 year.	5	7	6
	<u>63,163</u>	<u>99,512</u>	<u>122,520</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Within 1 year.	52,818	80,223	98,697
Over 1 year.	5	5	–
	<u>52,823</u>	<u>80,228</u>	<u>98,697</u>

26. CONTRACT LIABILITIES

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Receipts in advance from customers.	<u>19,636</u>	<u>9,181</u>	<u>12,925</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Receipts in advance from customers.	<u>18,464</u>	<u>8,504</u>	<u>9,869</u>

The Group and the Company receive advance payments from customers for sales of pharmaceutical products, these will give rise to contract liabilities at the commencement of a contract until the revenue recognised at the satisfaction of the performance obligation by the Group and the Company.

As at 31 December 2023, 2024 and 2025, none of the contract liabilities that is expected to be settled after more than one year.

The increase/decrease of contract liabilities as at 31 December 2023, 2024 and 2025 is mainly due to the increase/decrease in the deposits received as a result of more/less manufacturing orders received from customers near the Track Record Period.

Contract liabilities outstanding at the beginning of the year have been recognised as revenue during the Track Record Period is as follows:

The Group

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year	<u>17,024</u>	<u>17,539</u>	<u>3,475</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the year	12,217	16,488	3,072

The manufacturing contracts are for periods of one year or less. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

27. DEFERRED INCOME

Deferred income represents the government grants received from the PRC government in relation to the acquisition of certain property, plant and equipment and the subsidies related to revenue.

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Assets-related government grants	3,822	3,151	11,278
Revenue-related government grants	1,500	–	–
	5,322	3,151	11,278

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Assets-related government grants	1,379	1,178	4,113

28. BANK BORROWINGS

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Carrying amount repayable (note)			
Within one year	395,730	582,375	663,170
In the second to fifth years	659,938	611,179	727,705
After the fifth years	35,902	–	–
Total carrying amount	1,091,570	1,193,554	1,390,875
Less: amount due within one year	(395,730)	(582,375)	(663,170)
Carrying amount shown under non- current liabilities	695,840	611,179	727,705
Analysed as:			
Fixed-rate borrowings	208,855	276,862	191,282
Variable rate borrowings	882,715	916,692	1,199,593
	1,091,570	1,193,554	1,390,875

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Carrying amount repayable (note)			
Within one year	373,330	465,039	601,054
In the second to fifth years	521,638	566,979	566,081
After the fifth years	35,902	–	–
Total carrying amount	930,870	1,032,018	1,167,135
Less: amount due within one year	(373,330)	(465,039)	(601,054)
Carrying amount shown under non- current liabilities	557,540	566,979	566,081
Analysed as:			
Fixed-rate borrowings	162,854	262,173	165,447
Variable rate borrowings	768,016	769,845	1,001,688
	930,870	1,032,018	1,167,135

Note: The amounts are based on the scheduled repayment dates set out in the loan agreements.

The Group

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Bank borrowings			
– Secured (note (a))	561,713	463,282	435,306
– Unsecured	9,980	9,970	9,950
– Guaranteed (note (b))	519,877	720,302	945,619
	1,091,570	1,193,554	1,390,875

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Bank borrowings			
– Secured (note (a))	561,713	463,282	435,306
– Unsecured	9,980	9,970	9,950
– Guaranteed (note (b))	359,177	558,766	721,879
	930,870	1,032,018	1,167,135

As at 31 December 2023, 2024 and 2025, the bank borrowings of the Group and the Company carried interest rates ranging from 2.35% to 4.35%, 2.25% to 4.00% and 2.00% to 3.55% per annum, respectively.

Notes:

- Details of assets pledged for the Group’s bank borrowings are disclosed in note 34 to the Historical Financial Information.
- The amounts are guaranteed by Mr. Deng Xueqin, the controlling shareholder of the Company; Ms. Wen Shaozhen, the spouse of Mr. Deng Xueqin; Shenzhen Keyi Pharmaceutical Holdings Co., Ltd., the immediate holding of the Company; and Genzon Investment Group Co., Ltd., the ultimate holding of the Company.

The directors of the Company confirmed that all subsisting loans, guarantees or pledges provided by the Company’s controlling shareholder or his close associates to the Group will be fully repaid or released before [REDACTED].

APPENDIX I

ACCOUNTANTS’ REPORT

- (c) As at 31 December 2023, 2024 and 2025, the Group’s and the Company’s bank borrowings were repayable as follows:

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within 1 year.	395,730	582,375	663,170
Between 1 and 2 years	355,602	380,627	460,909
Between 2 and 5 years	304,336	230,552	266,796
After 5 years	35,902	–	–
	<u>1,091,570</u>	<u>1,193,554</u>	<u>1,390,875</u>

The Company

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within 1 year.	373,330	465,039	601,054
Between 1 and 2 years	234,502	361,427	383,601
Between 2 and 5 years	287,136	205,552	182,480
After 5 years	35,902	–	–
	<u>930,870</u>	<u>1,032,018</u>	<u>1,167,135</u>

29. LEASE LIABILITIES

The Group

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Total minimum lease payments:			
– Within 1 year	7,740	13,405	4,189
– Over 1 year but within 5 years.	19,368	15,758	1,841
	<u>27,108</u>	<u>29,163</u>	<u>6,030</u>
Future finance charges on lease liabilities	(2,617)	(1,932)	(149)
Present value of lease liabilities	<u>24,491</u>	<u>27,231</u>	<u>5,881</u>
Present value of minimum lease payments:			
– Within 1 year	6,705	12,447	4,065
– Over 1 year but within 5 years.	17,786	14,784	1,816
	<u>24,491</u>	<u>27,231</u>	<u>5,881</u>
Less: portion due within 1 year included under current liabilities	(6,705)	(12,447)	(4,065)
Portion due after 1 year included under non-current liabilities	<u>17,786</u>	<u>14,784</u>	<u>1,816</u>

As at 31 December 2023, 2024 and 2025, lease liabilities amounted to RMB24,491,000, RMB27,231,000 and RMB5,881,000, respectively, are effectively secured by the related underlying assets as the rights to the leased assets would be reverted to the lessors in the event of default by repayment by the Group.

APPENDIX I

ACCOUNTANTS’ REPORT

During the Track Record Period, the total cash outflows for the leases were RMB20,873,000, RMB13,791,000 and RMB10,966,000, respectively.

Details of lease activities

As at 31 December 2023, 2024 and 2025, the Group has entered into the following leases:

Type of right-of-use asset	Number of lease	Range of remaining lease term	Number of lease with extension option	Number of lease with purchase option	Number of lease with termination option
As at 31 December 2023					
Leasehold land	7	33 to 44 years	–	–	–
Properties and buildings . .	5	1 to 5 years	5	–	5
As at 31 December 2024					
Leasehold land	7	32 to 43 years	–	–	–
Properties and buildings . .	5	1 to 4 years	5	–	5
As at 31 December 2025					
Leasehold land	7	31 to 42 years	–	–	–
Properties and buildings . .	5	Less than 1 year to 2 years	5	–	5

The Group considered that no extension option or termination option would be exercised at the lease commencement date.

The Company

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Total minimum lease payments:			
– Within 1 year	1,597	5,649	942
– Over 1 year but within 5 years.	–	942	–
	1,597	6,591	942
Future finance charges on lease liabilities	(10)	(167)	(5)
Present value of lease liabilities	1,587	6,424	937
Present value of minimum lease payments:			
– Within 1 year	1,587	5,487	937
– Over 1 year but within 5 years.	–	937	–
	1,587	6,424	937
Less: portion due within 1 year included under current liabilities	(1,587)	(5,487)	(937)
Portion due after 1 year included under non-current liabilities	–	937	–

APPENDIX I

ACCOUNTANTS’ REPORT

30. DEFERRED TAX

Deferred tax assets and liabilities are offset when there is a legally enforceable right of offsetting and when the deferred taxes relate to the same taxation jurisdiction.

(a) Deferred tax assets

The movements in deferred tax assets during the Track Record Period are as follows:

The Group

	Deferred income	Accrued expenses	Tax losses	Lease liabilities	Unrealised profits on intra-group transactions	Provision for assets	Equity settled share-based payments	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023	–	–	55,383	6,493	–	3,801	1,177	–	66,854
Credited/(Charged) to profit or loss	798	3,329	66,231	(2,957)	–	(112)	(167)	–	67,122
As at 31 December 2023 and 1 January 2024	798	3,329	121,614	3,536	–	3,689	1,010	–	133,976
(Charged)/Credited to profit or loss	(325)	85	(23,886)	516	6,183	207	(52)	514	(16,758)
As at 31 December 2024 and 1 January 2025	473	3,414	97,728	4,052	6,183	3,896	958	514	117,218
Credited to capital reserve	–	–	–	–	–	–	1,239	–	1,239
Credited/(Charged) to profit or loss	1,219	(183)	4,496	(2,902)	(553)	468	(504)	216	2,257
As at 31 December 2025	1,692	3,231	102,224	1,150	5,630	4,364	1,693	730	120,714

The Company

	Deferred income	Accrued expenses	Tax losses	Lease liabilities	Unrealised profits on intra-group transactions	Provision for assets	Equity settled share-based payments	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023	–	–	33,978	1,346	–	3,721	928	–	39,973
Credited/(Charged) to profit or loss	207	–	14,145	(1,108)	–	(38)	82	–	13,288
As at 31 December 2023 and 1 January 2024	207	–	48,123	238	–	3,683	1,010	–	53,261
(Charged)/Credited to profit or loss	(30)	999	(24,889)	726	–	(667)	(52)	514	(23,399)
As at 31 December 2024 and 1 January 2025	177	999	23,234	964	–	3,016	958	514	29,862
Credited to capital reserve	–	–	–	–	–	–	1,239	–	1,239
Credited/(Charged) to profit or loss	440	(530)	(13,984)	(823)	–	(106)	(504)	216	(15,291)
As at 31 December 2025	617	469	9,250	141	–	2,910	1,693	730	15,810

The Group

The following table lists out the tax losses, deductible temporary differences and lease liabilities which were not recognised as deferred tax assets at the end of each reporting period:

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Tax losses	50,700	90,646	105,746
Deductible temporary differences	8,943	8,999	3,789
Lease liabilities	919	222	726
	60,562	99,867	110,261

APPENDIX I

ACCOUNTANTS’ REPORT

As at 31 December 2023, 2024 and 2025, the Group has unrecognised tax losses of RMB50,700,000, RMB90,646,000 and RMB105,746,000, respectively, to carry forward against future taxable income. These tax losses will be expired in the following years:

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Not expire	25	30	442
2024	6,174	–	–
2025	1,966	1,966	–
2026	521	521	–
2027	10,417	10,417	10,024
2028	31,597	28,617	27,376
2029	–	49,095	41,889
2030	–	–	26,015
	<u>50,700</u>	<u>90,646</u>	<u>105,746</u>

(b) Deferred tax liabilities

The movements in deferred tax liabilities during the Track Record Period are as follows:

The Group

	Accelerated tax depreciation	Fair value adjustments arising from financial assets	Right-of-use assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023	2,243	6,316	5,987	–	14,546
(Credited)/Charged to profit or loss	<u>(499)</u>	<u>36</u>	<u>(2,731)</u>	<u>4</u>	<u>(3,190)</u>
As at 31 December 2023 and 1 January 2024	1,744	6,352	3,256	4	11,356
Charged to other comprehensive income	–	129	–	–	129
(Credited)/Charged to profit or loss	<u>(184)</u>	<u>(4,378)</u>	<u>557</u>	<u>(4)</u>	<u>(4,009)</u>
As at 31 December 2024 and 1 January 2025	1,560	2,103	3,813	–	7,476
Charged to other comprehensive income	–	(4)	–	–	(4)
Charged/(Credited) to profit or loss	<u>2,395</u>	<u>11,893</u>	<u>(2,767)</u>	<u>–</u>	<u>11,521</u>
As at 31 December 2025	<u>3,955</u>	<u>13,992</u>	<u>1,046</u>	<u>–</u>	<u>18,993</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The Company

	Accelerated tax depreciation	Fair value adjustments arising from financial assets	Right-of-use assets	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2023	1,895	6,316	1,055	–	9,266
(Credited)/Charged to profit or loss	(457)	36	(864)	4	(1,281)
As at 31 December 2023 and 1 January 2024	1,438	6,352	191	4	7,985
(Credited)/Charged to profit or loss	(142)	(4,378)	760	(4)	(3,764)
As at 31 December 2024 and 1 January 2025	1,296	1,974	951	–	4,221
Credited/(Credited) to profit or loss	2,439	11,893	(815)	–	13,517
As at 31 December 2025	3,735	13,867	136	–	17,738

As at 31 December 2023, 2024 and 2025, no deferred tax liabilities have been established for the withholding tax that would be payable on the unremitted earnings of certain subsidiaries because the Company controls the dividend policy of these subsidiaries and it is not probable that the temporary differences will reverse in the foreseeable future.

31. SHARE CAPITAL AND TREASURY SHARES

(a) Share capital

	Number of share	Share capital
		RMB'000
As at 1 January 2023	198,700,650	198,701
Exercise of restricted shares (<i>note (a)</i>)	498,000	498
As at 31 December 2023 and 1 January 2024	199,198,650	199,199
Exercise of restricted shares (<i>note (b)</i>)	443,600	443
As at 31 December 2024 and 1 January 2025	199,642,250	199,642
Exercise of restricted shares (<i>note (c)</i>)	1,615,000	1,615
As at 31 December 2025	201,257,250	201,257

Notes:

- (a) On 21 June 2023, 498,000 shares were issued upon vesting of restricted shares granted to employees. Therefore, share capital of RMB498,000 was recognised.
- (b) On 31 October 2024, 443,600 shares were issued upon vesting of restricted shares granted to employees. Therefore, share capital of RMB443,000 was recognised.
- (c) On 9 July 2025, 1,615,000 shares were issued upon vesting of restricted shares granted to employees. Therefore, share capital of RMB1,615,000 was recognised.

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Treasury shares

	Number of share	Treasury shares RMB'000
As at 1 January 2023, 31 December 2023 and 1 January 2024	–	–
Repurchase of shares (<i>note (i)</i>)	1,880,572	(31,120)
As at 31 December 2024 and 1 January 2025	1,880,572	(31,120)
Repurchase of shares (<i>note (ii)</i>)	1,319,333	(49,242)
As at 31 December 2025	3,199,905	(80,362)

Notes:

- (i) During the months of February, March and May 2024, a total of 1,880,572 A shares has been repurchased, and therefore treasury shares of RMB31,120,000, including RMB5,000 transaction cost, were recognised. The shares were repurchased with an average price of RMB16.55 per share.
- (ii) On 7 April, 13 May, 30 June and 17 October 2025, a total of 1,319,333 A shares has been repurchased, and therefore treasury shares of RMB49,242,000, including RMB5,000 transaction cost, were recognised. The shares were repurchased with an average price of RMB37.32 per share.

32. SHARE-BASED EMPLOYEE COMPENSATION

Type II restricted shares (the “restricted shares”) refer to the right to exercise the options to subscribe for ordinary shares that participants may subscribe for under the restricted share incentive plans. Participants of restricted shares have the right to exercise the options to subscribe for ordinary shares newly issued by the Company upon satisfaction of the Group’s performance conditions and the participants’ individual service conditions under the restricted share incentive plans.

All restricted shares will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the restricted shares other than by issuing the Company’s shares.

(a) 2022 Restricted share incentive plan

On 30 May 2022, the Company held the 34th meeting of the First Session of the Board of Directors and the 20th meeting of the First Session of the Board of Supervisors, which reviewed and approved the 2022 Restricted Share Incentive Plan. It was determined that the initial grant date was 30 May 2022, and 2,083,000 restricted shares were granted to 81 eligible participants, including directors, senior management personnel and key technical and business personnel, at exercise price of RMB15.80 per share.

The terms and conditions of the incentive plan are as follows:

	Vesting period	Percentage of vesting rights relative to total granted rights
First vesting period for restricted shares granted.	From the first trading day after 12 months from the grant date to the last trading day within 24 months from the grant date	30%
Second vesting period for restricted shares granted.	From the first trading day after 24 months from the grant date to the last trading day within 36 months from the grant date	30%
Third vesting period for restricted shares granted.	From the first trading day after 36 months from the grant date to the last trading day within 48 months from the grant date	40%

APPENDIX I

ACCOUNTANTS’ REPORT

The fair values of restricted shares granted were determined using the Black-Scholes Option Pricing model that takes into account factors specific to the incentive plan. The following principal assumptions were used in the valuation:

	First vesting period	Second vesting period	Third vesting period
Share price at date of grant	28.06	28.06	28.06
Expected volatility	16.55%	17.03%	17.22%
Expected option life	1	2	3
Dividend yield	0%	0%	0%
Risk-free interest rate	1.50%	2.10%	2.75%
Fair value at grant date	12.50	12.92	13.54
Exercise price at date of grant	15.80	15.80	15.80

(b) 2024 Restricted share incentive plan

On 14 June 2024, the Company held the 16th meeting of the Second Session of the Board of Directors and the 15th meeting of the Second Session of the Board of Supervisors, which reviewed and approved the 2024 Restricted Share Incentive Plan. It was determined that the initial grant date was 14 June 2024, and 3,786,000 restricted shares were granted to 147 eligible participants, including directors, senior management personnel and key technical and business personnel, at exercise price of RMB12.00 per share.

The terms and conditions of the incentive plan are as follows:

	Vesting period	Percentage of vesting rights relative to total granted rights
First vesting period for restricted shares granted.	From the first trading day after 12 months from the grant date to the last trading day within 24 months from the grant date	50%
Second vesting period for restricted shares granted.	From the first trading day after 24 months from the grant date to the last trading day within 36 months from the grant date	50%

The fair values of restricted shares granted were determined using the Black-Scholes Option Pricing model that takes into account factors specific to the incentive plan. The following principal assumptions were used in the valuation:

	First vesting period	Second vesting period
Share price at date of grant	17.88	17.88
Expected volatility	13.25%	13.24%
Expected option life	1	2
Dividend yield	0%	0%
Risk-free interest rate	1.50%	2.10%
Fair value at grant date	6.06	6.38
Exercise price at date of grant	12.00	12.00

APPENDIX I

ACCOUNTANTS’ REPORT

Details of restricted shares and weighted average exercise price are as follows:

2022 Restricted share incentive plan

	Number of share	Weighted average exercise price	Weighted average remaining contractual life
		<i>RMB</i>	
Outstanding as at 1 January 2023	1,795,000	15.80	1.5 years
Granted	200,000	15.70	
Exercised	(498,000)	15.70	
Lapsed	(266,600)	15.70	
Outstanding as at 31 December 2023 and 1 January 2024	1,230,400	15.70	0.7 year
Exercised	(443,600)	15.70	
Lapsed	(786,800)	15.70	
Outstanding as at 31 December 2024	–	–	–

2024 Restricted share incentive plan

	Number of share	Weighted average exercise price	Weighted average remaining contractual life
		<i>RMB</i>	
Outstanding as at 1 January 2024	–	–	–
Granted	3,786,000	12.00	
Lapsed	(462,000)	12.00	
Outstanding as at 31 December 2024 and 1 January 2025	3,324,000	12.00	1.5 years
Exercised	(1,615,000)	11.92	
Lapsed	(927,500)	11.92	
Outstanding as at 31 December 2025	781,500	11.92	0.5 year

33. RESERVES

The Group

During the Track Record Period, the amounts of the Group’s reserves and the movements therein are presented in the consolidated statements of changes in equity.

Capital reserve

The capital reserve consists of share premium and other capital reserve of the Group. Share premium of the Group represents the difference between the par value of the shares issued and the consideration received. Other capital reserve represents the equity settled share-based payments, details of which are set out in note 32 to the Historical Financial Information.

Other reserve

Other reserve comprises (i) cumulative fair value changes of financial assets measured at FVTOCI, and (ii) foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currency is not RMB. These amounts are recognised in other comprehensive income and accumulated in equity, and are accounted for in accordance with the accounting policies set out in note 3.2 to the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

Statutory reserve

In accordance with the Company Law of the PRC, the companies registered in the PRC are required to allocate 10% of the statutory after-tax profits to the statutory surplus reserve until the cumulative total of the reserve reaches 50% of the companies’ registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the companies. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

The Company

During the Track Record Period, the amounts of the Company’s reserves and the movements therein are presented as follows:

	Share capital	Treasury share	Capital reserve	Statutory reserve	Retained earnings	Total
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
As at 1 January 2023	198,701	–	1,422,303	19,852	87,248	1,728,104
Loss for the year	–	–	–	–	(38,923)	(38,923)
Exercise of restricted shares	498	–	7,321	–	–	7,819
Equity settled share-based payments	–	–	7,719	–	–	7,719
As at 31 December 2023 and 1 January 2024	199,199	–	1,437,343	19,852	48,325	1,704,719
Profit for the year	–	–	–	–	51,039	51,039
Exercise of restricted shares	443	–	6,521	–	–	6,964
Equity settled share-based payments	–	–	4,444	–	–	4,444
Repurchase of shares	–	(31,120)	(5)	–	–	(31,125)
Appropriation of statutory reserve	–	–	–	5,104	(5,104)	–
As at 31 December 2024 and 1 January 2025	199,642	(31,120)	1,448,303	24,956	94,260	1,736,041
Profit for the year	–	–	–	–	209,148	209,148
2024 final dividend (note 12)	–	–	–	–	(15,779)	(15,779)
Exercise of restricted shares	1,615	–	17,636	–	–	19,251
Equity settled share-based payments	–	–	6,471	–	–	6,471
Repurchase of shares	–	(49,242)	(5)	–	–	(49,247)
Appropriation of statutory reserve	–	–	–	20,915	(20,915)	–
As at 31 December 2025	201,257	(80,362)	1,472,405	45,871	266,714	1,905,885

34. PLEDGED OR RESTRICTED ASSETS

The carrying amounts of the Group’s pledged or restricted assets at the end of each reporting period are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Property, plant and equipment	538,842	507,294	488,214
Investment properties	5,312	2,805	2,154
Right-of-use assets	2,598	–	–
Trade receivables	–	–	6,946
Bills receivable	3,704	11,600	23,240
Pledged deposits	8,866	1,610	2,106
	559,322	523,309	522,660

APPENDIX I

ACCOUNTANTS’ REPORT

35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The reconciliation of liabilities arising from financing activities is as follows:

	Bank borrowings	Lease liabilities	Total
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
	<i>(note 28)</i>	<i>(note 29)</i>	
As at 1 January 2023	993,708	44,832	1,038,540
Cash flows:			
– Repayment	(355,210)	–	(355,210)
– Proceeds	453,074	–	453,074
– Capital element of lease rentals paid	–	(17,676)	(17,676)
– Interest expenses paid	(42,634)	(1,585)	(44,219)
Non-cash:			
– Entering into new lease	–	3,768	3,768
– Early termination	–	(4,029)	(4,029)
– Interest expenses	39,135	1,585	40,720
– Interest capitalised	4,886	–	4,886
– Others	(1,389)	(2,404)	(3,793)
As at 31 December 2023 and 1 January 2024 . . .	1,091,570	24,491	1,116,061
Cash flows:			
– Repayment	(559,466)	–	(559,466)
– Proceeds	661,450	–	661,450
– Capital element of lease rentals paid	–	(10,307)	(10,307)
– Interest expenses paid	(43,543)	(1,281)	(44,824)
Non-cash:			
– Lease modification	–	16,147	16,147
– Interest expenses	43,571	1,281	44,852
– Interest capitalised	955	–	955
– Others	(983)	(3,100)	(4,083)
As at 31 December 2024 and 1 January 2025 . . .	1,193,554	27,231	1,220,785
Cash flows:			
– Repayment	(732,420)	–	(732,420)
– Proceeds	916,430	–	916,430
– Capital element of lease rentals paid	–	(9,693)	(9,693)
– Interest expenses paid	(41,605)	(726)	(42,331)
Non-cash:			
– Lease modification	–	(9,565)	(9,565)
– Interest expenses	41,910	726	42,636
– Interest capitalised	19	–	19
– Others	12,987	(2,092)	10,895
As at 31 December 2025	1,390,875	5,881	1,396,756

36. COMMITMENTS

(a) Capital commitments

	As at 31 December		
	2023	2024	2025
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Contracted, but not provided for			
– Property, plant and equipment	20,149	7,637	16,608
– Intangible assets	33,600	42,032	36,227
	53,749	49,669	52,835

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Lease commitments — As lessee

At the end of each reporting period, the Group’s lease commitments for short-term leases are as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within 1 year.	83	495	221

(c) Lease commitments — As lessor

At the end of each reporting period, the Group had future aggregate minimum lease receipts under non-cancellable operating leases in respect of its properties and buildings as follows:

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Within 1 year.	2,184	2,262	1,961
After 1 year but within 2 years.	946	1,961	1,003
After 2 years but within 3 years.	974	1,003	1,033
After 3 years but within 4 years.	1,003	1,033	1,064
After 4 years but within 5 years.	1,033	1,064	1,096
After 5 years.	3,782	2,718	1,510
	9,922	10,041	7,667

The Group leases its investment properties (note 16) under operating lease arrangements which run for an initial period of two to ten years. The terms of the leases generally also require the tenants to pay security deposits.

37. RELATED PARTY TRANSACTIONS

Other than as disclosed in elsewhere to the Historical Financial Information, the Group entered into the following material related party transactions during the Track Record Period.

(a) Relationships with related parties

Company name	Relationship
Guangzhou Yunsheng Tianji Technology Co., Ltd. (廣州雲升天紀科技有限公司)	A related company exercised significant influence by the shareholder of the Company
Chuangyi Biological Technology Co., Ltd. (創益 生物科技有限公司)	A related company controlled by the shareholder of the Company
Zhengzhong Industry Holdings Group Co., Ltd. (正中產業控股集團有限公司)	A related company controlled by the shareholder of the Company
Shenzhen Kexing Property Management Co., Ltd. (深圳科興物業經營管理有限公司)	A related company controlled by the shareholder of the Company

APPENDIX I

ACCOUNTANTS’ REPORT

(b) Transactions with related parties

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Property management fee, water and electricity charges			
– Related companies	4,742	4,662	4,489
Rental expenses borne by the Group as a lessee			
– Related companies	21,571	14,619	12,512
Lease modifications of right-of-use assets			
– Related companies	–	16,147	1,082
Short-term lease payments			
– Related companies	309	835	670

(c) Balances with related parties

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Amounts due from related parties (<i>note 23</i>)	361	1,703	1,825
Amounts due to related parties (<i>note 25</i>)	181	150	140

(d) Key management personnel emoluments

	Year ended 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Salaries, allowances and other benefits	5,879	7,014	7,115
Retirement scheme contributions	571	608	655
Equity settled share-based payments	1,591	1,029	1,126
	8,041	8,651	8,896

Further details of the directors’, chief executives’ and supervisors’ emoluments are disclosed in note 9(b) to the Historical Financial Information.

38. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and investment activities. The financial risks include market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk.

The Group’s overall financial risk management policies focus on the unpredictability and volatility at financial markets and seek to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

APPENDIX I

ACCOUNTANTS’ REPORT

38.1 Categories of financial assets and liabilities

	As at 31 December		
	2023	2024	2025
	RMB'000	RMB'000	RMB'000
Financial assets			
Financial assets measured at amortised cost			
– Trade and other receivables	290,171	516,468	658,882
– Pledged deposits	8,866	1,610	2,106
– Cash and cash equivalents	559,931	552,952	648,322
Financial assets at FVTPL	226,297	183,614	291,854
Financial assets at FVTOCI	71,322	79,112	104,378
	<u>1,156,587</u>	<u>1,333,756</u>	<u>1,705,542</u>
Financial liabilities			
Financial liabilities measured at amortised cost			
– Trade and other payables	247,179	277,413	330,696
– Bank borrowings	1,091,570	1,193,554	1,390,875
– Lease liabilities	24,491	27,231	5,881
	<u>1,363,240</u>	<u>1,498,198</u>	<u>1,727,452</u>

38.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group’s exposure to foreign currency risk mainly arises from its overseas sales and purchases and the Group’s cash and cash equivalents, which are primarily denominated in United States dollar (“USD”) and Euro (“EUR”). These are not the functional currency of the group entities to which these transactions relate.

The financial assets and liabilities denominated in USD and EUR, translated into RMB at the closing rates, are as follows:

	USD	EUR
	RMB'000	RMB'000
As at 31 December 2023		
Assets	63,110	112
Liabilities	(763)	–
Net exposure	<u>62,347</u>	<u>112</u>
As at 31 December 2024		
Assets	77,931	40,737
Liabilities	(654)	(1,806)
Net exposure	<u>77,277</u>	<u>38,931</u>
As at 31 December 2025		
Assets	165,042	134,910
Liabilities	(2,761)	(6,240)
Net exposure	<u>162,281</u>	<u>128,670</u>

APPENDIX I

ACCOUNTANTS’ REPORT

The following tables illustrate the sensitivity of the Group’s (loss)/profit before income tax and equity in regard to an appreciation in the functional currency of respective group entities against USD and EUR. These sensitivity rates are the rates used when reporting foreign currency risk internally to key management personnel and represent management’s best assessment of the possible change in foreign exchange rates.

	Sensitivity rate	Increase in loss before income tax RMB’000	Decrease in equity RMB’000
As at 31 December 2023			
USD	5%	3,117	(3,117)
EUR	5%	6	(6)
	Sensitivity rate	Decrease in profit before income tax RMB’000	Decrease in equity RMB’000
As at 31 December 2024			
USD	5%	3,864	3,864
EUR	5%	1,947	1,947
As at 31 December 2025			
USD	5%	8,114	8,114
EUR	5%	6,434	6,434

The same percentage depreciation in the functional currency of respective group entities against the respective foreign currencies would have the same magnitude on the Group’s (loss)/profit before income tax and equity but of opposite effect.

38.3 Price risk

Other price risk relates to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than changes in interest rates and foreign exchange rates). The Group is exposed to price risk mainly arising from its investments in private fund.

Sensitivity analysis is performed by management to assess the exposure of the Group’s financial results to price risk of financial assets at FVTPL at the end of each reporting period. If the prices of the respective investments held by the Group had been 10% higher/lower as at 31 December 2023, 2024 and 2025, the (loss)/profit before income tax for the Track Record Period would have been approximately RMB22,630,000, RMB18,361,000 and RMB24,985,000 higher/lower, respectively, as a result of gain/loss on financial assets at FVTPL .

38.4 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group’s interest rate risk primarily arises from bank borrowings and lease liabilities. Bank borrowings issued at variable rates expose the Group to cash flow interest rate risk. Bank borrowings issued at fixed rates and lease liabilities bearing fixed rates expose the Group to fair value interest rate risk.

The Group has been monitoring the level of interest rates. An increase in interest rate will raise the cost of new interest-bearing borrowings and also increase the interest expenses of the Group’s outstanding interest-bearing borrowings that accrue interest at variable rates, thereby exerting a significant adverse impact on the Group’s financial performance. Therefore, management will make timely adjustments in light of the latest market conditions to mitigate interest rate risk.

Details of the Group’s variable rate borrowings as at 31 December 2023, 2024 and 2025 are disclosed in note 28 to the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

If interest rates of variable rate borrowings had been 50 basis points higher/lower with all other variables held constant, the (loss)/profit before income tax would be RMB4,414,000, RMB4,583,000 and RMB5,998,000 lower/higher for the Track Record Period.

38.5 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group’s exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations and from its investing activities.

The Group’s maximum exposure to credit risk for the components of the consolidated statements of financial position as at 31 December 2023, 2024 and 2025 is the carrying amount as disclosed in note 38.1 to the Historical Financial Information.

Trade receivables

The Group has adopted a policy of conducting transactions only with counterparties with good credit standing. In addition, the Group assesses the creditworthiness of customers based on factors such as customers’ financial conditions, the possibility of obtaining guarantees from third parties, credit records and other factors including current market conditions, and sets corresponding credit periods accordingly. The Group conducts continuous monitoring of the balance of trade receivables as well as their collection status. For customers with poor credit records, the Group will take measures such as sending written collection demands, shortening credit periods, or revoking credit periods to ensure that the Group does not face significant credit losses. Furthermore, the Group reviews the collectability of trade receivables at the end of each reporting period to ensure that sufficient ECL allowance has been recognised. It is not the Group’s policy to request collateral from its customers.

In addition, as set out in note 3.2 to the Historical Financial Information, except for certain trade receivables with significant outstanding which are assessed individually, the Group assesses ECL allowance under IFRS 9 on trade receivables based on provision matrix, the expected loss rates are based on the payment profile for sales in the past 36 months as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forward-looking macroeconomic factors affecting the customer’s ability to settle the amount outstanding. At the end of each reporting period, the historical default rates are updated and changes in the forward-looking estimates are analysed. In applying the forward-looking information, the Group has taken into account the possible impacts associated with the overall change in the economic environment.

Trade receivables with significant outstanding balances from a customer with gross carrying amount of RMB3,187,000, nil and RMB2,019,000 as at 31 December 2023, 2024 and 2025, respectively, are assessed individually as the credit risk characteristics are different with other customers. The exposure to credit risk for these balances are assessed with ECL allowance of RMB3,187,000, nil and RMB1,000 were provided by the Group as at 31 December 2023, 2024 and 2025, respectively. The remaining trade receivables with aggregate gross carrying amount of RMB296,252,000, RMB501,590,000 and RMB604,891,000 are assessed based on debtors’ aging as well as forward-looking estimates at the end of each reporting period.

Trade receivables are written-off (i.e. derecognised) when there is no reasonable expectation of recovery. Failure to make payments after the credit period from the invoice date and failure to engage with the Group on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2023, 2024 and 2025, trade receivables from largest customer and top 5 customers accounted for 23%, 21% and 15%, and 51%, 50% and 42% of total trade receivables, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

On the above basis, the ECL allowance of trade receivables as at 31 December 2023, 2024 and 2025 is determined as follows:

	<u>ECL rate</u>	<u>Gross carrying amount</u>	<u>Lifetime ECL</u>	<u>Net carrying amount</u>
		<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
As at 31 December 2023				
Collective assessment				
– Current	4.99%	200,206	(10,000)	190,206
– Within 1 year	5.36%	86,942	(4,659)	82,283
– 1 - 2 years	15.25%	2,400	(366)	2,034
– 2 - 3 years	100%	6,704	(6,704)	–
Individual assessment.	100%	3,187	(3,187)	–
		<u>299,439</u>	<u>(24,916)</u>	<u>274,523</u>
As at 31 December 2024				
Collective assessment				
– Current	3.77%	360,637	(13,606)	347,031
– Within 1 year	4.46%	134,162	(5,983)	128,179
– 1 - 2 years	10.81%	74	(8)	66
– 2 - 3 years	100%	6,717	(6,717)	–
		<u>501,590</u>	<u>(26,314)</u>	<u>475,276</u>
As at 31 December 2025				
Collective assessment				
– Current	2.75%	407,921	(11,222)	396,699
– Within 1 year	4.73%	188,722	(8,920)	179,802
– 1 - 2 years	25.54%	1,699	(434)	1,265
– 2 - 3 years	100%	6,549	(6,549)	–
Individual assessment.	0.05%	2,019	(1)	2,018
		<u>606,910</u>	<u>(27,126)</u>	<u>579,784</u>

Bills receivable

Credit risk for bills receivable is considered to be immaterial, as all bills receivable are bank acceptance notes, and the Group did not expect that there would be any significant losses from non-performance by these banks.

Other receivables

Management would make periodic collective and individual assessment on the recoverability of other receivables based on historical settlement records and past experience and current external information and adjusted to reflect probability-weighted forward-looking information, including the default rate where the relevant debtors operates. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

To assess whether there is a significant increase in credit risk on other receivables, the Group compares the risk of a default occurring on the financial assets at the end of each reporting period with the risk of default occurring on the financial assets at the date of initial recognition as set out in note 3.2 to the Historical Financial Information.

APPENDIX I

ACCOUNTANTS’ REPORT

As stated in note 23 to the Historical Financial Information, ECL allowance of other receivables is measured as either 12-month ECL or lifetime ECL. On such basis, the following tables set forth the ECL allowance of other receivables as at 31 December 2023, 2024 and 2025:

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2023				
ECL rate	8.28%	100%	100%	29.12%
Gross carrying amount	4,853	627	800	6,280
ECL allowance	402	627	800	1,829
As at 31 December 2024				
ECL rate	3.40%	100%	100%	7.24%
Gross carrying amount	16,463	81	600	17,144
ECL allowance	560	81	600	1,241
As at 31 December 2025				
ECL rate	2.37%	100%	100%	5.41%
Gross carrying amount	20,616	63	600	21,279
ECL allowance	489	63	600	1,152

Pledged deposits and cash and cash equivalents

The credit risks on pledged deposits and cash and cash equivalents are considered to be insignificant because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

38.6 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Group’s objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

The Group manages the liquidity risk through holding of sufficient cash and bank balances. The Group further mitigates the liquidity risk by maintaining cash reserve and utilising bank financing. The directors consider the Group is not exposed to significant liquidity risk.

Analysed below is the Group’s remaining contractual maturities for its non-derivative financial liabilities as at 31 December 2023, 2024 and 2025. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

	Within 1 year or on demand	Over 1 year but within 5 years	Over 5 years	Total undiscounted amount	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2023					
Trade and other payables	247,179	–	–	247,179	247,179
Bank borrowings	431,305	698,529	36,660	1,166,494	1,091,570
Lease liabilities	7,740	19,368	–	27,108	24,491
	686,224	717,897	36,660	1,440,781	1,363,240

APPENDIX I

ACCOUNTANTS’ REPORT

	Within 1 year or on demand	Over 1 year but within 5 years	Over 5 years	Total undiscounted amount	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2024					
Trade and other payables	277,413	–	–	277,413	277,413
Bank borrowings	614,737	634,846	–	1,249,583	1,193,554
Lease liabilities	13,405	15,758	–	29,163	27,231
	<u>905,555</u>	<u>650,604</u>	<u>–</u>	<u>1,556,159</u>	<u>1,498,198</u>
As at 31 December 2025					
Trade and other payables	330,696	–	–	330,696	330,696
Bank borrowings	693,619	746,967	–	1,440,586	1,390,875
Lease liabilities	4,189	1,841	–	6,030	5,881
	<u>1,028,504</u>	<u>748,808</u>	<u>–</u>	<u>1,777,312</u>	<u>1,727,452</u>

38.7 Fair value measurements of financial instruments

Financial assets and liabilities measured at fair value in the consolidated statements of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability and significance of inputs to the measurements, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and not using significant unobservable inputs.

Level 3: significant unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

(a) Fair value hierarchy

As at 31 December 2023, 2024 and 2025, the financial assets measured at fair value on a recurring basis by the above three levels are analysed below:

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2023				
Financial assets				
<u>Financial assets at FVTPL</u>				
– Private fund	–	–	226,297	226,297
<u>Financial assets at FVTOCI</u>				
– Unlisted equity investment	–	–	15,000	15,000
– Bills receivable measured at FVTOCI	–	56,322	–	56,322
	<u>–</u>	<u>56,322</u>	<u>241,297</u>	<u>297,619</u>

APPENDIX I

ACCOUNTANTS’ REPORT

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2024				
Financial assets				
<u>Financial assets at FVTPL</u>				
– Private fund	–	–	183,614	183,614
<u>Financial assets at FVTOCI</u>				
– Unlisted equity investment	–	–	15,860	15,860
– Bills receivable measured at FVTOCI	–	63,252	–	63,252
	–	63,252	199,474	262,726
As at 31 December 2025				
Financial assets				
<u>Financial assets at FVTPL</u>				
– Private fund	–	–	249,854	249,854
– Unlisted equity investment	–	–	42,000	42,000
<u>Financial assets at FVTOCI</u>				
– Unlisted equity investment	–	–	15,830	15,830
– Bills receivable measured at FVTOCI	–	88,548	–	88,548
	–	88,548	307,684	396,232

During the Track Record Period, there was no transfer between Level 1, Level 2 and Level 3.

Financial assets under Level 2

Financial assets subject to Level 2 fair value measurement, including bills receivable measured at FVTOCI which are evaluated by market approach.

(b) Valuation techniques used to determine fair values

Financial assets under Level 3

The information of Level 3 fair value measurement is as follows:

	As at 31 December			Valuation technique	Significant unobservable input	Sensitivity relationship
	2023	2024	2025			
	RMB'000	RMB'000	RMB'000			
Financial assets at FVTPL						
Private fund	226,297	183,614	249,854	Assets approach	Price to book ratio	Should the price to book ratio be increased/decreased by 10%, the fair value of private fund would be increased/decreased by approximately RMB950,000, RMB1,395,000 and RMB1,524,000 as at 31 December 2023, 2024 and 2025, respectively.

APPENDIX I

ACCOUNTANTS’ REPORT

	As at 31 December			Valuation technique	Significant unobservable input	Sensitivity relationship
	2023	2024	2025			
	RMB'000	RMB'000	RMB'000			
					Discount for lack of marketability	Should the discount for lack of marketability be increased/decreased by 1%, the fair value of private fund would be decreased/increased by approximately RMB588,000, RMB734,000 and RMB1,824,000 as at 31 December 2023, 2024 and 2025.
Unlisted equity investment . . .	–	–	42,000	Recent transaction price approach	N/A	N/A
Financial assets at FVTOCI						
Unlisted equity investment . . .	15,000	15,860	15,830	Market approach	Discount for lack of marketability	Should the discount for lack of marketability be increased/ decreased by 10%, the fair value of unlisted equity investment would be decreased/ increased by approximately RMB930,000, RMB950,000 and RMB954,000 as at 31 December 2023, 2024 and 2025.
					Price to book ratio	Should the price to book ratio be increased/decreased by 10%, the fair value of unlisted equity investment would be increased/ decreased by approximately RMB1,500,000, RMB1,586,000 and RMB1,595,000 as at 31 December 2023, and 2024 and 2025.
	241,297	199,474	307,684			

APPENDIX I

ACCOUNTANTS’ REPORT

The reconciliation of the carrying amounts of the Group’s private fund and unlisted equity investments classified under Level 3 of the fair value hierarchy is as follows:

	Private fund	Unlisted equity investment at FVTPL	Unlisted equity investment at FVTOCI	Total
	RMB’000	RMB’000	RMB’000	RMB’000
As at 1 January 2023	242,108	–	15,000	257,108
Fair value loss recognised in profit or loss	(15,811)	–	–	(15,811)
As at 31 December 2023 and 1 January 2024	226,297	–	15,000	241,297
Fair value loss recognised in profit or loss	(42,683)	–	–	(42,683)
Fair value gain recognised in other comprehensive income	–	–	860	860
As at 31 December 2024 and 1 January 2025	183,614	–	15,860	199,474
Addition	–	42,000	–	42,000
Fair value gain recognised in profit or loss	66,240	–	–	66,240
Fair value loss recognised in other comprehensive income	–	–	(30)	(30)
As at 31 December 2025 . . .	249,854	42,000	15,830	307,684

Other financial instruments

Management considered the carrying amounts of other financial assets and liabilities of the Group are not materially different from their fair values as at 31 December 2023, 2024 and 2025 due to immediate or short-term of maturity.

39. CAPITAL MANAGEMENT

The primary objectives of the Group’s capital management are to safeguard the Group’s ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders value.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the gearing ratio. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

	As at 31 December		
	2023	2024	2025
	RMB’000	RMB’000	RMB’000
Total liabilities	1,400,301	1,522,987	1,781,049
Total assets	3,031,096	3,162,233	3,533,555
Gearing ratio	46%	48%	50%

APPENDIX I

ACCOUNTANTS’ REPORT

40. SUBSEQUENT EVENTS

(1) Change in Value-Added Tax (“VAT”) policy applicable to certain biological products

According to the Announcement on Transitional Arrangements for Preferential VAT Policies following the implementation of the VAT Law jointly issued by the Ministry of Finance and the State Taxation Administration (Announcement [2026] No. 10), with effect from 1 January 2026, certain preferential VAT policies have been continued. However, the simplified VAT levy policy previously applicable to biological products was not included in the scope of continuation.

Except for products included in the List of Anti-cancer Drugs and the List of Drugs for Rare Diseases, which may continue to apply the simplified VAT levy rate of 3%, and anti-HIV drugs, which remain exempt from VAT, ordinary biological products are generally subject to VAT at 13% under the general taxation method.

Certain products of the Group fall within the category of ordinary biological products. Accordingly, such products will be subject to VAT at 13% under the general taxation method instead of the 3% simplified levy rate. This change in VAT treatment is expected to affect the Group’s future operating results. As at the date of approval of these financial statements, the Group had not yet quantified the financial impact of this change.

(2) Proposed final dividend

On 20 April 2026, the board of directors approved a proposed profit distribution plan for the year ended 31 December 2025. Under the proposed plan, a cash dividend of RMB2.5 per 10 shares (tax inclusive) will be distributed to shareholders whose names appear on the register of members on the relevant record date. No bonus shares will be issued and no capitalisation of capital reserve into share capital will be made.

The proposed dividend amounted to RMB49,465,563 and is subject to approval by the shareholders at the forthcoming annual general meeting. In accordance with IFRS Accounting Standards, the proposed dividend was not recognised as a liability as at 31 December 2025.

Save as disclosed above, the Group had no other significant event subsequent to 31 December 2025.