四环医药
SihuanPharm

Sihuan Pharmaceutical Holdings Group Ltd.

四 環 醫 藥 控 股 集 團 有 限 公 司

(incorporated in Bermuda with limited liability)

(Stock Code: 0460)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

The board (the "**Board**") of directors (the "**Directors**") of Sihuan Pharmaceutical Holdings Group Ltd. ("**Sihuan Pharmaceutical**" or the "**Company**") hereby announces the consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2023 (the "**Year**") together with the comparative figures for the previous year.

FINANCIAL SUMMARY OF THE GROUP

- Total revenue of the Group for the Year was approximately RMB1,860.5 million (2022: RMB2,181.2 million), representing a year-on-year decrease of approximately 14.7% (approximately RMB320.7 million).

  Among the changes in revenues, the revenue from medical aesthetic products amounted to RMB449.9 million (2022: RMB149.8 million), representing a year-on-year increase of approximately 200.3% (approximately RMB300.1 million), mainly due to that with the full liberalization of domestic epidemic control and the gradual recovery of consumer demand, the Group's medical aesthetics platform Meiyan Space has achieved stage-by-stage success through channel inventory clearance, strategic cooperation with various medical aesthetics institutions and huge effort in promoting its upgraded 3.0 version of marketing strategies, thereby recording a significant and successful rebound of sales revenue in its medical aesthetics business.

Revenue from sales of generic medicine amounted to approximately RMB1,398.8 million (2022: RMB1,970.5 million), representing a year-on-year decrease of approximately 29.0% (approximately RMB571.7 million), mainly attributed to the impact of the price reduction as a result of centralized procurement and the decline in prices and sales volumes of certain generic medicines as a result of certain products being newly included in the key monitoring catalogue.

In addition, revenue from innovative medicine and other medicine amounted to approximately RMB11.8 million (2022: RMB60.9 million), representing a year-on-year decrease of 80.6% (approximately RMB49.1 million), mainly attributed to the disposal of certain active pharmaceutical ingredients ("**API**") companies (including Jilin Jiahui Chemical Co., Ltd.) of the Group at the end of 2022, which no longer contributed revenue to the API segment in 2023.

- Gross profit for the Year amounted to approximately RMB1,295.6 million (2022: RMB1,487.6 million), representing a year-on-year decrease of approximately 12.9% (approximately RMB192.0 million), mainly due to the decrease in overall revenue for the Year. Overall gross profit margin was 69.6%, representing a year-on-year increase of 1.4% as compared to 68.2% for the last year.

- Research and development ("**R&D**") expenses for the Year amounted to approximately RMB577.7 million (2022: RMB936.6 million), representing a year-on-year decrease of 38.3% (approximately RMB358.9 million), mainly due to the completion of Phase III clinical trials of several of the Group's self-developed products (including innovative medicine, biologicals, and generic medicine), some of which new drug applications ("**NDA**") were submitted or NDA approvals were obtained by the end of 2023. In addition, a number of R&D projects of Huisheng Biopharm, a subsidiary of the Group, has been completed and filed for production.

- The operating profit for the Year was approximately RMB161.7 million (2022: operating loss of RMB1,830.7 million), mainly attributed to significant reduction in various expenses for the Year including distribution expenses, administrative expenses, R&D expenses and other expenses, compared with last year. In addition, the Group provided impairment losses on non-current assets and impairment losses on investments accounted for using the equity method of approximately RMB1,727.1 million in 2022 while no impairment was required for the Year.

- Finance expenses for the Year amounted to approximately RMB269.3 million (2022: RMB211.2 million), which represented a year-on-year increase of 27.5% (approximately RMB58.1 million). Of the total, interest expense on redemption liabilities amounted to approximately RMB211.3 million (2022: RMB151.5 million). Redemption liabilities mainly relate to the repurchase rights granted in the equity financing and spin-off listing of the innovative drug subsidiaries of the Group.

- The loss before tax from continuing operations of the Group for the Year amounted to approximately RMB161.3 million (2022: RMB2,122.8 million). Income tax expense of the Group for the Year amounted to approximately RMB96.4 million.

- The Group's loss for the Year amounted to approximately RMB257.7 million (2022: loss of RMB2,283.3 million).

- Loss attributable to owners of the Company for the Year amounted to approximately RMB54.0 million (2022: RMB1,914.9 million), representing a year-on-year decrease of 97.2% in loss (approximately RMB1,860.9 million). The loss for the Year was mainly the net result of the profitable operation of the Group's medical aesthetics business and generic medicine business segments and the loss of the innovative drug business segment of the Group (mainly Xuanxhu Biopharm and Huisheng Biopharm) for which considerable annually R&D were incurred).

- The basic loss per share was RMB0.58 cents for the Year.

- During the Year, net cash flows from operating activities amounted to approximately RMB199.5 million. As at 31 December 2023, the Group's cash and cash equivalents, wealth management products, pledged deposits and time deposits amounted to approximately RMB4,610.5 million in aggregate.

INDUSTRY OVERVIEW

In 2023, global economic growth slowed down, while interest-rate hikes and high inflationary pressures continued. The pandemic was no longer the main factor constraining economic growth, but geopolitical tensions, fueled by conflicts, led to stronger protectionism and weaker cross-border capital flows. As a result, geoeconomic fragmentation continued to pose challenges to the pace of global economic growth.

During the Year, China's consumer market saw a significant downgrade. Declines in commodity prices, consumers becoming more rational in consumption and other changes show that the structure of China's consumer market has begun to adjust itself, and the trend of consumption upgrade has begun to slow down. The domestic consumer market of medical aesthetics showed the same trend during the Year, in stark contrast to the explosive phase of brutal growth in the previous year. After a phase of stringent regulation that saw multidepartment and comprehensive controls, with the increasing supply of high-quality medical aesthetics products, the popularization of medical aesthetics knowledge and the changing consumption patterns, minimally invasive medical aesthetics and cost-effectiveness have become consumers' top priorities. In the long term, with the continuing rise in the penetration rate of medical aesthetics and the ongoing impacts of market education, technological upgrades, the increasing consumption in lower-tier cities and other factors, leading providers of medical aesthetics will continue to flourish.

During the Year, China's pharmaceutical and healthcare industry saw plenty of challenges and opportunities. Guided by the national "innovation-driven" policy, the industry is gradually transforming from sales-driven to R&D- and innovation-driven. In recent years, the National Medical Products Administration (NMPA) of China has issued a series of new policies and regulations for managing and initiating the clinical trials of innovative drugs and for their NDA review and approval. These policies and regulations have encouraged and standardized the R&D of innovative drugs, expedited their NDA approval, and will help products with a fast R&D cycle and high clinical value stand out. After more than a decade of efforts, the R&D of innovative drugs in China has begun to pay off, especially in the fields of ADC, GLP-1 and bispecific antibodies. We can see that, during the Year, many new drugs made progress on their R&D and domestic NDA. Meanwhile, Chinese companies are stepping up the implementation of their "going out" strategy. China's innovative drugs are gradually making breakthroughs in their overseas authorization and NDA, which will facilitate the global expansion of China's innovative drugs.

In recent years, the medical reform focusing on the "three-medical linkage" of medical insurance, medicine, and medical care has been in full sway. Although volume-based purchasing, the two-invoice system and other policies, together with the economic downturn, have squeezed the industry's overall revenue margins and room for profit growth, relevant policies have focused on the supply side to comprehensively guide and standardize the development of the industry, from drug R&D to NDA review, from rational drug use to

quality supervision and other aspects, and will continue to guide and support the development of the industry. China's pharmaceutical manufacturing industry has huge market potential. In the future, as population ageing further deepens, high-quality pharmaceutical development will certainly go hand in hand with a stronger market demand. In addition to innovative drugs, consumer pharmaceutical and healthcare businesses will also flourish in the long run.

BUSINESS UPDATE 2023

During the Year, the Group adhered to its two-wheel drive strategy of "innovative drugs + medical aesthetics", forged ahead with innovation, transformation and upgrades, and achieved remarkable results. During the Year, our pharmaceutical business achieved phased results in R&D and clinical registration progress for a number of products, including one innovative drug product and three biopharmaceutical products that received NDA approvals. Sales of our medical aesthetics business made positive progress, with sales revenue rebounding significantly. As our businesses continue to move forward, the Company has further consolidated its strategic goal of building a leading medical aesthetics and biopharmaceutical company in China through the full implementation of its two-wheel drive strategy.

1. **Benefitting from the rapid recovery of domestic consumption of medical aesthetics, the Group's medical aesthetics platform Meiyan Space successfully achieved its sales upgrade to version 3.0 and recorded a significant rebound in sales revenue from medical aesthetics. A number of strategic initiatives achieved phased success.**

   During the Year, through the business upgrade and development of its 3.0 marketing version, the Group's medical aesthetics platform Meiyan Space achieved a significant rebound in sales revenue from medical aesthetics, and further strengthened its capabilities as an international medical aesthetics platform integrating R&D, production and sales. During the Year, Meiyan Space opened up the 3.0 era of its fine-tuned medical aesthetics operations, comprehensively strengthened its cooperation with leading hospital groups and regional leading institutions, increased its number of agents in unexplored regions, and achieved full coverage of the 34 provincial-level administrative regions in China. Meanwhile, Meiyan Space carried out multi-pronged activities involving products, livestreaming, operations, and medical exchanges to enhance its targeted coverage of multi-level personnel including physicians, operators, consultants, marketers and managers. As at 29 February 2024, the sales channels of Meiyan Space covered accumulated over 350 cities in China and more than 4,700 medical aesthetics institutions, with a coverage rate of 100% for the top 500 medical aesthetics institutions. At present, Meiyan Space has more than 40 medical aesthetics products that have received NDA approvals or are under development, basically completing the full life-cycle management for aesthetics seekers. Among these products, botulinum toxin Letybo® and hyaluronic acid Persnica™, which have received NDA approvals, have been recognized and well received by medical aesthetics institutions and consumers.

During the Year, with the help of many efficient and successful marketing activities and strategies, Meiyan Space achieved a substantial improvement and leap in sales volume. During the Year, Meiyan Space won the "Outstanding Enterprise Award of the 2023 Chinese Medical Aesthetics Industry Overall Rating List" and the 2023 (Industry) Influential Brand Award at the CFS 12th Financial Summit and 2023 Sustainable Business Conference. Botulinum toxin Letybo® won the Botulinum Toxin Brand of the Year Award at "the 3rd Spotlight Awards". Meiyan Space also won the 2022–2023 Elite Brand Partner Award from the Chinese Association of Plastics and Aesthetics ("**CAPA**") and the Chinese Non-government Medical Institutions Association. It was also named the honorary title of partner in CAPA's "Scan QR Code to Verify Authenticity" Industry Self-discipline Activity. Meiyan Space has used its strength to gain the industry's recognition of its corporate brand value, brand strength and industry influence, as well as demonstrating its comprehensive strength.

2. The R&D of the Group's innovative drug business sped up, thus accelerating its upgrade from Bio-tech to Bio-pharma, with many independently developed products achieving phased positive progress.

Xuanzhu Biopharm, which was meticulously incubated by the Group to become China's leading independently developed novel drug platform that integrates pre-clinical development, clinical development, registration, manufacture and sales, has made positive progress on product R&D and NDA during the Year, thus promoting the rapid development and expansion of the Group's innovative drug business.

During the Year, Xuanzhu Biopharm expedited the R&D progress of multiple products, with several products making substantial progress. One of them was Anaprazole Sodium Enteric-coated Tablets (trade name: Anjiuwei®), China's first independently developed proton pump inhibitor ("**PPI**") Class 1 innovative drug with independent intellectual property rights, which obtained drug market approval from the NMPA in June 2023, and was successfully included in the National Reimbursement Drug List in the same year.

In the field of oncology, two indications have been submitted for NDA approval and accepted. They are Birociclib in combination with Fulvestrant for the treatment of hormone receptor-positive (HR+)/human epidermal growth factor receptor 2-negative (HER2-) ("**HR+/HER2-**") advanced breast cancer patients with disease progression following previous endocrine therapy, and Birociclib monotherapy for the treatment of HR+/HER2- advanced breast cancer patients with disease progression after multiple-line treatment (including endocrine therapy and chemotherapy). The clinical research results of Birociclib monotherapy were selected by both the 2023 American Society of Clinical Oncology (ASCO) Annual Meeting and the 2023 European Society for Medical Oncology (ESMO) Congress for poster presentation. With its clinical value recognized by authoritative academic institutions, Birociclib is potentially the best product in class. Moreover, the phase III clinical study of Birociclib in combination with aromatase inhibitor (AI) for the initial endocrine therapy of patients with HR+/HER2- advanced breast cancer is progressing smoothly. The indication of Birociclib monotherapy or

in combination with Abiraterone Acetate and Prednisolone for the treatment of the metastatic prostate cancer has also received phase II clinical trial approval, which will be initiated soon. XZP-3621 for the initial treatment of ALK+ advanced non-small-cell lung cancer (NSCLC) patients has achieved phased results and it is expected to submit NDA in 2024.

Meanwhile, Xuanzhu Biopharm continued to make breakthroughs and seek innovation, by advancing three globally leading innovative drugs to the clinical stage. These drugs include XZP-KM501, an HER2 bispecific antibody ADC that shows excellent effects on patients with both HER2 high expression and low expression; XZP-6877, a DNA-PK inhibitor that increases the sensitivity of cancer cells to radiotherapy and chemotherapy and serves the purpose of inhibiting cancer cell proliferation and has broad market prospects; and XZP-KM602, a CD80 fusion protein drug and a new generation of tumor immunology drug that has a broad-spectrum anti-tumor effect. Domestic clinical trials for XZP-KM602 have already been initiated. Actively exploring the "global expansion" strategy, Xuanzhu Biopharm obtained IND (Investigational New Drug) approval for XZP-KM602 from the United States Food and Drug Administration (FDA) in September 2023.

Xuanzhu Biopharm always adheres to independent R&D and continues to output achievements, which have been recognized by the industry. During the Year, Xuanzhu won many honors, including "Forbes' China Unicorn Companies", "2023 China Biopharmaceutical Science & Technology Innovation Value List – Top 10 Most Promising Small Molecule Innovative Drug Companies", "2023 China Top 100 Companies with Comprehensive Drug R&D Ability", "2023 China Pharmaceutical Industry Innovation Leader Enterprises Top 50" and "2023 Deloitte China Healthcare Tomorrow Star".

3. Many biologics and generic drugs received NDA approval, which will become a stable "cash cow" business, continue to contribute a stable source of income to the Group, facilitate its rapid transformation and upgrades, and help it to maintain a stable financial position.

Huisheng Biopharm, carefully incubated by the Group to become a leading biopharmaceutical company with full product coverage in the therapeutic areas of diabetes and its complications, made positive progress on product R&D and NDA, thus promoting the rapid development and expansion of the Group's biopharmaceutical business. During the Year, Huisheng Biopharm obtained the drug registration approvals of 7 drugs, including Insulin Aspart Injection, Insulin Aspart 30 Injection, Insulin Aspart 50 Injection, Mecobalamin Tablets, Mecobalamin Injection, Thioctic Acid Injection and Sitagliptin Tablets. Moreover, it has submitted the NDA of 5 drugs, including Insulin Degludec and Insulin Aspart Injection.

The Group's generic pharmaceutical business continued to advance steadily. During the Year, a total of 13 generic pharmaceutical products were granted drug registration approvals by the NMPA, including Dopamine Hydrochloride Injection, Azithromycin for Suspension and Fluconazole and Sodium Chloride Injection. In addition, 5 APIs passed the technical evaluation carried out by the Centre for Drug Evaluation (CDE) of the PRC, while the result of their joint evaluation with preparations was "A". These include blockbuster products such as Clopidogrel Hydrogen Sulphate Tablets, Sofosbuvir and Dabigatran Etexilate, which are in huge demand for terminal preparations.

4. The Group is gradually divesting and transferring some of its generic pharmaceutical and other non-core pharmaceutical or healthcare businesses and assets that do not fit in with its long-term strategic goals.

As the pharmaceutical industry continued to be affected by the pandemic and policy changes, the Group continued to carry out organizational restructuring adjustments during the Year in order to fully implement its two-wheel drive strategy and accelerate the upgrade of its pharmaceutical business to innovative drugs. The Group's generic pharmaceutical segment is in the process of divesting and transferring some of its generic pharmaceutical and other non-core pharmaceutical or healthcare businesses and assets that do not fit in with its long-term strategic goals. A number of projects are currently underway.

5. The Group continued to consolidate and strengthen its three core competencies of "registration + production + sales", thus building a solid "moat" for the Company.

As at the end of the reporting period, the Group had more than 40 medical aesthetic products and more than 60 innovative biopharmaceutical products in the pipeline. It also boasts three core competencies of registration, production and sales, which can facilitate and accelerate the implementation and commercialization of high-quality product pipelines of the medical aesthetics and pharmaceutical segments. The Group's quick registration ability enabled it to become the first company to bring Korean botulinum toxin into the Chinese market and to complete the registration of many independently developed products in very short periods of time. Besides, the Group has highly efficient and low-cost production platforms, which help to reduce costs and increase efficiency, and achieve rapid industrialization development. In addition, the Group also has market-recognized medical academic marketing abilities. On a nationwide professional and efficient academic marketing platform, the professional marketing team and business sales network of the Group are able to promote the continuously rapid penetration of existing products, as well as endowing newly launched products with strong "monetization" ability.

ANNUAL RESULTS UPDATE

During the Year, the Group recorded a total revenue of approximately RMB1,860.5 million, representing a year-on-year decrease of approximately 14.7% as compared with a total revenue of RMB2,181.2 million for the same period in 2022.

Among the changes in revenue, the medical aesthetics segment achieved a revenue of approximately RMB449.9 million, representing a year-on-year increase of approximately 200.3%. It was mainly because, with the complete easing of pandemic controls in China and the gradual recovery of consumer demand, the Group's medical aesthetics platform Meiyan Space achieved phased success in clearing its channel inventory, achieving strategic cooperation with several medical aesthetics institutions and actively promoting the 3.0 version upgrade of its marketing strategy, thus recording a significant rebound in sales revenue from medical aesthetics.

The generic medicine segment achieved a revenue of approximately RMB1,398.8 million, representing a year-on-year decrease of approximately 29.0%, mainly attributable to the impact of the price reduction as a result of centralized procurement and the decline in prices and sales volumes of certain generic drugs as a result of certain products being newly included in the key monitoring catalogue.

Innovative drugs and other drugs achieved a revenue of approximately RMB11.8 million, representing a year-on-year decrease of 80.6%, mainly attributable to the divestment of certain API companies (including Jilin Jiahui Chemical Co., Ltd.) of the Group at the end of 2022, which no longer generated revenue to the API segment in the Year.

The Group continued to invest hugely in R&D to create a pipeline of over 100 medical aesthetics and biopharmaceutical products, rapidly promote the R&D and registration progress of the Group's product pipeline, accelerate the industrialization of its products and gradually achieve value amplification. During the Year, the R&D expenses amounted to approximately RMB577.7 million, representing a year-on-year decrease of 38.3%. This was mainly due to the successive completion of phase III clinical trials for several of the Group's independently developed products (including innovative drugs, biopharmaceutical drugs and generic drugs), some of which NDA applications were submitted or NDA approvals were obtained by the end of 2023.

Given the above, the Group recorded a loss for the year from continuing operations of approximately RMB257.7 million, representing a year-on-year decrease of 88.9%. This was mainly due to the fact that the Group recorded impairment losses on non-current assets and impairment losses on investments accounted for using the equity method of approximately RMB1.7 billion in 2022. In addition, the Group has forged ahead with an innovative transformation towards medical aesthetics and innovative biopharmaceutical businesses in recent years, and continues to invest hugely in R&D every year. This is compounded with the annual decline in revenue and profits of the generic medicine segment due to changes in industry policies.

During the Year, the loss attributable to owners of the Company amounted to approximately RMB54.0 million, representing a year-on-year decrease of 97.2% in loss. The loss for the Year was mainly the net result of the profitable operation of the Group's medical aesthetics business and generic medicine business segments and the loss of the innovative drug business segment of the Group (mainly Xuanxhu Biopharm and Huisheng Biopharm) for which considerable annually R&D were incurred.

The Group continued to maintain a stable financial position. As at 31 December 2023, the Group's cash and cash equivalents plus wealth management products, pledged deposits and time deposits amounted to approximately RMB4,610.5 million in total. The total amount of cash and cash equivalents plus wealth management products, pledged deposits and time deposits, net of interest-bearing bank borrowings, was approximately RMB3,476.7 million. The Group's borrowings to equity ratio (i.e. a percentage of bank borrowings divided by equity attributable to owners of the Company) was 25.6%.

BUSINESS REVIEW OF EACH SEGMENT DURING THE YEAR

1. Medical Aesthetics Business Segment: Sales rebound with a lighter footprint to become a new growth driver for the Group

In 2023, the Group's medical aesthetics platform Meiyan Space, through its 3.0 marketing version of business upgrades and development, as well as the optimization of its marketing strategy of "direct sales + agents", comprehensively strengthened its cooperation with leading hospital groups and regional leading institutions, increased the number of its agents in unexplored regions, and achieved full coverage of 34 provincial-level administrative regions in China. It also achieved targeted coverage of multi-level personnel in the medical aesthetics industry (including physicians, operators, consultants, marketers and managers) through a series of high-quality marketing activities, which included the "Le Young Club" series of activities (the product-focused "Le Young Club Contour Season", the training-focused "Le Young Club Super Operator Practical Class" and the marketing-focused "Le Young Club Livestreaming Season"), promotional activities to support the CAPA as well as the first AMWC Young Physician Medical Research Elite Competition. During the Year, the Group's medical aesthetics business segment achieved phased success in its upgrades and development, with sales revenue rebounding significantly and becoming the second curve of the Group's revenue growth. During the Year, the revenue from the medical aesthetics business segment was RMB449.9 million, representing a year-on-year increase of 200.3%.

Meiyan Space is a medical aesthetics platform and company carefully incubated by the Group. Focusing on the fast-growing but low-penetration Chinese medical aesthetics market that is set to experience explosive growth, Meiyan Space has successfully established a "one-stop" new medical aesthetics platform in China, and is dedicated to building a leading Chinese medical aesthetics company with full product coverage by leveraging the rigour and innovation characteristic of a pharmaceutical company through globalized layout and localized production, comprehensive and professional medical aesthetics product coverage, strong product R&D and registration capabilities as well as diversified marketing channel ability.

With a forward-looking approach in the field of medical aesthetics, the Group entered into an exclusive distribution agreement in China with Hugel, Inc., a leading biomedical company in South Korea, in relation to botulinum toxin Letybo® and hyaluronic acid Persnica™ in 2014. Both products have been highly recognized by medical aesthetics institutions and consumers in the market. After years of development and through its "independent research + BD" dual engine drivers, Meiyan Space has built a full product matrix that covers the complete life-cycle needs of aesthetics seekers, including filling, shaping, supporting, supplementing, optoelectronic devices, body sculpturing, skin care and other high-quality medical aesthetics products. Meiyan Space is equipped with strong independent R&D and technology transformation capabilities, and its current R&D pipeline has more than ten class III and more than twenty class II independently developed medical aesthetics products. Besides, Meiyan Space has established the Meiyan Laboratory in Los Angeles, the United States, to introduce innovative technology and carry out independent R&D for new generations of medical aesthetics products and biomaterial, while it carries out technology transformation and manufacture in China. Empowered by the global resources of the Group, Meiyan Space has strong product registration, manufacture and sales capabilities and is able to accelerate the launch of new products. Meiyan Space has completed the construction of two domestic manufacture bases with a gross floor area of 16,000 square meters. 7 production lines have been planned, which will be equipped with an optimized quality management system and thus able to implement effective risk management during the whole life cycle of products.

On the sales side, Meiyan Space comprehensively optimized its sales strategy, achieved its 3.0 marketing version of business upgrades and development, comprehensively strengthened its cooperation with leading hospital groups and regional leading institutions, increased its number of agents in unexplored regions, and achieved full coverage of the 34 provincial-level administrative regions in China. By the end of the year, Meiyan Space completed the signing of annual strategic cooperation agreements with 59 medical aesthetics chain groups and 40 regional core institutions. These strategic cooperation agreements cover a total of 680 core hospitals in China, giving full play to Botulinum Toxin Letybo® in core regions and leading institutions. In terms of breadth, Meiyan Space simultaneously launched the Spark Plan, which makes full use of the ample manpower resources of its agents to help Meiyan Space's direct sales team to provide comprehensive services to small- and medium-sized medical aesthetics institutions. By the end of the year, the agent teams covered a total of nearly 2,300 small- and medium-sized medical aesthetics institutions.

With the full implementation of the marketing strategy of "direct sales + distribution", Meiyan Space strengthened its agent management during the Year. With the launch of hyaluronic acid Persnica™, the number of our agent teams increased to more than 20, and the number of overall agent team members increased from 260 to nearly 450. With the expansion of the agent teams, the sales volume of the agent teams achieved a year-on-year increase of 103%. At the same time, Meiyan Space established direct sales teams in key areas including Beijing, Shanghai, Shenzhen, Henan and Xinjiang during the Year. Most of them are from Allergan, Galderma and Johnson & Johnson and other leading multinational or domestic medical aesthetics and pharmaceutical companies, where they held key marketing and training positions, with more than 10 years of experience in the industry. In addition, Meiyan Space increased its market investment in its directly operated regions, resulting in a year-on-year 140% increase in terminal sales to institutions in its directly operated regions. As at 29 February 2024, its sales network covered more than 350 cities in China and more than 4,700 medical aesthetics institutions, with a coverage rate of 100% for the top 500 medical aesthetics institutions.

On the market side, Meiyan Space adhered to its philosophy of "born for beauty" and embarked on a new journey in search of beauty, proactively promoting a slew of marketing activities (including but not limited to the following):

- In the first quarter, the "True Beauty, Lebao Natural" Chinese Medical Aesthetics • Letybo® genuine products verification event held by Meiyan Space came to a successful conclusion. Lasting 12 months and covering 30 cities and more than 50 medical aesthetics institutions, the event popularized knowledge about genuine products and their verification, provided training sessions on professional clinical techniques, and promoted the concept of "three regularities". The event received positive responses from many domestic medical aesthetic companies and medical institutions, achieved good results and received unanimous praise from the industry. Meiyan Space also joined hands with Hugel Inc. from South Korea and the CAPA to launch the first "Promotion and Implementation Activity for the Practice of Medical Aesthetics Institutions in accordance with the Law plus the Information Disclosure of China's Medical Aesthetics Industry" to jointly promote the regularization process of medical aesthetics, and discuss the regularized development of the medical aesthetics industry in the future. Meiyan Space was named partner in the "Scan QR Code to Verify Authenticity" Industry Self-discipline Activity.

- Meanwhile, the hyaluronic acid Persnica™ were debuted, and quickly reached 50 leading institutions in China. Their superior product quality and the well-planned marketing strategies led to the rapid sales of hyaluronic acid Persnica™, which have made a splash in the domestic medical aesthetics market in respect of the reputation and influence of the brand, thus laying a solid foundation for quickly seizing market share.

- In the second quarter, Meiyan Space successfully held the second Letybo® Cup Super Operator Challenge, creating the first professional systematic learning platform for Chinese medical aesthetics operators. As the first professional medical aesthetics competition platform in the industry specifically created for operators, this Super Operator Challenge has attracted the participation of many top domestic medical aesthetics institutions. During the event, 81 institutions, including MYLIKE, YESTAR, LANCY, BEAUCARE CLINICS (BCC) and AIST shared their Letybo® value growth plan. In terms of product management, the products of Meiyan Space are regarded as the first stop for institution-level "cost reduction and efficiency improvement"; moreover, in terms of customer management, "Meiyan Space Dual-specification Botulinum Toxin Product +" has become a must-have and versatile item with high satisfaction, high coverage and high repurchase rate. This professional competition empowered organizational operations through essential logic, used the small body of the product to leverage the organization's hidden high profits, create great value, and help organizations achieve the transformation from rough platform operations to sophisticated product operations.

- In the second half of 2023, Meiyan Space launched a series of "Le Young Club" activities, including the product-focused "Le Young Club Contour Season", the training-focused "Le Young Club Super Operator Practical Class" and the marketing-focused "Le Young Club Livestreaming Season". As a series of Letybo® member IP activities, Le Young Club activities have attracted hundreds of institutions across China to participate since their launch, covering more than 30,000 Letybo® members and aesthetics seekers across China and helping institutions achieve refined management of aesthetics seekers. "Le Young Club Contour Season" focused on the botulinum toxin product of Meiyan Space. By accurately positioning the product indications and using the attributes, differences, price and other elements of the product, it locked in the core customer groups and established an operating system that can convert mid-end customers, achieve growth in institutional operations and meet the diverse needs of customers while complying with policies and regulations, thus providing institutions and aesthetics seekers with more diversified bonus activities and choices. After the announcement of the "Le Young Club Contour Season" activity, 120 organizations from more than 20 cities including Beijing, Shanghai, Guangzhou, Chengdu, Hangzhou, Shenzhen, Qingdao and Wuhan quickly joined in. Through the "Le Young Club Contour Season" activity system, refined management of customer groups and standardized operations of product organizations were achieved.

- In October, the skills improvement platform "Le Young Club Super Operator Practical Class" established by Meiyan Space was successively launched in seven cities, namely Shanghai, Beijing, Guangzhou, Hangzhou, Chongqing, Xi'an and Shenzhen. With specially invited lecturers touring the country to teach classes, the event brought unique and practical operational courses and sharing to institutions in these cities. The course combined the market development and compliance trends of the medical aesthetics industry, starting from the product characteristics and aesthetic design concepts of the botulinum toxin Letybo® and the hyaluronic acid Persnica™ under Meiyan Space, and broke down in detail how to implement the product performance growth model, use mature operating tools and methods, and use refined services and differentiated product packaging to create the idea of "Twin Stars of Letybo® and Persnica™" as the hot-selling products. Intending to truly help institutions get through their last mile of operational growth, Meiyan Space will continue to empower medical and aesthetics institutions in the future. While providing high-quality and efficient services and solutions, we will use professional courses and lectures to truly help the terminal implementation of product operation systems, and use excellent operation plans to help institutions improve their comprehensive service capabilities and help the growth of outstanding operational talents and join hands with industry fellows to explore new trends and growth points in the future development of the medical aesthetics market.

- During the "Le Young Club Livestreaming Season" event, a total of 100 influencers and nearly 300 institutions collaborated to livestream. The top ten medical aesthetics influencers on Weibo broadcasted 10 consecutive live shows in November, with a total exposure of over 30 million, a total of over 3 million viewers and a total exposure of store visits of over 1 million. It ranked among the top 3 on the Weibo livestreaming hot search list. In addition, hundreds of medical aesthetics influencers 100 institutions across China for store-visit livestreaming, with a total exposure of over 6.37 million and a total of over 3.1 million viewers and covering 29 cities. During the event, the "Le Young Club Livestreaming Season" continued to heat up, and the topic "#Le Enjoy Youth Anti-Aging Plan#" appeared on Weibo's hot search window, with over 100 million views and over 50 million reads. Related topics of medical aesthetics continue to ferment and heat up, highlighting our brand positioning and leading the new marketing of medical aesthetics.

On the medical side, Meiyan Space conducted a total of more than 370 medical exchanges and training sessions during the Year, covering more than 1,800 physicians and involving nearly 200 academic visits and online training sessions. A number of activities were conducted to promote in-depth exchanges with industrial KOL and doctors, to demonstrate the differentiated value of products from the academic perspective of pharmaceutical and create industry benchmarks, including but not limited to:

- Meiyan Space held two head and neck anti-aging exchanges during the Year. They not only allowed us to better carry out medical training for Letybo® by discussing injection techniques and academic science with cooperating young and middle-aged physicians, but also laid a foundation for the medical training and expert collaboration for newly launched products in the future.

- In the second quarter, Meiyan Space joined hands with Hugel Inc. from South Korea to attend the 10th Chinese Minimally Invasive Medical Aesthetics Conference and the "2023 Medical Aesthetics Safety and Compliance Year" themed forum with its blockbuster product Letybo®. Meiyan Space always adheres to the "the essence of medicine", takes technology as its core to promote industry standards, builds beauty with quality, and supports the healthy and vigorous development of medical aesthetics in the future, jointly creates compliant medical aesthetics, safe medical aesthetics, high-quality medical aesthetics and responsible medical aesthetics, promotes the standardized development of China's medical aesthetics market and helps the medical aesthetics industry move forward in the future.

- In the third quarter, Hugel Inc. joined hands with Meiyan Space to hold the H.E.L.F global annual academic seminar. As the exclusive agent of Letybo® in China, Meiyan Space brought nearly 30 senior domestic medical aesthetics physicians to participate in this year's H.E.L.F conferences held in Thailand and South Korea. The seminar covered the latest medical aesthetics trends and technologies for consumer markets of different age groups and genders, provided a platform for in-depth discussions on and exploration of global medical aesthetics trends, and provided valuable opportunities and new ideas for the further development of the industry. Meanwhile, it helped Meiyan Space foster a deep cooperative relationship with domestic senior experts.

- During the Year, Meiyan Space opened training centers in Chengdu and Shanghai, and held physician training and exchange meetings simultaneously offline and online. During the Year, Meiyan Space and Tanmei Space jointly completed three series of courses on the application of facial injections for rejuvenation. In July 2023, Meiyan Space helped "Tanmei Bashang Aesthetics Space" to be launched in Chengdu. On the same day, the Medical Conference on New Trends in Medical Aesthetics and Material Kaleidoscope – The Science and Art of Medical Aesthetics Exhibition was successfully held at Tanmei Bashang•Aesthetics Space in Chengdu; in September 2023, Meiyan Space & Tanmei Space jointly held the second phase of the Physicians' Exchange Meeting on Clinical Application of Microdrop Injection Technology; in November 2023, Meiyan Space & Tanmei Space China Training Center successfully held the third phase of the Physicians' Exchange Meeting on the Application of Persnica™ for Facial Rejuvenation. The Physicians' Exchange meeting took the clinical applications of botulinum toxin Letybo® and hyaluronic acid Persnica™ products under the Meiyan Space as the topic of exchange, and conducted exchanges and training sessions with all participating physicians to help medical aesthetics physicians achieve a higher level of clinical best practice and continue to empower physicians in the medical aesthetics industry to improve their skills. Meiyan Space has always been committed to promoting the joint development of new business forms between medicine and aesthetics, and strives to create the most comprehensive medical aesthetics product chain. With products as its base, Meiyan Space continues to leverage the brand advantages of industry experts, medical resources and empowering teams, and work together with Tanmei Bashang Aesthetics Space innovatively and deeply to empower Chinese medical aesthetics physicians to improve their diagnosis and treatment levels and standardize and professionalize the industry. It provides Chinese medical aesthetics physicians with more professional and in-depth technical training, and captures new trends in medical aesthetics around the globe with its advanced aesthetic philosophy to promote innovative development of the industry.

- Meiyan Space attended the Oriental Aesthetic and Plastic Art Conference with its blockbuster products, and shared with industry fellows the methods and methodologies of medical technology applications. Director Zhao Wei of the Department of Microsurgery of Shanghai Huamei Plastic Surgery Hospital was specially invited to give an authoritative sharing on "Application of Botulinum Toxin on Muscle Shaping". Mr. Ming Jian, general manager of Meiyan Space Medical Center, gave a detailed analysis and explanation for the first time on the "Application of Air Droplets of Botulinum Toxin". The application of air droplets is an innovative treatment idea of Sihuan Pharmaceutical Meiyan Space for botulinum toxin injection. It is more conducive to precise injection and enables the product to have better performance after injection. The conference also marked a good start to the promotion of the core technology of Meiyan Space's botulinum toxin products in 2024.

- During the Year, the "Twin Stars of Letybo® and Persnica™" Contour Sculpting Joint Injection Practical Satellite Conference hosted by Meiyan Space was officially launched at the 2023 Aesthetic & Anti-Aging Medicine World Congress (AMWC) held in China. Leading figures in the industry were specially invited to join the Satellite Conference to share with its attendees the cutting-edge injection technologies and experience of international anti-aging medicine. Through in-depth analysis and explanation of the application of cutting-edge injection technologies and sharing of aesthetics theories, we explored the cutting-edge trends of medical aesthetics with our guests, helped the regularized development of the medical aesthetics industry, and discussed the future development of global medical aesthetics.

- In addition, as the exclusive partner, Meiyan Space jointly launched the first AMWC Elite Medical Research Competition for Young Physicians. This competition received positive responses from young physicians in the field of medical aesthetics and anti-aging. In the preliminary round, more than 100 young physicians across China participated in the submission selection. The competition invited many top domestic experts and professors to form a chairman's panel to provide all-round comprehensive guidance and evaluation to the elite contestants. While ensuring the professionalism and fairness of the competition, the competition introduced a multi-dimensional evaluation system to evaluate the contestants, with a view to providing a more diverse and richer demonstration platform for young physicians, stimulating the academic thinking of the medical aesthetics industry, and thus making more practitioners to pay attention to clinical research and academic exchanges, helping to foster medical aesthetics talents, and promoting the sustainable development of medical aesthetics.

During the Year, with the help of many efficient and successful marketing and medical activities and strategies, Meiyan Space achieved a substantial improvement and leap in sales volume. During the Year, Meiyan Space won the "Outstanding Enterprise Award of the 2023 Chinese Medical Aesthetics Industry Overall Rating List" and the 2023 (Industry) Influential Brand Award at the CFS 12th Financial Summit and 2023 Sustainable Business Conference. Botulinum Toxin Letybo® won the Botulinum Toxin Brand of the Year Award at "the 3rd Spotlight Awards". Meiyan Space also won the 2022–2023 Elite Brand Partner Award from the CAPA and the Chinese Non-government Medical Institutions Association. It was also named the honorary title of partner in CAPA's "Scan QR Code to Verify Authenticity" Industry Self-discipline Activity. Meiyan Space has used its strength to gain the industry's recognition of its corporate brand value, brand strength and industry influence, as well as demonstrating its comprehensive strength.

At present, Meiyan Space has more than 40 medical aesthetics products that have received NDA approvals or are under development, including PCL filler, PLLA filler, PLLA gel, as well as the merge and acquisition and exclusive distribution rights of SYLFIRM X™ golden microneedle products with VIOL from South Korea, Cellbooster® series products from Switzerland, fat collection systems from the United States and other

mid-to-high-end medical aesthetics products, thus basically completing the management of the entire customer life cycle. In terms of sales team building, based on the launch time of new products, Meiyan Space will continue to increase the number of professional and mature sales personnel in this segment. With the growth of Letybo® in the past three years, we have also refined an agent management system that is unique to Meiyan Space. We hope that, with the rapid expansion of sales channel networks through the two-pronged strategy of "direct sales + agents", Meiyan Space will achieve better results in 2024.

2. Innovative Pharmaceuticals and Other Business Segments: Accelerating the progress of R&D and commercialization of high-quality product pipelines, and promoting the upgrades and development to a leading biopharmaceutical company in China at full speed

The Group continued to further develop its biopharmaceutical business and accelerated the rapid development of Xuanzhu Biopharm and Huisheng Biopharm in terms of product R&D. During the Year, Xuanzhu Biopharm, a leading innovative drug company focusing on oncology drugs, made breakthroughs in the R&D of a number of products, continuously driving innovation. The rapid progress of R&D and NDA for several key products of Huisheng Biopharm has further established its leading position in realizing full product coverage in the therapeutic areas of diabetes and its complications. The platforms in the innovative pharmaceuticals and other business segment are making steady progress in accelerating the R&D progress and commercialization of their quality product pipelines, further realizing the Group's innovation and transformation, and forging the upgrades and development of the Group to an innovative biopharmaceutical company at full speed.

During the Year, the Group incurred a segment result of a loss of RMB676.1 million in the innovative and other pharmaceuticals segment, of which the R&D expenditure amounted to RMB408.4 million, representing a decrease of 43.5% as compared with the R&D expenditure of RMB722.7 million for the same period in 2022.

2.1 Xuanzhu Biopharm: One of the companies with the most comprehensive layout in the domestic breast cancer treatment track, a leading biopharmaceutical company in China with comprehensive and innovative drug independent research and development capabilities in both small molecules and large biological molecules

Xuanzhu Biopharm, a subsidiary under Sihuan Pharmaceutical, is an innovative pharmaceutical company deeply rooted in China with a global perspective. It focuses on major diseases such as digestion disorders, oncology and non-alcoholic steatohepatitis (NASH) and is committed to the research, development, production and commercialization of new drugs with core independent intellectual property rights to address unmet clinical treatment needs. The company has a team with rich experience in the development and industrialization of innovative drugs. It has been

engaging in research in the fields of digestion disorders, oncology and NASH for many years. It has a profound understanding and global vision of the development and future directions of new drugs in related fields. The company has R&D systems for both small molecule drugs and large molecule biologicals. The dual engines drive the development of the company, forming a rich product pipeline rare in China that covers small molecule drugs, monoclonal antibodies, bispecific antibodies and ADC, etc. With "innovation-driven; promoting the development of new drugs in China and serving human health" as its strategic concept, "open-minded and innovative; dare to take responsibility; overcome difficulties; scientific rigor" as its values, the company is guided by major unmet clinical needs, continues to develop new drug products with international competitiveness, strives to develop into a first-class innovative drug company with independent R&D, production and sales capabilities.

25+ *Innovative Drugs under Development, with Comprehensive Layout for Main Targets of Breast Cancer*

Focusing on Oncology, NASH and Digestion, etc., the pipeline layout is complete and balanced in long, medium, and short terms, with strong capability to innovate continuously

Category	Drug Name	Target	Category	Independent R&D/ License-in	Indications	Pre-clinical	IND	Clinical Trial			NDA/ ANDA	Approval
								Phase I	Phase II	Phase III		
Core drugs	Anaprazole sodium (KBP-3571)	PPI	Innovative chemical drug	Internal R&D	Duodenal Ulcer (DU)							
					Reflux Esophagitis (RE)							
	Biroclib (XZP-3287)	CDK4/6	Innovative chemical drug	Internal R&D	HR+/HER2-Advanced Breast Cancer (Combined with Fulvestrant)							
					HR+/HER2-Advanced Breast Cancer (Combined with AI)							
					HR+/HER2-Advanced Breast Cancer							
					Advanced Prostate Cancer							
	XZP-3621	ALK	Innovative chemical drug	Internal R&D	First-line treatment for ALK+ advanced NSCLC							
					End-line treatment for ALK+ advanced NSCLC							
Main drugs	Fulvestrant	SERD	Generic drug[1]	License-in[2]	HR+ and/or ER+ breast cancer							
	XZP-KM257	HER2/HER2	Innovative biological drug	Internal R&D	**HER2+ solid tumor (breast cancer, gastric cancer, bladder cancer, CCA, etc.)**							
	XZP-5955	NTRK/ ROS1	Innovative chemical drug	Internal R&D	Locally Advanced NSCLC with ROS1 fusion							
					Locally Advanced solid tumors with NTRK fusion							
	XZP-5610	FXR	Innovative chemical drug	Internal R&D	Non-alcoholic Steatohepatitis (NASH)							
					PBC							
	XZB-0004	AXL	Innovative chemical drug	License-in[3]	NSCLC (combined PD-1)							
					Myelodysplastic Syndromes (MDS)							
					Acute Myelogenous Leukemia (AML)							
	XZP-KM602	CD80 fusion protein	Innovative biological drug	License-in[4]	**Solid tumors (Melanoma, small cell lung cancer, TNBC, etc.)**							
	XZP-KM501	HER2/ HER2-ADC	Innovative biological drug	Internal R&D	**HER2+solid tumor (breast cancer, gastric cancer, colorectal cancer, etc.)**							
Other drugs	XZP-6019	KHK	Innovative chemical drug	Internal R&D	Non-alcoholic Steatohepatitis (NASH)							
	XZP-6877	DNA-PK	Innovative chemical drug	Internal R&D	**Solid tumors (breast cancer, ovarian cancer, small cell lung cancer, head and neck cancer, etc)**							
	Fadanafil (XZP-5849)	PDE-5	Innovative chemical drug	Internal R&D	Erectile dysfunction (ED)							
					Pulmonary arterial hypertension (PAH)							

Note 1: Fulvestrant is a generic drug and does not need clinical trials

Note 2: Fulvestrant is introduced from Fujian Genohope Biotech Ltd. (福建基諾厚普生物科技有限公司), which has interests in the PRC

Note 3: XZB-0004 is introduced from SignalChem Lifesciences Corp., which has interests in Greater China

Note 4: XZP-KM602 is introduced from Beijing Xuanyi

Note 5: Pipeline progress as of 29 February 2024

During the Year, Xuanzhu Biopharm expedited the R&D of many products, with several products making substantial progress. One of them was Anaprazole Sodium Enteric-coated Tablets (trade name: Anjiuwei®), China's first independently developed PPI Class 1 innovative drug with independent intellectual property rights, which obtained drug market approval from the NMPA in June 2023, and was included in the National Reimbursement Drug List in the same year. Anaprazole Sodium was Xuanzhu Biopharm's first innovative drug to be approved for launch. The company has established a professional marketing team, which marks a new milestone for Xuanzhu Biopharm from R&D to commercialization. In addition, the phase II clinical trial of Anaprazole Sodium for a new indication – reflux esophagitis (RE) has completed the enrollment of all subjects, with its R&D progressing smoothly.

In the field of oncology, two indications have been submitted for NDA approval and accepted. They are Birociclib in combination with Fulvestrant for the treatment of HR+/HER2- advanced breast cancer patients with disease progression following previous endocrine therapy, and Birociclib monotherapy for the treatment of advanced breast cancer patients with disease progression after multiple-line treatment (including endocrine therapy and chemotherapy). The clinical research results of Birociclib monotherapy were selected by the 2023 ASCO Annual Meeting and the 2023 ESMO Congress for poster presentation. With its clinical value recognized by authoritative academic institutions, Birociclib is potentially the best product in class. Moreover, the phase III clinical study of Birociclib in combination with aromatase inhibitor for the initial endocrine therapy of patients with HR+/HER2- advanced breast cancer is progressing smoothly. The indication of Birociclib monotherapy or in combination with Abiraterone Acetate and Prednisolone for the treatment of the metastatic prostate cancer has also received phase II clinical trial approval, which will be initiated soon.

XZP-3621 for the initial treatment of ALK+ advanced NSCLC patients has achieved phased results and its NDA application is expected to be submitted in 2024. XZP-3621 is a new generation of ALK/ROS1 dual-targeted inhibitor independently developed by Xuanzhu Biopharm for the treatment of ALK+ advanced NSCLC. The clinical data show that XZP-3621 has excellent efficacy and safety in the ALK inhibitor naive and previously treated advanced NSCLC patients with ALK+. Except for gastrointestinal adverse reactions, the incidence of adverse events such as hematology toxicity and nervous system toxicity is low. In addition, XZP-3621 can penetrate the blood-brain barrier, which is effective for the tumor brain metastasis. According to the data from China Insights Consultancy, with the gradual introduction and popularization of ALK targeted drugs, the market size of ALK inhibitors in China is growing rapidly. It is expected that the market size of ALK inhibitors in China will increase from RMB3.37 billion in 2021 to RMB6.96 billion in 2030.

Meanwhile, Xuanzhu Biopharm continued to make breakthroughs and seek innovation, advancing three globally leading innovative drugs to the clinical stage. These drugs include XZP-KM501, an HER2 bispecific antibody ADC that shows excellent effects on patients with both HER2 high expression and low HER2 expression; XZP-6877, a DNA-PK inhibitor that increases the sensitivity of cancer cells to radiotherapy and chemotherapy and serves the purpose of inhibiting cancer cell proliferation and has broad market prospects; and XZP-KM602, a CD80 fusion protein drug and a new generation of tumor immunology drug that has a broad-spectrum anti-tumor effect. Domestic clinical trials for XZP-KM602 have already been initiated. Actively exploring the "global expansion" strategy, Xuanzhu Biopharm obtained clinical trial approval for XZP-KM602 from the United States Food and Drug Administration (FDA) in September 2023.

In March 2023, CD80 mutant-Fc fusion protein injection solution (product code: XZP-KM602) developed by Xuanzhu Biopharm was approved by the NMPA for clinical trials in the treatment of advanced solid tumors. "XZP-KM602" is a new generation of tumor immunotherapy drug and is currently the first and only CD80 mutant-Fc fusion protein in the clinical stage in China. It produces a long-term immune memory function, and its anti-tumor activity lasts, which can further enhance the therapeutic effect of various tumor treatment regimens. At present, there is only one similar drug with the same target in clinical phase I in the world. XZP-KM602, as the first and only CD80 mutant-Fc fusion protein in the clinical stage in China, is expected to fill the market gap in this field in China. At present, the clinical response rate of tumor immunotherapy represented by PD1 is still low. CD80 fusion protein can not only inhibit PD-L1 and CTLA-4, but also promote the co-stimulation of CD28, and will be a promising blockbuster in the future tumor immunotherapy field, with the potential to overcome the bottleneck of 10%-30% efficacy represented by PD-1 inhibitor monotherapy.

In the same month, a selective DNA dependent protein kinase (DNA-PK) inhibitor (product code: XZP-6877 tablets), internally developed by Xuanzhu Biopharm, was also approved by the NMPA to conduct clinical trials for the treatment of advanced solid tumors. XZP-6877 can block the main routes for repairing DNA double strand breaks (DSBs) caused by radiotherapy or chemotherapy drugs, and improve the sensitivity of tumor cells to radiotherapy and chemotherapy; at the same time, it destroys the stability of DNA telomere structure to inhibit the proliferation and growth of tumor cells. The combination of the two mechanisms can enhance the anti-tumor efficacy and more effectively control tumors. XZP-6877 is the first DNA-PK inhibitor approved for clinical trials in China, which can be used in combination with chemotherapy or radiotherapy for the treatment of advanced solid tumors with a broad spectrum of anticancer potentials. Leading in research and development progress and with technical advantages, preclinical data show that it has good drugability, and is expected to fill the market gap in China in this field.

Xuanzhu Biopharm always adheres to independent R&D and continues to output innovative achievements, which have been recognized by the industry. During the Year, Xuanzhu won multiple honors, including "Forbes China Unicorn Enterprises", "2023 China Biopharmaceutical Science & Technology Innovation Value List – Top 10 Most Promising Small Molecule Innovative Drug Enterprises", "2023 China Top 100 companies with Comprehensive Drug R&D Ability", "2023 China Pharmaceutical Industry Innovation Leader Enterprises Top 50", and "2023 Deloitte China Healthcare Tomorrow Star".

2.2 *Huisheng Biopharm: A biopharmaceutical leader with full product coverage in the therapeutic areas of diabetes and its complications, and is expected to become a leading platform for the whole-course management of diabetes patients*

Huisheng Biopharm, a subsidiary of the Group, is a biomedical company that focuses on the therapeutic areas of diabetes and its complications. After nine years of construction and development, the company currently has a world-class R&D team with rich experience in diabetes drug R&D. It has nearly 40 products in the pipeline, which cover second-generation insulin, third-generation insulin, new generation insulin (covering basal insulin, premixed insulin, and rapid-acting insulin), the latest mechanism products including SGLT-2 inhibitors and GLP-1 receptor agonists as well as other commonly used anti-diabetic and complication treatment drugs. It is one of the few companies in China to achieve full product coverage in the therapeutic areas of diabetes and its complications.

Rich Product Pipeline, Realizing Full Coverage in Diabetes and Complications

Multiple products have been approved for launch, and the R&D progress of many core products leading the industry

Therapeutic Area	Category	Sub-Category	Drug name	R&D Stage					NDA/ANDA evaluation	Approval
				Pre-clinical	IND	Phase I	Phase II	Phase III		
Diabetes	SGLT-2	Class 1 New Drug	**Ganagliflozin Tablets**							
			Ganagliflozin Tablets and Metformin Tablets							
	Insulin and analogues	New Insulin	**Insulin Degludec Injection**							
			Insulin Degludec and Insulin Aspart Injection							
			Insulin Degludec and Liraglutide Injection							
		3rd Generation	Insulin Aspart Injection							
			Insulin Aspart 30 Injection							
			Insulin Aspart 50 Injection							
		2nd Generation	Recombinant Human Insulin Injection							
			Protamine Recombinant Human Insulin Injection							
			Protamine Recombinant Human Insulin Injection (30R)							
			Protamine Recombinant Human Insulin Injection (50R)							
	GLP-1	Large market potential (Biosimilars)	**Semaglutide Injection (Diabetes)**							
			Semaglutide Injection (Obesity or overweight)							
			Semaglutide Tablets							
		Class 1 New Drug	**HSP-012C (Dual target)**							
	Oral hypoglycemic drugs	SGLT-2、DPP-4、etc. (Chemical generic drugs)	~nearly 10 products including dapagliflozin tablets, sitagliptin tablets etc.*							
Complications	Complications of diabetes	Lage market potential	~nearly 10 products including mecobalamin tablets etc.*							

Note 1: Pipeline progress as of 29 February 2024

Note 2: *Identify the fastest clinical progress within the category

During the Year, Huisheng Biopharm expedited its product R&D and commercialization processes. During the Year, Huisheng Biopharm obtained the drug registration approvals of 7 drugs, including Insulin Aspart Injection, Insulin Aspart 30 Injection, Insulin Aspart 50 Injection, Mecobalamin Tablets, Mecobalamin Injection, Thioctic Acid Injection and Sitagliptin Tablets. Moreover, the Company has submitted the NDA of 5 drugs, including Insulin Degludec and Insulin Aspart Injection. In 2024, its innovative drugs SGLT-2 inhibitor innovative drug Proline Ganagliflozin tablets (trade name: Huiyoujing®) and Vildagliptin tablets obtained drug registration approvals from the NMPA. The approvals obtained by the above products mark a new milestone for Huisheng Biopharm's development from R&D to commercialization.

On 23 January 2024, the Group announced that the SGLT-2 inhibitor innovative drug Proline Ganagliflozin tablets (trade name: Huiyoujing®) had obtained NDA approval. The SGLT-2 inhibitor is a new type of oral hypoglycemic drug highly recommended internationally for the treatment of patients with type 2 diabetes mellitus. It selectively inhibits the SGLT-2 receptor in renal proximal tubules, to reduce glucose re-absorption to promote urinary glucose excretion, thus lowering blood glucose concentration. SGLT-2 inhibitors not only have good hypoglycemic effect, but also have multiple benefits such as cardiovascular and renal protection, which is recommended by domestic and foreign guidelines in multiple fields, and also have the potential to expand to cardiovascular disease, chronic kidney disease and other indications. Ganagliflozin is a SGLT-2 inhibitor Class 1 innovative drug, and its phase III clinical data showed that it not only has significant hypoglycemic efficacy (the decrease of HbA1c is up to 1.4% compared to baseline), but also has multiple benefits such as lowering blood pressure, reducing weight and improving blood lipids, etc., with low risk of hypoglycemia, and good overall safety. When compared side-by-side with phase III clinical data of similar SGLT-2 inhibitor products already on the market, Ganagliflozin showed similar or even better results. Huisheng Biopharma owns the patent rights of Ganagliflozin in multiple countries and regions including China, the United States, Europe, Japan, South Korea and Hong Kong, etc.

Moreover, on 8 January 2024, the Group announced that Insulin Aspart Injection, Insulin Aspart 30 Injection and Insulin Aspart 50 Injection developed by Huisheng Biopharm had obtained drug registration approvals from the NMPA. Insulin Aspart Injection is the third-generation fast acting insulin analogue. It takes effect within 10–20 minutes after subcutaneous injection, which can better control postprandial blood glucose and reduce the risk of hypoglycemia. The injection time is more flexible and can be administered near mealtime. It can also be used for insulin pump and intravenous injection. Insulin Aspart 30/50 Injections are biphasic insulins containing 30%/50% soluble insulin aspart and 70%/50% protamine insulin aspart. They can better control fasting and post-prandial blood glucose, reduce the number of injections, and have obvious advantages in improving patients' compliance and saving medical costs. The availability of two different

dosages allows clinical physicians to provide patients with more flexible and personalized treatment options based on their postprandial blood glucose levels. Insulin Aspart Injection, Insulin Aspart 30 Injection and Insulin Aspart 50 Injection are all included in the National Reimbursement Drug List (2023 version) and classified in Category B.

During the Year, Semaglutide injection, developed by Huisheng Biopharm for the treatment of type 2 diabetes was approved for IND by the NMPA in June, and the clinical trials were initiated in the second half of the year. As of March 2024, phase III enrollment was completed. Semaglutide is a long-acting GLP-1 receptor agonist injected once a week, which has better hypoglycemic and weight loss effects than the classic GLP-1 receptor agonist drug Liraglutide. Semaglutide not only has good hypoglycemic efficacy and high safety, but also has outstanding advantages in weight loss and cardiovascular benefits. It is expected that the international and domestic markets will continue to grow rapidly in the future.

During the Year, the clinical trial of Insulin Degludec and Liraglutide Injection developed by Huisheng Biopharm for the treatment of type 2 diabetes was approved by the NMPA. Insulin Degludec and Liraglutide Injection was the world's first compound preparation composed of a basal insulin analog and a GLP-1 analog to receive NDA approval. It combines the two-component advantages of Insulin Degludec and Liraglutide. On the basis of significant blood sugar lowering and weight loss effect, it is used to treat type 2 diabetes. Insulin Degludec and Liraglutide Injection is injected once a day, which reduces the number of injections and improves patient compliance. When the insulin dose is the same or lower, its hypoglycemic effect is better than that of basal insulin treatment alone, while reducing the risk of hypoglycemia and eliminating the side effects of insulin therapy for weight gain. Insulin Degludec and Liraglutide Injection is a recommended drug in the "China's Guidelines for the Prevention and Treatment of Type 2 Diabetes (2020 Edition)" and is included in the National Reimbursement Drug List and classified in Category B.

In addition, the NDA of Insulin Degludec and Insulin Aspart Injection developed by Huisheng Biopharm was submitted and accepted by the NMPA during the Year. It was the first biosimilar of Insulin Degludec and Insulin Aspart Injection whose NDA was submitted and accepted in China. The Insulin Degludec and Insulin Aspart Injection is a soluble double insulin preparation. It is a mixture of 70% Insulin Degludec and 30% Insulin Aspart. After subcutaneous injection, they exert their respective pharmacokinetic effects, thereby achieving an ultra long and stable hypoglycemic effect. The characteristics of this product are that it can quickly control fasting and postprandial blood glucose, and better reduce HbA1c. Compared with the use of Insulin Glargine and Insulin Aspart, the product has a significantly lower risk of nocturnal hypoglycemia and is more conducive to blood glucose regulation in patients with diabetes. As a non-cocrystalline compound,

the product can be used without mixing, which enhances the convenience of the product and avoids the injection risk of mixing preparations. In addition, compared to basal insulin and mealtime insulin treatment, the product can reduce the number of injections, thereby helping to improve patient compliance and reduce medical burden.

As many products are already in the NDA stage, to ensure the rapid industrialization of the drugs after launch and support the transformation of the entire value chain operation of research, production and sales, by adhering to the cost and efficiency oriented approach, and in combination with the online ERP expansion module, the Company has sorted out the industrial operation process, achieving the full line connection of sale-plan-production-logistics business, and promoted the standardization, informatization, and digitalization process of industrial operation; the Company has also implemented organizational integration and resource restructuring of processes and production modules, improving the specialization of processes and techniques and site production management. At the same time, it has completed production lines renovation, added key production equipment, and achieved the commercial production lines with a production capacity of over ten million and a flexible and efficient operation of pilot production lines, improving internal operation significantly and R&D efficiency. In addition, to ensure the successful launch for the approved products, Huisheng Biopharm has conducted on-site research on the product pipeline and developed product portfolio sales strategies, and has started to establish marketing team, covering functional departments such as marketing, sales, and marketing operations, and has carried out market preparation before the products are launched.

In January 2023, Huisheng Biopharm announced that it had successfully completed the A+ round of financing, the investors subscribed for stake in Huisheng Biopharm at the cost of an additional capital increase of RMB580 million, with an overall post investment valuation of RMB5.58 billion. Although the capital market experienced the lowest sentiment in the recent two years, Huisheng Biopharm successfully completed both A and A+ rounds of financing within 12 months, realized a total equity financing of RMB1.08 billion, which fully reflects the recognition of investors on the R&D and industrialization capability of Huisheng Biopharm, and also verifies the value of the company's product pipeline in the therapeutic areas of diabetes and its complications. The Group is also full of confidence and expectations for the future development of Huisheng Biopharm. During the Year, the company successfully completed its share reform and officially changed its name to Huisheng Biopharmaceutical Co., Ltd., preparing for independent development in the capital market in the future.

Huisheng Biopharm is a biopharmaceutical platform that the Group has carefully incubated for nearly nine years, targeting the huge potential diabetes and its complications market in China. In the future, with the gradual implementation of Huisheng Biopharm's product pipeline and the continuous emergence of innovative products, Huisheng Biopharm will become a leading biopharmaceutical leader in China with a full range of products in the therapeutic areas of diabetes and its complications, thus realizing a continuous amplification of its value.

3. Generic drugs: Continuing the steady development of the "cash cow" business and accelerating the implementation of the divestment and transfer of certain generic medicine and other non-core traditional pharmaceutical or big healthcare businesses and assets that are not in line with the long-term strategic development objectives

In 2023, the Group accelerated the implementation of the optimization and integration of the generic pharmaceuticals business, balanced the development and stability of the generic pharmaceuticals cash cow business, and accelerated the implementation of the divestment and transfer of several generic pharmaceuticals and other non-core traditional pharmaceuticals or big healthcare businesses and assets that are not in line with the long-term strategic development objectives.

During the Year, the Group made significant progress on the "cash cow" generic pharmaceutical business. The blockbuster drug Kelin'ao® was successfully moved out of the Key Monitoring Drug List leveraging on its more than one thousand patients evidence-based medicine (EBM) results; seven Non-PVC solid-liquid dual chamber bag drugs and Midazolam Oromucosal Solution were included in the National Reimbursement Drug List; and 13 generic drugs including the antiviral drug Favipiravir Tablets, anti-bacterial infection drug Azithromycin for Suspension, anti-fungal infection drug Fluconazole and Sodium Chloride Injection, and Dopamine Hydrochloride Injection for the treatment of shock syndrome, developed by the Group, obtained drug registration approvals from the NMPA during the Year. In addition, 5 APIs passed the technical evaluation carried out by the CDE of the PRC, while the result of their joint evaluation with preparations was "A". The successful launch of the drugs will provide strong support for the growth of the pharmaceutical business revenue of the Group.

Kelin'ao® (Cinepazide maleate injection) is a weak calcium antagonist used to improve neurological symptoms, activities of daily living (ADLs) and dysfunctions caused by acute ischemic stroke. The Group is currently the only enterprise in China that has completed a large-scale confirmatory clinical study on this product. The clinical study was a multicentre real-world study for post-marketing safety evaluation, led by Professor Cui Liying of Peking Union Medical College Hospital, former chairman of the Neurology Branch of the Chinese Medical Association, with the participation of 68 top hospitals from dozens of provinces, municipalities and directly-administered municipalities, with a total of 1,301 subjects enrolled.

This is the clinical trial with the largest number of participating centres and the largest sample size among the independently developed drugs for stroke treatment in China, which provides an important guarantee for the credibility and reproducibility of the study results. The results of the study showed that the drug was effective in promoting functional recovery in stroke patients after 90 days. The results of this study demonstrated that the product is effective in improving the prognosis of stroke patients and reducing the disability rate. Cinepazide maleate is the only approved product in the field of stroke treatment in China since the commencement of the post-marketing clinical study. As a former first-line drug for the clinical treatment of cardiovascular and cerebrovascular diseases, Kelin'ao® has benefited 7 million patients over the past 20 years, and its annual terminal sales in the Chinese market once reached billions of yuan, making it a heavyweight product used for the treatment of stroke at that time. Stroke is an acute cerebral blood circulation disorder caused by narrowing, occlusion or rupture of the arteries in the brain due to various triggering factors, which is an acute cerebrovascular disease and is the leading cause of death among Chinese residents. According to the China's Stroke Prevention and Treatment Guidelines (2021), the proportion of new strokes in China is about 0.28%, with acute stroke accounting for about 70% of the total, and the total population of China was about 1.413 billion in 2022, with the number of new acute ischemic strokes in China being about 2.77 million in 2022. According to the 2017 China's Stroke Prevention and Treatment Report, the recurrence rate one year after the first stroke is as high as 17.1%, and patients must take long-term medication to prevent recurrence, which has also contributed to the continuous growth of the domestic market for stroke medication. In 2020, the sales of stroke drugs in China was approximately RMB69 billion.

The non-PVC powder-liquid dual-chamber bag ready-to-dispense infusion has a high R&D technology barrier and a long development cycle, and is currently an advanced infusion product in the international arena. The dosage form adopts specific technology and non-PVC multi-layer co-extruded film as the packaging material, the drug and the injectable solvent are packed in two chambers of the same bag, and the chambers are separated by virtual welds. Before infusion, it is only necessary to gently squeeze the bottom of the chambers to open the barrier between the two preparation chambers to achieve drug homogenization. The dosage form avoids secondary contamination caused by microorganisms and particles during the dispensing process, and eliminates the potential hazards to healthcare workers caused by highly allergenic drugs during the preparation and infusion process. In addition, it takes less than 20 seconds from preparation to use, which has the advantage of high efficiency and speedy use, and can be commonly used in hospitals for emergency treatment, ICUs, etc., which can save more lives in case of emergencies. In terms of clinical application, it is widely recognized as the safest, most reliable and convenient infusion product, and is one of the new dosage forms with the most development potential in the pharmaceutical industry. The Chinese market for the non-PVC powder and liquid dual-chamber bag is still in its infancy. However, due to the huge base of China's large infusion market, with consumption

perennially exceeding 10 billion bags (bottles), as the new powder-liquid dual-chamber bag has obtained NDA approval and has been included in the National Reimbursement Drug List, patients' willingness to use it has been increasing each year, which will accelerate its market penetration in China. Being safer and more convenient, the dual-chamber bag has the clinical advantage and is expected to partially supplant existing products. It can be foreseen that the Chinese market for this dosage form in the future is promising and has huge market potential.

Midazolam Buccal Mucosal Solution, a benzodiazepine sedative-hypnotic, is the first mucosal drug form developed for infants, children and adolescents in China for the treatment of acute, persistent convulsive seizures caused by hyperthermia or epilepsy in children 3 months to 18 years of age, and it is a recommended therapeutic agent in the guidelines for the treatment of epilepsy and the guidelines for febrile convulsive seizures. The current clinical use of midazolam, which is mainly administered orally or intravenously, poses a major inconvenience for infants, toddlers and children with persistent convulsive seizures. Compared with other dosage forms, the buccal mucosal solution dosage form is more convenient to administer, with faster onset of action, and can even be used in out-of-hospital home emergencies. The Midazolam Buccal Mucosal Solution developed by the Group is the first and the only one of its kind in China. At present, the market scale of children's medicine in China only accounts for 7–8% of the overall pharmaceutical industry, and the population aged 0–15 years accounts for approximately 17.8% of the total population, representing a huge population base, the market of children's medicine is far from saturated, with a huge market potential in the future.

During the Year, the Group's generic pharmaceuticals business made various positive developments, which will provide strong support for the Group to maintain a healthy cash flow. Meanwhile, with the successful divestment and transfer of part of the Group's traditional generic pharmaceutical business and big healthcare business, which have continued to suffer from low profitability and are subject to strong policy influence, the Group has been able to further focus its management and corporate resources on the medical aesthetic segment that with higher growth and higher profit margins, as well as on the biopharmaceutical segment with high growth in value. The Group believes that through the implementation of our "innovative pharmaceuticals + medical aesthetics" dual-wheel drive strategy and the enhancement of the efficiency of the Group's resource utilization, the overall profit structure of the Company will be effectively improved and upgraded, which will help to maximize shareholders' value.

PROSPECTS AND FUTURE GROWTH STRATEGIES

In 2024, we will focus our management on the high-growth field of medical aesthetics and the high-value fields of innovative drugs and biopharmaceuticals. We are committed to greatly enhancing the growth of both revenue and profit from our medical aesthetics business, expediting the NDA of innovative drugs and biologics and achieving the product iteration of generic drugs by innovative drugs and biologics. We will strive to do less but more meaningful tasks, accelerating the optimization and integration of the generic drug business. We will adhere to our people-oriented philosophy and continue to foster a more diversified and international talent pool for the innovation, transformation and upgrades of the Company.

CONCLUSION

Perseverance will pay off. The Group firmly believes that its strategic goals will be achieved, as long as it persists in doing difficult but right things, adheres to its two-wheel drive development strategy of "medical aesthetics + innovative drugs", continues to take action and strive to improve the Company's cash flow generation ability, with the creation of better investment returns for shareholders and investors who trust and support the Group as the core goal of the Company's development, and with the protection of human health and a better life as its own responsibility.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	**2023** ***RMB'000***	2022 *RMB'000*
CONTINUING OPERATIONS			
Revenue	3	**1,860,539**	2,181,189
Cost of sales		**(564,895)**	(693,608)
GROSS PROFIT		**1,295,644**	1,487,581
Other income	3	**197,735**	157,919
Other gains – net	3	**216,148**	350,174
Impairment losses on non-current assets		**–**	(1,337,808)
Impairment losses on investments accounted for using the equity method		**–**	(389,311)
Distribution expenses		**(442,257)**	(471,144)
Administrative expenses		**(468,958)**	(552,192)
Research and development expenses		**(577,656)**	(936,581)
Other expenses		**(58,958)**	(139,365)
OPERATING PROFIT/(LOSS)		**161,698**	(1,830,727)
Finance expenses	5	**(269,337)**	(211,176)
Share of profits and losses of investments accounted for using the equity method		**(53,621)**	(80,875)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	4	**(161,260)**	(2,122,778)
Income tax expense	6	**(96,427)**	(196,794)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(257,687)**	(2,319,572)
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	7	**–**	36,296
LOSS FOR THE YEAR		**(257,687)**	(2,283,276)
Attributable to:			
Owners of the Company		**(54,017)**	(1,914,918)
Non-controlling interests		**(203,670)**	(368,358)
		(257,687)	(2,283,276)

	Notes	2023 *RMB'000*	2022 *RMB'000*
LOSS FOR THE YEAR		**(257,687)**	(2,283,276)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		**–**	–
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(257,687)**	(2,283,276)
Attributable to:			
Owners of the Company		**(54,017)**	(1,914,918)
Non-controlling interests		**(203,670)**	(368,358)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(257,687)**	(2,283,276)
		RMB	*RMB*
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic loss per share			
For loss for the year		**(0.58) cents**	(20.52) cents
For loss from continuing operations		**(0.58) cents**	(20.90) cents
Diluted loss per share			
For loss for the year		**(0.58) cents**	(20.52) cents
For loss from continuing operations		**(0.58) cents**	(20.90) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	31 December 2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,174,591**	2,300,959
Investment properties		**245,930**	221,059
Right-of-use assets		**667,438**	697,367
Goodwill		**1,853**	1,853
Intangible assets	10	**775,962**	626,462
Investments accounted for using the equity method	18	**649,619**	682,174
Financial assets at fair value through profit or loss	11	**354,275**	225,164
Other non-current assets		**331,481**	594,359
Deferred tax assets		**31,770**	96,774
Pledged deposits		**98,756**	143,994
Total non-current assets		**5,331,675**	5,590,165
CURRENT ASSETS			
Inventories		**557,323**	606,700
Trade and other receivables	12	**1,134,750**	1,118,628
Financial assets at fair value through profit or loss	11	**589,016**	962,988
Cash and cash equivalents		**3,778,666**	3,828,863
Pledged deposits and time deposits		**144,000**	33,207
Total current assets		**6,203,755**	6,550,386
CURRENT LIABILITIES			
Trade and other payables	15	**1,710,825**	1,926,944
Interest-bearing bank borrowings	16	**269,680**	327,075
Contract liabilities		**131,785**	164,010
Income tax payable		**44,205**	67,862
Lease liabilities		**12,385**	13,184
Other current liabilities	14	**1,937,922**	33,925
Total current liabilities		**4,106,802**	2,533,000
NET CURRENT ASSETS		**2,096,953**	4,017,386
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,428,628**	9,607,551

		31 December	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**70,323**	99,040
Interest-bearing bank borrowings	16	**864,142**	808,383
Lease liabilities		**30,276**	45,856
Contract liabilities		**44,190**	5,660
Other non-current liabilities	14	**1,282,673**	3,008,786
Total non-current liabilities		**2,291,604**	3,967,725
Net Assets		**5,137,024**	5,639,826
EQUITY			
Equity attributable to owners of the Company			
Share capital	13	**77,058**	77,058
Treasury shares		**(33,811)**	–
Share premium	13	**3,882,304**	3,882,304
Other reserves		**(439,765)**	(528,850)
Retained earnings		**946,344**	1,306,486
		4,432,130	4,736,998
Non-controlling interests		**704,894**	902,828
Total equity		**5,137,024**	5,639,826

1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**") (which include all IFRSs, International Accounting Standards ("**IASs**") and Interpretations) issued by the International Accounting Standards Board (the "**IASB**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for wealth management products, notes receivable and equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Changes in accounting policies and disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 17	*Insurance Contracts*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and the impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The Group has earlier applied the amendments, so the amendments did not have any impact on the financial position or performance of the Group.

(d) Amendments to IAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the medical aesthetic products segment including the filling, shaping, supporting, supplementing, optoelectronic devices, body sculpturing, skin care and other services to provide non- or minimally invasive medical aesthetics comprehensive solutions;

(b) the innovative medicine and other medicine segment; and

(c) the generic medicine segment.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's loss before tax from continuing operations except that interest income, non-lease-related finance costs, dividend income, fair value gains/losses from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Information relating to segment assets and liabilities is not disclosed as such information is not regularly reported to the chief operating decision-maker who assesses the performance of the operating segments based on their revenue and operating profit rather than their assets and liabilities.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Year ended 31 December 2023

	Medical aesthetic products *RMB'000*	Innovative medicine and other medicine *RMB'000*	Generic medicine *RMB'000*	Total *RMB'000*
Segment revenue *(note 3)*				
Sales to external customers	**449,884**	**11,807**	**1,398,848**	**1,860,539**
Intersegment sales	**25**	**24,966**	**–**	**24,991**
	449,909	**36,773**	**1,398,848**	**1,885,530**
Reconciliation:				
Elimination of intersegment sales				**(24,991)**
Revenue from continuing operations				**1,860,539**
Segment results	**91,763**	**(676,062)**	**564,300**	**(19,999)**
Reconciliation:				
Unallocated other income				**43,483**
Unallocated other gains – net				**3,140**
Unallocated expenses				**(100,030)**
Unallocated finance expenses				**(34,233)**
Share of profits and losses of investments accounted for using the equity method				**(53,621)**
Loss before tax from continuing operations				**(161,260)**

Year ended 31 December 2022

	Medical aesthetic products *RMB'000*	Innovative medicine and other medicine *RMB'000*	Generic medicine *RMB'000*	Total *RMB'000*
Segment revenue *(note 3)*				
Sales to external customers	149,780	60,913	1,970,496	2,181,189
Intersegment sales	–	104,798	–	104,798
	149,780	165,711	1,970,496	2,285,987
Reconciliation:				
Elimination of intersegment sales				(104,798)
Revenue from continuing operations				2,181,189
Impairment losses on non-current assets	–	(314,455)	(976,588)	(1,291,043)
Segment results	3,576	(1,400,204)	(16,009)	(1,412,637)
Reconciliation:				
Unallocated other income				13,018
Unallocated other gains – net				19,000
Unallocated expenses				(625,964)
Unallocated finance expenses				(35,320)
Share of profits and losses of investments accounted for using the equity method				(80,875)
Loss before tax from continuing operations				(2,122,778)

Geographical information

(a) Revenue from external customers

	2023 ***RMB'000***	2022 *RMB'000*
Geographical markets		
Chinese Mainland	**1,846,751**	2,166,784
United States of America	**13,788**	14,405
	1,860,539	2,181,189

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

	2023 *RMB'000*	2022 *RMB'000*
Geographical markets		
Chinese Mainland	**4,516,383**	4,531,294
United States of America	**10,958**	13,982
	4,527,341	4,545,276

The non-current asset information of continuing operations above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

During the year ended 31 December 2023, all sales were from distributors and there were no distributors of the Group from which the revenue amounted to 10% or more of the Group's revenue (2022: Nil).

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 *RMB'000*	2022 *RMB'000*
Revenue from contracts with customers	**1,860,539**	2,181,189

Revenue from contracts with customers

(a) Disaggregated revenue information

Year ended 31 December 2023

	Medical aesthetic products *RMB'000*	Innovative medicine and other medicine *RMB'000*	Generic medicine *RMB'000*	Total *RMB'000*
Type of goods				
Sale of pharmaceutical products and medical aesthetic products	**449,884**	**11,807**	**1,398,848**	**1,860,539**
Geographical markets				
Chinese Mainland	**436,096**	**11,807**	**1,398,848**	**1,846,751**
United States of America	**13,788**	**–**	**–**	**13,788**
Total revenue from contracts with customers	**449,884**	**11,807**	**1,398,848**	**1,860,539**
Timing of revenue recognition				
Goods transferred at a point in time	**449,884**	**11,807**	**1,398,848**	**1,860,539**

Year ended 31 December 2022

	Medical aesthetic products *RMB'000*	Innovative medicine and other medicine *RMB'000*	Generic medicine *RMB'000*	Total *RMB'000*
Type of goods				
Sale of pharmaceutical products and medical aesthetic products	149,780	60,913	1,970,496	2,181,189
Geographical markets				
Chinese Mainland	135,375	60,913	1,970,496	2,166,784
United States of America	14,405	–	–	14,405
Total revenue from contracts with customers	149,780	60,913	1,970,496	2,181,189
Timing of revenue recognition				
Goods transferred at a point in time	149,780	60,913	1,970,496	2,181,189

Set out below is the reconciliation of the revenue from contracts with customers to the amounts disclosed in the segment information:

Year ended 31 December 2023

	Medical aesthetic products *RMB'000*	**Innovative medicine and other medicine** *RMB'000*	**Generic medicine** *RMB'000*	**Total** *RMB'000*
Segments				
Sales to external customers	**449,884**	**11,807**	**1,398,848**	**1,860,539**
Intersegment sales	**25**	**24,966**	**–**	**24,991**
	449,909	**36,773**	**1,398,848**	**1,885,530**
Reconciliation:				
Elimination of intersegment sales				**(24,991)**
Total revenue from contracts with customers				**1,860,539**

Year ended 31 December 2022

	Medical aesthetic products *RMB'000*	Innovative medicine and other medicine *RMB'000*	Generic medicine *RMB'000*	Total *RMB'000*
Segments				
Sales to external customers	149,780	60,913	1,970,496	2,181,189
Intersegment sales	–	104,798	–	104,798
	149,780	165,711	1,970,496	2,285,987
Reconciliation:				
Elimination of intersegment sales				(104,798)
Total revenue from contracts with customers				2,181,189

The following table shows the amounts of revenue recognised for the year that were included in the contract liabilities at the beginning of the year and recognised from performance obligations not yet satisfied in previous years:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the year:		
Sale of pharmaceutical products and medical aesthetic products	**161,180**	201,042

(b) Performance obligations

S*ales of pharmaceutical products and medical aesthetic products*

The performance obligation is satisfied upon acceptance of the pharmaceutical products and medical aesthetic products and payment is generally due within 90 to 180 days from delivery, except for new customers, where payment in advance is normally required.

The amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income

		2023	2022
		RMB'000	*RMB'000*
Interest income		**147,908**	146,794
Gross rental income from investment property operating leases	(i)	**10,663**	6,079
Hospital services income		**29,023**	–
Sales of distribution rights	(ii)	**2,830**	2,409
Research and development income	(iii)	**1,482**	195
Others		**5,829**	2,442
		197,735	157,919

(i) Gross rental income from investment property operating leases is included in other income as it is not derived from the Group's principal activities. An analysis of rental income is as follows:

	2023	2022
	RMB'000	*RMB'000*
Geographical markets		
Hong Kong	**3,207**	3,372
Chinese Mainland	**7,456**	2,707
	10,663	6,079

(ii) Revenue from sales of distribution rights is included in other income as it is not derived from the Group's principal activities. The geographical market of all the sales of distribution rights is Chinese Mainland. The performance obligation is satisfied over time as services are rendered and advances are normally required before rendering the services. Distribution rights are sold for periods of three to five years. The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Amounts expected to be recognised as other income:		
Within one year	**13,170**	2,830
After one year	**44,190**	5,660
	57,360	8,490

The following table shows the amounts of revenue recognised for the year that were included in the contract liabilities at the beginning of the year:

	2023	2022
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of distribution rights	**2,830**	2,409

(iii) R&D income is included in other income as it is not derived from the Group's principal activities. The geographical market of all the R&D activities is Chinese Mainland. The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days from the date of billing.

Other gains – net

	2023	2022
	RMB'000	*RMB'000*
Government grants (i)	**60,700**	57,493
Gain on deemed disposal of interest in an associate	**21,251**	9,554
Gain/(loss) on changes in fair value of financial assets at fair value through profit or loss	**131,765**	(11,548)
Gains on disposal of property, plant and equipment	**4,378**	–
Gain on disposal of right-of-use asset	**3,695**	23
Others	**1,118**	31
Exchange losses, net	**(6,759)**	(18,392)
Gain on derecognition of a subsidiary	**–**	194,068
Gain on disposal of financial assets at fair value through profit or loss	**–**	111,945
Gain on transferring a R&D intellectual right	**–**	7,000
	216,148	350,174

(i) The total government grants represented the subsidies received from the local government and no specific conditions were attached to them.

4. LOSS BEFORE TAX

The Group's loss before tax from continuing operations is arrived at after charging/(crediting):

	Notes	**2023**	2022
		RMB'000	*RMB'000*
Employee benefit expenses (including directors' and chief executive's remuneration)			
Wages and salaries		**488,399**	513,430
Pension scheme contributions	(i)	**90,079**	96,016
Welfares		**13,519**	19,040
Share-based payments		**89,084**	89,666
		681,081	718,152
Cost of inventories sold	(ii)	**564,895**	693,608
Research and development expenses	(ii)	**577,656**	936,581
Depreciation of property, plant and equipment	(ii)/(iii)	**22,474**	36,194
Depreciation of investment properties		**9,323**	8,292
Depreciation of right-of-use assets	(ii)/(iii)	**31,125**	31,980
Amortisation of intangible assets	(ii)/(iii)	**16,813**	22,684
(Gain)/loss on disposal of property, plant and equipment		**(4,378)**	2,663
Gain on disposal of right-of-use asset		**(3,695)**	(23)
Loss on disposal of intangible assets		**139**	23,537
Impairment of property, plant and equipment		**–**	1,130,627
Impairment of intangible assets	10	**–**	113,138
Impairment of investment properties		**–**	772
Impairment of right-of-use assets		**–**	84,510
Impairment of goodwill		**–**	8,761
Impairment of investment accounted for using the equity method		**–**	389,311
(Reversal of impairment)/impairment losses of trade and other receivables	12	**(7,953)**	28,443
Write-down of inventories to net realisable value		**11,419**	90,778
Lease payments not included in the measurement of lease liabilities		**4,506**	7,823
Exchange losses, net		**6,759**	18,392
Auditor's remuneration		**4,200**	4,200
Bank charges		**1,051**	3,055

(i) There are no forfeited contributions at 31 December 2023 (2022: Nil) that may be used by the Group as the employer to reduce the existing level of contributions in the future years.

(ii) The depreciation/amortisation of property, plant and equipment, right-of-use assets and intangible assets for manufacturing and research function for 31 December 2023 and 2022 are included in "Cost of inventories sold" and "R&D expenses".

(iii) Depreciation/amortisation of property, plant and equipment, right-of-use assets, and intangible assets from continuing operations:

	2023	2022
	RMB'000	*RMB'000*
Included in:		
Distribution expenses	**612**	39
Administrative expenses	**69,800**	90,819

5. FINANCE EXPENSES

An analysis of finance expenses from continuing operations is as follows:

	2023	2022
	RMB'000	*RMB'000*
Interest expenses on:		
Interest-bearing bank and other borrowings	**57,415**	58,748
Redemption liabilities on subsidiaries' shares	**211,266**	151,529
Lease liabilities	**2,573**	2,754
Total interest expense on financial liabilities not at fair value through profit or loss	**271,254**	213,031
Less: Interest capitalised	**(1,917)**	(1,855)
	269,337	211,176

6. INCOME TAX EXPENSE

The income tax expense of the Group for the years ended 31 December 2023 and 2022 is analysed as follows:

	2023	2022
	RMB'000	*RMB'000*
Current tax	**60,140**	98,454
Deferred tax	**36,287**	98,340
Total tax charge for the year from continuing operations	**96,427**	196,794
Total tax charge for the year from discontinued operations	**–**	141
	96,427	196,935

The tax on the Group's loss before tax differs from the theoretical amount that would arise from using the statutory tax rates applicable to profits of the consolidated entities as follows:

	2023	2022
	RMB'000	*RMB'000*
Loss before tax	**(161,260)**	(2,086,341)
From continuing operations	**(161,260)**	(2,122,778)
From discontinued operations	**–**	36,437
Tax at the statutory tax rates	**(35,323)**	(504,771)
Tax effects of:		
– Utilisation of previously unrecognised tax losses	**(3,055)**	(11,490)
– Effect of tax concessions and exemptions	**(46,332)**	(19,602)
– Additional deductible allowance for qualified R&D expenses	**(125,829)**	(131,009)
– Expenses not deductible for tax purposes	**13,846**	97,219
– Adjustments recognised in the period for current tax of prior periods	**(7,644)**	24,338
– Profits and losses attributable to joint ventures and associates	**8,092**	17,830
– Income not subject to tax	**(33,474)**	(65,645)
– Tax losses not recognised	**326,146**	790,065
Income tax expense	**96,427**	196,935
Total tax charge for the year from continuing operations	**96,427**	196,794
Total tax charge for the year from discontinued operations	**–**	141

Bermuda profits tax

The Group was not subject to any taxation in this jurisdiction during the year (2022: Nil).

British Virgin Islands ("BVI") profits tax

The Group's entities established under the International Business Companies Acts of BVI are exempted from BVI income tax (2022: Nil).

Cayman Islands profits tax

Subsidiaries incorporated as exempted companies with limited liability under the Companies Act of the Cayman Islands are not subject to tax on income or capital gains. Additionally, the Cayman Islands do not impose a withholding tax on payments of dividends to shareholders. The Cayman Islands are not a party to any double tax treaties that are applicable to any payments made by or to the entities (2022: Nil).

Macau profits tax

The subsidiary incorporated in Macau is subject to Macau profits tax on the taxable income in accordance with relevant Macau tax laws. Taxation for overseas jurisdictions is charged at the appropriate prevailing rates ruling in the respective jurisdictions and the maximum rate is 12%.

United States of America profits tax

Pursuant to Tax Cuts and Jobs Act ("**TCJA**") enacted on December 22, 2017, the United States federal statutory income tax rate for the subsidiaries are 21%. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

Hong Kong profits tax

Hong Kong profits tax was provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries (or jurisdictions) in which the Group operates.

PRC corporate income tax ("PRC CIT")

PRC CIT is provided on the assessable income of the companies now comprising the Group derived from the PRC, adjusted for those items which are not assessable or deductible for the PRC CIT purposes.

The PRC subsidiaries of the Group have determined and paid the corporate income tax in accordance with the Corporate Income Tax Law of the PRC at the tax rate of 25%.

Certain subsidiaries of the Group were qualified as high-tech enterprises. Accordingly, those subsidiaries' corporate income tax for 2023 and 2022 was provided at the rate of 15%.

7. DISCONTINUED OPERATIONS

In 2022, the Company's subsidiary, Jilin Shengtong Chemical Co., Ltd. ("**Jilin Shengtong**") passed a resolution on disposals of all the equity interests in Beijing Lianben Pharm-chemicals Tech. Co., Ltd. ("**Lianben Chemical**"), Beijing Lianben Technology Development Co., Ltd. ("**Lianben Technology**") and Jilin Jiahui Chemical Co., Ltd. ("**Jilin Jiahui**"), (collectively "**discontinued operations**"). As at 31 December 2022, the discontinued operations were excluded from the financial statements of the Group.

The results of the discontinued operations for the period from 1 January 2022 to the disposal dates are presented below:

	2022 *RMB'000*
Revenue	199,474
Cost of sales	(159,138)
Expenses	(36,169)
Gain on disposal	32,270
Profit before tax	36,437
Income tax:	
Related to pre-tax loss	(141)
Profit for the year	36,296

The net cash flows incurred by the discontinued operations were as follows:

	2022 *RMB'000*
Operating activities	27,482
Investing activities	(3,480)
Financing activities	(11,783)
Net cash inflows	12,219
Earnings per share:	
Basic, from the discontinued operations	0.38 cents
Diluted, from the discontinued operations	0.38 cents

The calculations of basic and diluted earnings per share from discontinued operations are based on:

	2022
Profit attributable to ordinary equity holders of the parent from the discontinued operation	34,672
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 9)*	9,329,999
Weighted average number of ordinary shares used in the diluted earnings per share calculation *(note 9)*	9,336,768

8. DIVIDENDS

The dividends paid in 2023 and 2022 were RMB298,560,000 and RMB1,315,530,000, respectively. The board of directors does not recommend the payment of the final cash dividend for the year ended on 31 December 2023.

Dividends approved and paid to owners of the Company during the year:

	2023 ***RMB'000***	2022 *RMB'000*
Final 2022 dividend of RMB3.2 cents (2022: Final dividend for 2021 of RMB1.3 cents) per ordinary share	**298,560**	121,290
Special cash dividend of nil (2022: RMB9.5 cents) per ordinary share	**–**	886,350
Interim cash dividend for 2023 of nil (2022: RMB0.1 cents) per ordinary share	**–**	9,330
Interim special cash dividend of nil (2022: RMB3.2 cents) per ordinary share	**–**	298,560
	298,560	1,315,530

Dividends proposed by the Company for the year:

	2023	2022
	RMB'000	*RMB'000*
Proposed final cash dividend of nil (2022: RMB3.2 cents) per ordinary share	**–**	298,560
	–	298,560

9. LOSS PER SHARE

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company of loss RMB54,017,000 (2022: RMB1,914,918,000), and the weighted average number of ordinary shares of 9,297,073,000 (2022: 9,329,999,000) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, as used in the basic loss per share calculation. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted loss per share are based on:

	2023	2022
	RMB'000	*RMB'000*
Loss		
(Loss)/profit attributable to ordinary equity holders of the Company, used in the basic and diluted loss per share calculation		
From continuing operations	**(54,017)**	(1,949,590)
From discontinued operations	**–**	34,672
Loss attributable to ordinary equity holders of the Company	**(54,017)**	(1,914,918)

	2023	2022
	Shares '000	*Shares '000*
Shares		
Weighted average number of ordinary shares in issue for basic loss per share	**9,297,073**	9,329,999
Effect of dilution – weighted average number of ordinary shares: Share options*	**–**	6,769
	9,297,073	9,336,768

* For the year ended 31 December 2023, the calculation of diluted loss per share has not considered shares options under the share option scheme of the Company as the inclusion would be anti-dilutive.

	2023 *RMB*	2022 *RMB*
Basic loss per share		
For loss for the year	**(0.58) cents**	(20.52) cents
For loss from continuing operations	**(0.58) cents**	(20.90) cents
Diluted loss per share		
For loss for the year	**(0.58) cents**	(20.52) cents
For loss from continuing operations	**(0.58) cents**	(20.90) cents

10. INTANGIBLE ASSETS

	Product development in progress *RMB'000*	Deferred development costs *RMB'000*	Trademark and software *RMB'000*	Customer relationships *RMB'000*	Total *RMB'000*
At 31 December 2022 and at 1 January 2023 :					
Cost	**811,157**	**1,506,808**	**86,163**	**433,932**	**2,838,060**
Accumulated amortisation	**–**	**(612,436)**	**(35,518)**	**(433,932)**	**(1,081,886)**
Impairment	**(258,839)**	**(862,014)**	**(8,859)**	**–**	**(1,129,712)**
Net carrying amount	**552,318**	**32,358**	**41,786**	**–**	**626,462**
Cost at 1 January 2023, net of accumulated amortisation and impairment	**552,318**	**32,358**	**41,786**	**–**	**626,462**
Additions	**151,163**	**18,080**	**829**	**–**	**170,072**
Disposal	**–**	**–**	**(175)**	**–**	**(175)**
Amortisation charge	**–**	**(14,354)**	**(5,984)**	**–**	**(20,338)**
Transfer from product development in progress	**(84,358)**	**84,358**	**–**	**–**	**–**
Disposal of a subsidiary	**–**	**–**	**(59)**	**–**	**(59)**
Net carrying amount at 31 December 2023	**619,123**	**120,442**	**36,397**	**–**	**775,962**
At 31 December 2023:					
Cost	**877,962**	**1,609,246**	**86,758**	**433,932**	**3,007,898**
Accumulated amortisation	**–**	**(626,790)**	**(41,502)**	**(433,932)**	**(1,102,224)**
Impairment	**(258,839)**	**(862,014)**	**(8,859)**	**–**	**(1,129,712)**
Net carrying amount	**619,123**	**120,442**	**36,397**	**–**	**775,962**

	Product development in progress *RMB'000*	Deferred development costs *RMB'000*	Trademark and software *RMB'000*	Customer relationships *RMB'000*	Total *RMB'000*
At 31 December 2021 and at 1 January 2022:					
Cost	665,332	1,504,661	68,588	433,932	2,672,513
Accumulated amortisation	–	(582,264)	(29,640)	(433,932)	(1,045,836)
Impairment	(254,927)	(758,098)	(3,549)	–	(1,016,574)
Net carrying amount	410,405	164,299	35,399	–	610,103
Cost at 1 January 2022, net of accumulated amortisation and impairment	410,405	164,299	35,399	–	610,103
Additions	173,600	–	17,878	–	191,478
Disposal	(24,575)	–	(303)	–	(24,878)
Amortisation charge	–	(31,034)	(5,878)	–	(36,912)
Impairment *(i)*	(3,912)	(103,916)	(5,310)	–	(113,138)
Transfer from product development in progress	(3,200)	3,200	–	–	–
Disposal of subsidiaries	–	(191)	–	–	(191)
Net carrying amount at 31 December 2022	552,318	32,358	41,786	–	626,462
At 31 December 2022:					
Cost	811,157	1,506,808	86,163	433,932	2,838,060
Accumulated amortisation	–	(612,436)	(35,518)	(433,932)	(1,081,886)
Impairment	(258,839)	(862,014)	(8,859)	–	(1,129,712)
Net carrying amount	552,318	32,358	41,786	–	626,462

(i) Due to the fierce competition within the pharmaceutical industry and the limitation of the Group's resource, the management of the Group considered the future return rate of certain projects was low and decided to discontinue further development of the aforementioned projects. Accordingly, the Group recognised full impairment loss for the carrying values of certain product development in progress and an impairment loss amounting to RMB3,912,000 in relation to the generic medicine segment was recorded during the year ended 31 December 2022. This amount of impairment loss was assessed based on the individual-asset level, and was not included in the impairment testing based on CGUs.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Set out below is an overview of financial assets, other than cash and cash equivalents, trade and other receivables and pledged deposits, held by the Group as at the end of the year:

		31 December	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
Non-current			
Financial assets at fair value through profit or loss:			
Unlisted equity investments, at fair value		**354,275**	225,164
Total non-current	(i)	**354,275**	225,164
Current			
Financial assets at fair value through profit or loss:			
Wealth management products		**589,016**	962,988
Total current	(ii)	**589,016**	962,988
Total other financial assets		**943,291**	1,188,152

(i) The above equity investments at 31 December 2023 were classified as financial assets at fair value through profit or loss as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The amount represents equity investments in the unquoted equity shares. The Group intends to hold these equity shares for the foreseeable future and has not irrevocably elected to classify them at fair value through other comprehensive income.

(ii) The amount represents wealth management products issued by certain reputable banks in Chinese Mainland with no fixed interest rate. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

12. TRADE AND OTHER RECEIVABLES

		31 December	
		2023	2022
	Notes	***RMB'000***	*RMB'000*
Trade receivables – third parties	(i)	**393,211**	513,818
Notes receivable	(ii)	**60,256**	72,276
Loans to associates	(iii)	**243,525**	83,765
Loans to third parties	(iii)	**141,475**	28,922
Prepayments to suppliers		**89,611**	141,022
Amounts due from other related party		**9,600**	9,600
Amount due from a joint venture		**4,478**	3,695
Amount due from an associate		**224**	224
Dividends receivable		**40,912**	40,727
Receivable for disposal of subsidiaries		**82,517**	101,385
Other receivables	(iv)	**152,902**	215,108
		1,218,711	1,210,542
Provision of impairment on trade receivables		**(55,650)**	(63,848)
Provision of impairment on other receivables		**(28,311)**	(28,066)
		1,134,750	1,118,628

(i) Trade receivables – third parties

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**393,211**	513,818
Provision for impairment	**(55,650)**	(63,848)
	337,561	449,970

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally from three to six months, extending up to one year for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed and monitored regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the year, based on the invoice date and net of provisions, is as follows:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Within 3 months	**177,132**	237,080
3 to 6 months	**81,272**	55,058
6 months to 1 year	**20,581**	80,481
More than 1 year	**58,576**	77,351
	337,561	449,970

The movements in the loss allowance for impairment of trade receivables are as follows:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
At beginning of year	**63,848**	43,640
Impairment, net	**(8,198)**	20,208
At end of year	**55,650**	63,848

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing of trade receivables. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

As at 31 December 2023

	Ageing of trade receivables				
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	**2.84%**	**26.49%**	**71.64%**	**100.00%**	
Gross carrying amount *(RMB'000)*	**287,146**	**73,653**	**15,613**	**16,799**	**393,211**
Expected credit losses (*RMB'000*)	**8,155**	**19,511**	**11,185**	**16,799**	**55,650**

As at 31 December 2022

	Ageing of trade receivables				
	Less than 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	2.69%	32.24%	81.50%	100.00%	
Gross carrying amount (*RMB'000*)	382,920	113,140	3,715	14,043	513,818
Expected credit losses (*RMB'000*)	10,301	36,476	3,028	14,043	63,848

(ii) Notes receivable are held with a business model with the objective of both holding to collect contractual cash flows and selling as the Group sometimes endorses notes receivable to suppliers prior to their expiry date. These are classified as debt instruments at fair value through other comprehensive income and presented as notes receivable. The fair value changes of these notes receivable at fair value through other comprehensive income were insignificant during the years ended 31 December 2023 and 2022.

The Group seeks to maintain strict control over its outstanding notes receivable. As the notes receivable represent the irrevocable bank bills issued by the banks in Chinese Mainland with high credit rating, the Group estimated that the expected credit loss rate for notes receivable was minimal.

Transferred financial assets that are derecognised in their entirety

At 31 December 2023, the Group endorsed certain notes receivable accepted by banks in Chinese Mainland (the "**derecognised notes**") to certain of its suppliers and banks in order to settle the trade payables with a carrying amount in aggregate of RMB45,072,000. The derecognised notes had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the derecognised notes may exercise the right of recourse against any, several or all of the persons liable for the derecognised notes, including the Group, in disregard of the order of precedence (the "**Continuing Involvement**"). In the opinion of the directors, the risk of the Group being claimed by the holders of the derecognised notes is remote in the absence of a default of the accepted banks. The Group has transferred substantially all risks and rewards relating to the derecognised notes. Accordingly, it has derecognised the full carrying amounts of the derecognised notes and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised notes and the undiscounted cash flows to repurchase these derecognised notes is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the derecognised notes are not significant.

During the year ended 31 December 2023, the Group recognised loss amounting to RMB114,000 on the date of transfer of the derecognised notes. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made evenly throughout the year.

(iii) The Group seeks to maintain strict control over its outstanding loans to minimise credit risk. Material balances are reviewed regularly by senior management. Loans to associates and third parties shown above had no recent history of default and past due amounts. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

(iv) Other receivables mainly represent deposits with suppliers. Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

The Group assessed and recognised a provision for impairment of other receivables amounting to RMB28,311,000 (31 December 2022: RMB28,066,000) in accordance with IFRS 9 as at 31 December 2023.

The movements in the loss allowance for impairment of other receivables are as follows:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
At beginning of year	**28,066**	19,831
Impairment, net	**245**	8,235
At end of year	**28,311**	28,066

13. SHARE CAPITAL AND SHARE PREMIUM

	Number of authorised ordinary shares	**Number of issued and fully paid ordinary shares**	**Share capital**	**Share premium**	**Total**
	Share'000	***Share'000***	***RMB'000***	***RMB'000***	***RMB'000***
As at 1 January 2022 and 31 December 2022 and at 31 December 2023 (HK$0.01 per share)	100,000,000	9,329,999	77,058	3,882,304	3,959,362

(i) During the year of 2023, the Company repurchased 48,433,000 of its own shares on the Stock Exchange at a total consideration, including expenses, of HK$38,314,000 (equivalent to RMB33,811,000) for 2022 Share Award Scheme adopted on October 2022.

14. OTHER LIABILITIES

	Notes	31 December 2023 RMB'000	2022 RMB'000
Deferred government grants	(i)	**130,356**	142,068
Other borrowings	(ii)	**40,889**	54,182
Sale and leaseback	(iii)	**33,823**	42,200
Others	(iv)	**3,015,527**	2,804,261
		3,220,595	3,042,711

(i) It represents the deferred revenue of government grants received for the construction of property, plant and equipment. It will be credited to the consolidated profit or loss on a straight-line basis over the expected lives of the related assets. RMB11,264,000 of the total deferred amount was classified as current liabilities as at 31 December 2023 (31 December 2022: RMB11,914,000).

(ii) Other borrowings consist of borrowings amounting to RMB39,889,000 (31 December 2022: RMB39,289,000) from a non-controlling shareholder of a Group's subsidiary, which are interest-bearing, unsecured and repayable in six to eight years, a borrowing amounting to nil (31 December 2022: RMB13,893,000) from a third party, which is interest-free, unsecured and repayable in one year, and a borrowing amounting to RMB1,000,000 (31 December 2022: RMB1,000,000) from a third party, which is interest-bearing, unsecured and repayable in eight years. All the above other borrowings were classified as non-current liabilities as at 31 December 2023.

(iii) Sale and leaseback represents long-term payable to a third party which was secured by mortgage over the sale and leaseback equipment with an aggregate carrying value of RMB52,729,000. There was RMB12,115,000 classified as current liabilities as at 31 December 2023 (31 December 2022: RMB8,118,000). No gain or loss was recognized during the sale and leaseback transaction.

(iv) It represents the redemption liabilities in relation to the investments in subsidiaries' shares. Of the total outstanding liabilities, RMB1,914,543,000 is due to be settled at 31 December 2024 and was classified as current liabilities as at 31 December 2023. Pursuant to the agreements with non-controlling shareholders, capital contribution and related shares being transferred shall be redeemable by the Group upon the occurrence of certain contingent events which cannot be controlled by the Group. The redemption obligations give rise to financial liabilities, which are measured at the net present value of the redemption amount.

15. TRADE AND OTHER PAYABLES

	Note	31 December 2023 RMB'000	2022 RMB'000
Trade payables	(i)	**215,150**	205,782
Deposit payables		**359,872**	356,648
Accrued reimbursement to distributors		**336,784**	527,179
Payable for acquisition of a subsidiary		**300,000**	300,000
Other payables		**181,506**	182,616
Costs of construction and purchase of equipment payables		**142,757**	181,465
Salaries payable		**80,584**	91,603
Payable for research and development expenses		**76,113**	71,377
Interest payable		**11,439**	9,921
Notes payable		**5,462**	–
Amount due to associates		**800**	–
Dividends payable		**358**	353
		1,710,825	1,926,944

(i) The trade payables are non-interest-bearing and have an average term of 40 days.

An ageing analysis of the trade payables as at the end of the year, based on the invoice date, is as follows:

	31 December 2023 RMB'000	2022 RMB'000
Within 6 months	**192,203**	165,760
6 months to 1 year	**7,069**	24,166
More than 1 year	**15,878**	15,856
	215,150	205,782

The fair values of trade and other payables approximate to their carrying amounts.

16. INTEREST-BEARING BANK BORROWINGS

	31 December 2023			31 December 2022		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Secured bank borrowings	**3.45–4.60**	**2024**	**269,680**	3.45–4.60	2023	301,272
Unsecured bank borrowings			**–**	3.50	2023	25,803
			269,680			327,075
Non-current						
Secured bank borrowings	**2.80–4.90**	**2025–2035**	**864,142**	2.80–4.90	2025–2035	808,383
			864,142			808,383
			1,133,822			1,135,458

	31 December 2023 ***RMB'000***	2022 *RMB'000*
Analysed into:		
Bank borrowings:		
Within the first year	**269,680**	327,075
Within the second to fifth years	**271,491**	252,418
Beyond the fifth year	**592,651**	555,965
	1,133,822	1,135,458

(a) Certain of the Group's bank borrowings are secured by:

(i) Mortgages over the Group's leasehold land and property, plant and equipment with an aggregate carrying value of RMB940,714,000 (31 December 2022: RMB999,870,000).

(ii) The pledge of certain of the Group's time deposits amounting to RMB98,000,000 classified as a non-current asset (31 December 2022: RMB140,000,000); and

(iii) A portion of equity interests in a subsidiary.

(b) All borrowings are denominated in RMB.

(c) The effective interest rates of the bank borrowings as at 31 December 2023 range from 2.80% to 4.90% (31 December 2022: 2.80% to 4.90%) per annum.

17. DISPOSAL OF INTERESTS IN SUBSIDIARIES

(a) Disposal of Tonghua Chuangyou Testing Service Co., Ltd. ("Tonghua Chuangyou")

During the year ended 31 December 2023, the Group transferred its entire interest in Tonghua Chuangyou to a third party, Beijing Sinocro PharmaScience Co., Ltd. ("**Sinocro**"), for a consideration of RMB15,704,000. An analysis of the net loss and cash inflows in respect of the disposal of Tonghua Chuangyou is as follows:

	2023 ***RMB'000***
Property, plant and equipment	**6,955**
Intangible assets	**59**
Inventories	**218**
Trade and other receivables	**8,534**
Cash and cash equivalents	**779**
Contract liabilities	**(77)**
Trade and other payables	**(206)**
Net assets derecognised	**16,262**
Consideration for disposal of Tonghua Chuangyou	**15,704**
Loss on derecognition of Tonghua Chuangyou	**(558)**
Analysis of cash flows in respect of the disposal of Tonghua Chuangyou:	
Cash consideration received	**15,704**
Cash and cash equivalents disposed of	**(779)**
Net cash flows on disposal	**14,925**

(b) Disposal of Lianben Chemical and Lianben Technology

During the year ended 31 December 2022, the Group transferred its entire interest in Lianben Chemical and Lianben Technology to Mr. Li Gongben and Ms. Xia Zhihua, for a consideration of RMB46,500,000. An analysis of the net gain and cash inflows in respect of the disposal of Lianben Chemical and Lianben Technology is as follows:

	2022 *RMB'000*
Property, plant and equipment	165
Right-of-use assets	744
Intangible assets	191
Inventories	2,761
Investments in subsidiaries	1,000
Trade and other receivables	55,402
Cash and cash equivalents	21,414
Lease liabilities	(223)
Contract liabilities	(275)
Trade and other payables	(31,949)
Interest-bearing bank borrowings	(20,000)
Lease liabilities (non-current)	(518)
Net assets derecognised	28,712
Consideration for disposal of Lianben Chemical and Lianben Technology	46,500
Gain on derecognition of Lianben Chemical and Lianben Technology	17,788
Analysis of cash flows in respect of the disposal of Lianben Chemical and Lianben Technology:	
Cash consideration received	–
Cash and cash equivalents disposed of	(21,414)
Net cash flows on disposal	(21,414)

(c) Disposal of Jilin Jiahui

During the year ended 31 December 2022, the Group transferred its entire interest in Jilin Jiahui to Lianben Technology for a consideration of RMB18,750,000. An analysis of the net gain and cash inflows in respect of the disposal of Jilin Jiahui is as follows:

	2022 *RMB'000*
Property, plant and equipment	36,259
Intangible assets	6,197
Inventories	75,501
Trade and other receivables (current)	34,678
Cash and cash equivalents	1,141
Contract liabilities	(423)
Trade and other payables	(158,115)
Non-controlling interests	5,479
Goodwill	3,551
Net assets derecognised	4,268
Consideration for disposal of Jilin Jiahui	18,750
Gain on derecognition of Jilin Jiahui	14,482
Analysis of cash flows in respect of the disposal of Jilin Jiahui:	
Cash consideration received	–
Cash and cash equivalents disposed of	(1,141)
Net cash flows on disposal	(1,141)

(d) Disposal of Beijing Xuansheng pharmaceutical Co., Ltd. ("Beijing Xuansheng")

During the year ended 31 December 2022, the Group transferred its interest in Beijing Xuansheng to a third party for a consideration of RMB118,000,000. An analysis of the net gain and cash inflows in respect of the disposal of Beijing Xuansheng is as follows:

	2022 *RMB'000*
Cash and cash equivalents	21,105
Trade and other receivables (current)	213,124
Income tax payable	(95)
Trade and other payables	(116,350)
Net assets derecognised	117,784
Consideration for disposal of Beijing Xuansheng	118,000
Gain on derecognition of net assets	216
Realised profit of intra-group sales	193,852
Gain on disposal of Beijing Xuansheng	194,068
Analysis of cash flows in respect of the disposal of Beijing Xuansheng:	
Cash consideration received	132,108
Cash and cash equivalents disposed of	(21,105)
Net cash flows on disposal	111,003

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Share of net assets	**573,721**	599,294
Goodwill on acquisition	**465,209**	472,191
	1,038,930	1,071,485
Provision for impairment	**(389,311)**	(389,311)
	649,619	682,174

Impairment testing

The management recognised each associate or joint venture as one CGU for impairment testing. The recoverable amount of the CGU has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a fixed-year period approved by management. Cash flows beyond the fixed-year period are extrapolated using the estimated growth rates stated below.

Assumptions were used in the value-in-use calculation of the investments at 31 December 2023 and 31 December 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of investments:

Gross profit margins: Management determined budgeted gross profit margins based on past performance and their expectations of market development.

Growth rates: The average growth rates used are consistent with the forecasts included in industry reports.

Discount rates: The discount rates used are before tax and reflect specific risks relating to the relevant units. When determining the estimated discount rate, the Group used the key parameters by reference to certain companies of the same industry.

During the year ended 31 December 2023, there was no impairment recognised in profit or loss.

During the year ended 31 December 2022, an impairment loss of approximately RMB389,311,000 was recognised in the profit or loss. The impairment changes are driven by the lower recoverable amount of CGU resulting in the directors' reassessment of estimated future business performance.

The associates and joint ventures are private companies and there are no quoted market prices available for these shares. There are no contingent liabilities relating to the Group's interest in the associates and joint ventures.

The Group's shareholdings in the associates and joint ventures all comprise equity shares held by wholly-owned subsidiaries of the Company, except for the shareholdings in two entities which are held through non-wholly-owned subsidiaries of the Company.

The following table illustrates the aggregate financial information of the Group's associates and joint ventures that are not individually material:

Summarised statements of financial position

	Associates and Joint Ventures	
	31 December	
	2023	2022
	RMB'000	*RMB'000*
Current		
Assets	**1,271,874**	1,054,859
Liabilities	**(1,264,362)**	(867,161)
Total net current assets	**7,512**	187,698
Non-current		
Assets	**1,710,300**	1,496,542
Liabilities	**(518,640)**	(494,499)
Total net non-current assets	**1,191,660**	1,002,043
Non-controlling interests	**(59,116)**	–
Net assets	**1,140,056**	1,189,741

Summarised statements of profit or loss

	Associates and Joint Ventures	
	2023	2022
	RMB'000	*RMB'000*
Revenue	**371,247**	281,081
Loss before income tax	**(157,262)**	(380,201)
Income tax expense	**(578)**	(469)
Loss for the year	**(157,840)**	(380,670)
Total comprehensive loss	**(157,840)**	(380,670)
Attributable to:		
Owners of the Company	**(156,925)**	(380,670)
Non-controlling interests	**(915)**	–

The information above reflects the amounts presented in the financial statements of the associates and joint ventures adjusted for differences in accounting policies among the Group and the associates and joint ventures.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interests in associates and joint ventures.

	Associates and Joint Ventures	
	2023	2022
	RMB'000	*RMB'000*
Opening net assets at 1 January	**1,189,741**	422,212
Capital injection by shareholders	**107,618**	73,689
Addition of associates and joint ventures	**–**	1,157,626
Loss for the year	**(156,925)**	(380,670)
Dividends	**(378)**	(83,116)
Closing net assets	**1,140,056**	1,189,741
Interest in associates and joint ventures	**573,721**	599,294
Goodwill	**465,209**	472,191
Impairment	**(389,311)**	(389,311)
Carrying value	**649,619**	682,174

19. COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the year:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Property, plant and equipment	**225,065**	161,702
Intangible assets – product development in progress	**110,699**	133,232
	335,764	294,934

(b) lease commitments

The Group had the following lease commitments at the end of the year:

	31 December	
	2023	2022
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Short-term leases and leases of low-value assets	**1,917**	1,107

FINANCIAL REVIEW

Revenue

Total revenue of the Group for the Year was approximately RMB1,860.5 million (2022: RMB2,181.2 million), representing a year-on-year decrease of approximately 14.7% (approximately RMB320.7 million).

Among the changes in revenue, the revenue from medical aesthetic products amounted to RMB449.9 million (2022: RMB149.8 million), representing a year-on-year increase of approximately 200.3% (approximately RMB300.1 million), mainly due to that with the full liberalization of domestic epidemic control and the gradual recovery of consumer demand, the Group's medical aesthetics platform Meiyan Space has achieved stage-by-stage success through channel inventory clearance, strategic cooperation with various medical aesthetics institutions and huge effort in promoting its upgraded 3.0 version of marketing strategies, thereby recording a significant and successful rebound of sales revenue in its medical aesthetics business.

Revenue from sales of generic medicine amounted to approximately RMB1,398.8 million (2022: RMB1,970.5 million), representing a year-on-year decrease of approximately 29.0% (approximately RMB571.7 million), mainly attributed to the impact of the price reduction as a result of centralized procurement and the decline in prices and sales volumes of certain generic medicines as a result of certain products being newly included in the key monitoring catalogue.

In addition, revenue from innovative medicine and other medicine amounted to approximately RMB11.8 million (2022: RMB60.9 million), representing a year-on-year decrease of 80.6% (approximately RMB49.1 million), mainly attributed to the disposal of certain API companies (including Jilin Jiahui Chemical Co., Ltd.) of the Group at the end of 2022, which no longer generated revenue to the API segment in the Year.

Cost of sales

Cost of sales of the Group for the Year amounted to approximately RMB564.9 million (2022: RMB693.6 million), representing a year-on-year decrease of 18.6%, which was mainly due to the combined effect of the decrease in revenue from sales of generic medicine and increase in cost of raw materials for the Year.

Gross profit

Gross profit for the Year amounted to approximately RMB1,295.6 million (2022: RMB1,487.6 million), representing a year-on-year decrease of approximately 12.9% (approximately RMB192.0 million), mainly due to the decrease in overall revenue for the Year. Overall gross profit margin was 69.6%, representing a year-on-year increase of 1.4% as compared to 68.2% for the last year, which was mainly attributable to the divestment of certain API companies with low gross profit margins of the Group at the end of 2022 and changes in the Group's product sales structure, resulting in a slight increase in overall gross profit.

The gross profit margin of medical aesthetic products decreased from 68.9% for the last year to 65.4% for the Year, which was due to the impact of stepping up marketing for product brand as Meiyan Space aimed to accelerate the growth of product sales and increase its market share. The gross profit margin of generic medicine decreased from 72.3% for the last year to 71.3% for the Year, mainly attributed to the impact of industry policies such as centralized procurement policy.

Other gains – net

Other gains – net for the Year amounted to approximately RMB216.1 million (2022: RMB350.2 million), representing a year-on-year decrease of 38.3% (approximately RMB134.1 million). It was mainly due to the fact that there was a one-off gain on disposal of subsidiaries in the last year, while there was no such deal in the Year.

Impairment losses on non-current assets and impairment losses on investments accounted for using the equity method

There were no impairment losses on non-current assets and impairment losses on investments accounted for using the equity method for the Year (2022: impairment provision of RMB1,727.1 million).

Distribution expenses

Distribution expenses for the Year amounted to approximately RMB442.3 million (2022: RMB471.1 million), representing a year-on-year decrease of 6.1% (approximately RMB28.8 million), mainly due to the significant decrease in revenue for the Year and the fact that partial costs of marketing activities did not decrease in proportion to the decrease in revenue for the Year.

Administrative expenses

Administrative expenses for the Year amounted to approximately RMB469.0 million (2022: RMB552.2 million), representing a year-on-year decrease of 15.1% (approximately RMB83.2 million), mainly because the Group proactively adopted various cost reduction and efficiency enhancement initiatives during the Year, thereby reducing partial administrative expenses.

R&D expenses

R&D expenses for the Year amounted to approximately RMB577.7 million (2022: RMB936.6 million), representing a year-on-year decrease of 38.3% (approximately RMB358.9 million), mainly due to the completion of Phase III clinical trials of several of the Group's self-developed products (including the innovative medicine, biologicals, and generic medicine), some of which NDA applications were submitted or NDA approvals were obtained by the end of 2023. In addition, a number of research and development projects of Huisheng Biopharm, a subsidiary of the Group, has been completed and filed for production.

Other expenses

Other expenses for the Year amounted to approximately RMB59.0 million (2022: RMB139.4 million), which represented a year-on-year decrease of 57.7% (approximately RMB80.4 million), mainly due to the recognition of impairment of inventories to realisable value of approximately RMB90.8 million last year.

Operating profit/(loss)

The operating profit for the Year was approximately RMB161.7 million (2022: operating loss of RMB1,830.7 million), mainly attributed to significant reduction in various expenses for the year including distribution expenses, administrative expenses, R&D expenses and other expenses, compared with last year. In addition, the group provided impairment losses on non-current assets and impairment losses on investments accounted for using the equity method of approximately RMB1,727.1 million in 2022 while no impairment was required for the Year.

Finance expenses

Finance expenses for the Year amounted to approximately RMB269.3 million (2022: RMB211.2 million), which represented a year-on-year increase of 27.5% (approximately RMB58.1 million). Among which, interest expense on redemption liabilities of shares of its subsidiaries amounted to approximately RMB211.3 million (2022: RMB151.5 million). Redemption liabilities mainly relate to the repurchase rights granted in the equity financing and spin-off listing of the innovative drug subsidiaries of the Group.

Loss before tax from continuing operations

The loss before tax from continuing operations of the Group for the Year amounted to approximately RMB161.3 million (2022: RMB2,122.8 million).

Income tax expense

Income tax expense of the Group for the Year amounted to approximately RMB96.4 million (2022: RMB196.8 million), representing a year-on-year decrease of 51.0% (approximately RMB100.4 million). Despite a loss recorded in the results for the Year, certain generic medicine subsidiaries and medical aesthetic segments of the Group still recorded taxable profit under the PRC tax statutory regime as such subsidiaries recorded profit.

Loss for the Year from continuing operations

The Group's loss for the Year from continuing operations amounted to approximately RMB257.7 million (2022: loss of RMB2,319.6 million), representing a year-on-year decrease of 88.9% (approximately RMB2,061.9 million). It was primarily attributable to the impairment losses on non-current assets and impairment losses on investments accounted for using the equity method of approximately RMB1.7 billion provided by the Group in 2022. In addition, the Group's has been investing considerable amount in R&D expenses every year (R&D expenses amounting to approximately RMB577.7 million in 2023) with its persistence in the innovative transformation and development towards medical aesthetics and innovative biopharmaceutical businesses in recent years. The changes in industry policies also caused a combined effect of the year-on-year decline in revenue and profit from the generic medicine segment.

Loss attributable to owners of the Company

Loss attributable to owners of the Company for the Year amounted to approximately RMB54.0 million (2022: RMB1,914.9 million), representing a year-on-year decrease of 97.2% in loss (approximately RMB1,860.9 million). The loss for the Year was mainly the net result of the profitable operation of the Group's medical aesthetics business and generic medicine business segments and the loss of the innovative drug business segment of the Group (mainly Xuanzhu Biopharm and Huisheng Biopharm) for which considerable annual R&D expenditure was incurred.

Loss attributable to non-controlling interests

Loss attributable to non-controlling interests for the Year amounted to approximately RMB203.7 million (2022: RMB368.4 million), representing a year-on-year decrease of 44.7% (approximately RMB164.7 million). The decrease was mainly attributable to the significant year-on-year decrease in loss of the Group's innovative drug business segment during the Year, which incurred by considerable R&D expenditure, and the significant decrease in the Group's impairment provision in 2023.

Liquidity and financial resources

The Group maintained strong financial position. As at 31 December 2023, the Group's cash and cash equivalents, wealth management products, pledged deposits and time deposits amounted to approximately RMB4,610.5 million (31 December 2022: RMB4,969.1 million) in aggregate, of which, cash and cash equivalents amounted to approximately RMB3,778.7 million (31 December 2022: RMB3,828.9 million). In addition, the total wealth management products recognized in the consolidated statement of financial position amounted to approximately RMB589.0 million (31 December 2022: RMB963.0 million), pledged deposits and time deposits amounted to approximately RMB242.8 million (31 December 2022: RMB177.2 million). During the Year, net cash flows from operating activities amounted to approximately RMB199.5 million and the 2022 final dividend of approximately RMB298.6 million was paid to shareholders of the Company.

In general, the Group places its excess cash into interest-bearing bank accounts. The Group may use extra cash for short-term investments for higher returns. Thus, the Group has entered into agreements with certain banks for surplus cash investment. According to the terms of the agreements signed, the total amount of investment conducted by the Group for the Year was approximately RMB10,091.4 million. The investments made by the Group were short-term in nature and mainly consisted of financial planning products purchased from certain state-owned banks. At their discretion, issuing banks for the above-mentioned financial planning products may invest in financial instruments such as government bonds, discounted bank acceptance bills and commercial acceptance bills and bank deposits. As the highest applicable percentage ratio in respect of the investments in each bank (after aggregation according to rules 14.22 and 14.23 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") separately is less than 5% as at the time of the investments according to Rule 14.07 of the Listing Rules, such investments did not constitute notifiable transactions under Chapter 14 of the Listing Rules.

As at 31 December 2023, bank borrowings of the Group amounted to approximately RMB1,133.8 million (31 December 2022: RMB1,135.5 million) and other borrowings of the Group amounted to approximately RMB40.9 million (31 December 2022: RMB54.2 million). Approximately 75% of total amount of borrowings were at floating rates and the remaining 25% were at fixed rates (31 December 2022: 73% floating; 27% fixed). The Group's borrowings-to-equity ratio, expressed as a percentage of borrowings over equity attributable to owners of the Company, was 26.5%.

The Group had sufficient cash as at 31 December 2023. The Directors are of the opinion that the Group does not have any significant capital risk.

Inventories

As at 31 December 2023, inventories amounted to approximately RMB557.3 million (31 December 2022: RMB606.7 million), representing a decrease of 8.1% (approximately RMB49.4 million). The inventory turnover period for the Year was 371 days (31 December 2022: 343 days), which was mainly due to the fact that the decrease in cost was greater than the change in inventory balance as the cost of goods sold decreased by approximately 18.6% during the Year but the average inventory balance decreased by only 12.0%.

Trade and other receivables

The Group's trade receivables and notes receivable include credit sales of its products to be paid by its distributors. Other receivables of the Group mainly consist of prepayments to suppliers and deposits. As at 31 December 2023, the Group's trade and other receivables were approximately RMB1,134.8 million (31 December 2022: RMB1,118.6 million), representing an increase of 1.4% (approximately RMB16.2 million). Trade receivables and notes receivable were approximately RMB397.8 million (31 December 2022: RMB522.2 million), representing a decrease of 23.8% (approximately RMB124.4 million), which was mainly attributable to the decreased revenue during the Year.

Property, plant and equipment

The Group's property, plant and equipment include buildings, production and electronic equipment, vehicles and construction in progress. As at 31 December 2023, the net book value of the property, plant and equipment was approximately RMB2,174.6 million (31 December 2022: RMB2,301.0 million), representing a decrease of 5.5% or approximately RMB126.4 million.

Intangible assets

The Group's intangible assets mainly comprise customer relationships, deferred development costs, product development in progress and trademark and software. The deferred development costs and product development in progress mainly related to the acquisition of several drug R&D projects and self-development of R&D projects. As at 31 December 2023, net intangible assets amounted to approximately RMB776.0 million (31 December 2022: RMB626.5 million), representing an increase of 23.9% (approximately RMB149.5 million). It was mainly due to the successive completion of phase III clinical trials of several of the Group's self-developed products and their entry into the capitalisation stage, resulting in an increase in the original cost of intangible assets.

Trade and other payables

The Group's trade and other payables mainly comprise trade payables, notes payable, deposit payables, accrued expenses and others. As at 31 December 2023, trade and other payables amounted to approximately RMB1,710.8 million (31 December 2022: RMB1,926.9 million), representing a decrease of 11.2% (approximately RMB216.1 million). It was mainly due to the decrease in promotion service fees payable during the Year.

Contingent liabilities

As at 31 December 2023, the Group had no material contingent liabilities (31 December 2022: Nil).

Off-balance sheet commitments and arrangements

As at 31 December 2023, the Group had neither entered into any off-balance sheet arrangements nor commitments to provide guarantees for any payment obligations of any third party. The Group did not have any variable interests in any unconsolidated entities which provide financing or liquidity funding, or generate market risk or provide credit support, or engage in the provision of leasing or hedging or R&D services to the Group.

Capital commitment

As at 31 December 2023, the Group's total capital commitment was approximately RMB335.8 million. It was mainly set aside for purchase of property, plant and equipment and intangible assets.

Credit risk

Credit risk arises from cash and cash equivalents, trade receivables, notes receivable, wealth management products and other receivables. All the cash equivalents and bank deposits are placed in certain PRC reputable financial institutions and high-quality international financial institutions outside Chinese Mainland. All those irrevocable bank bills, classified as notes receivable, are issued by banks in the PRC with high credit rating. There was no recent history of default of cash equivalents and bank deposits in relation to these financial institutions.

In relation to trade receivables, the Group has no significant concentrations of credit risk and has policies in place to ensure that certain cash advance has been received upon the agreement of the related sales orders with customers. For those with credit periods granted, the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. It also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. The Group regularly performs aging analysis, assesses credit risks and estimates the recoverability regarding such receivables based on historical data and cash collection history of groups of trade receivables bearing similar credit risk.

Wealth management products are the bank financial products issued by certain PRC reputable banking institutions. There was no recent history of default and the executive directors of the board of the Company are of the opinion that the credit risk related to the investments is low.

In relation to other receivables, the credit quality of the debtors is assessed by taking into account their financial position, relationship with the Group, credit history and other factors. Management also regularly reviews the recoverability of these other receivables and follows up on the disputes or amounts overdue, if any. The executive Directors are of the opinion that the default by counterparties is likely to be low.

No other financial assets bear a significant exposure to credit risk.

Foreign exchange risk

The Group's functional currency is RMB and financial instruments are mainly denominated in RMB. The Group has some cash balances mainly denominated in United States Dollar ("**USD**") and Hong Kong dollar ("**HK$**"). It is expected that any fluctuation of these foreign currencies' exchange rates would not have material effect on the operation of the Group. In addition, dividend payment in foreign currencies converted from RMB is subject to foreign exchange rules and regulations promulgated by the PRC government. The Group would closely monitor such exchange risk from time to time.

During the Year, the Group did not purchase any foreign exchange, interest rate derivative products or relevant hedging tools.

Treasury policy

The Group finances its ordinary operations mainly with internally generated resources. The principal objective of the Group's capital management is to maintain its ability to operate on a continuous basis. The Group regularly reviews its capital structure to ensure that the Group has sufficient financial resources to support its business operations.

Capital expenditure

The Group's capital expenditure mainly includes purchase of property, plant and equipment, investment properties and intangible assets. During the Year, the Group's capital expenditure amounted to approximately RMB296.7 million, of which approximately RMB125.3 million, RMB1.3 million and RMB170.1 million were spent on purchase of property, plant and equipment, purchase of investment properties and purchase of or self-development of intangible assets, respectively.

Material investment, acquisition and disposal

During the Year, the Group did not have any material investment, acquisition or disposal.

Future plans for material investments or capital assets

Save as disclosed in this announcement, the Group did not have other plans for material investments and capital assets during the Year and up to the date of this announcement.

Pledge of assets

As at 31 December 2023, the Group had pledged certain assets to secure banking facilities granted to subsidiaries. For details, please refer to note 16 to the financial statement.

Human resources and remuneration of employees

Human resources are indispensable assets to the Group's success in a competitive environment. The Group is committed to providing competitive remuneration packages to all the employees and regularly reviewing human resources policies, to encourage employees to work towards enhancing the value of the Company and promoting the sustainable growth of the Company. The Group has also adopted share option scheme and share award scheme to recognise and reward the contribution of the employees for the benefit of the Group's operations and future development. The Group continues to promote the building of talent training and development system, and conducts online and offline training based on the competency standards for positions at different levels to promote the cultivation and development of talents in the Group and ensure continuous supply of various types of talents.

As at 31 December 2023, the Group had 2,872 employees. During the Year, the Group's total salary and related costs were approximately RMB681.1 million (as of 31 December 2022: RMB718.2 million), including bonus and non-cash share-based payments of approximately RMB47.6 million and RMB89.1 million (as of 31 December 2022: RMB49.1 million and RMB89.7 million). Salary for employees was determined based on their job nature, personal performance and the market trends. The Group provides basic social insurance and housing accumulation fund for company employees as required by the PRC law.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing bye-laws or the laws of Bermuda, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to the existing shareholders of the Company (the "**Shareholders**").

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the Year, no Directors or their respective associates (as defined in the Listing Rules) are considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at the date of this announcement as required under the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (whether on the Stock Exchange or otherwise) during the year ended 31 December 2023.

EVENTS AFTER THE REPORTING PERIOD

The Group has no significant events after the reporting period up to the date of this announcement.

CORPORATE GOVERNANCE CODE

The Company recognises the importance of corporate transparency and accountability. The Company is committed in achieving a high standard of corporate governance and leading the Group to attain better results and improve its corporate image with effective corporate governance procedures.

The Company has complied with all the applicable code provisions as set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules during the reporting period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") set out in Appendix C3 to the Listing Rules. Having made specific enquiries, all Directors confirmed that they have complied with the required standards set out in the Model Code during the Year.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") had reviewed the Group's financial reporting matters and the internal control system in relation to finance and accounting and submitted improvement proposals to the Board.

The annual results of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee.

ANNUAL GENERAL MEETING

It is proposed that the forthcoming annual general meeting of the Company (the "**Annual General Meeting**") will be held on Friday, 7 June 2024. The notice of the Annual General Meeting will be published on the websites of the Company and the Stock Exchange and sent to the Shareholders in due course.

CLOSURE OF REGISTER OF MEMBERS FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from Monday, 3 June 2024 to Friday, 7 June 2024 (both dates inclusive). In order to determine the identity of the Shareholders who are entitled to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Friday, 31 May 2024.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: RMB3.2 cents per share).

SCOPE OF WORK OF THE GROUP'S AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Group's auditor, Ernst & Young ("**EY**"), to the amounts set out in the Group's draft consolidated financial statements for the Year. The work performed by EY in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board and consequently no assurance has been expressed by EY on the preliminary announcement.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE WEBSITE

This announcement is published on the websites of the Company (www.sihuanpharm.com) and the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended 31 December 2023 will be dispatched to Shareholders and available on the above websites in due course.

Shareholders are encouraged to elect to receive corporate communications electronically. Shareholder may at any time send written notice to the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong or via email at sihuanpharm-ecom@hk.tricorglobal.com specifying his/her name, address and request to change his/her choice of language or means of receipt of all corporate communications.

APPRECIATION

The Board would like to express its sincere appreciation to our Shareholders, customers and suppliers for their continued support of the Group. The Board also wishes to thank the Group's management and staff for achieving remarkable progress in the Group's business and their dedication and commitment for improving the Group's management.

By order of the Board
Sihuan Pharmaceutical Holdings Group Ltd.
Dr. Che Fengsheng
Chairman and Executive Director

Hong Kong, 28 March 2024

As at the date of this announcement, the executive Directors of the Company are Dr. Che Fengsheng (Chairman), Dr. Guo Weicheng (Deputy Chairman and Chief Executive Officer), Dr. Zhang Jionglong, Ms. Chen Yanling and Ms. Miao Guili; and the independent non-executive Directors of the Company are Mr. Tsang Wah Kwong, Dr. Zhu Xun and Mr. Wang Guan.