上海昊海生物科技股份有限公司
Shanghai Haohai Biological Technology Co.,Ltd.

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 6826

2023
Annual Report

CONTENTS

CORPORATE INFORMATION

FIFTH SESSION OF THE BOARD OF DIRECTORS

Executive Directors:

Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Ms. Chen Yiyi
Mr. Tang Minjie *(Chief Financial Officer)*

Non-executive Directors:

Ms. You Jie
Mr. Huang Ming

Independent Non-executive Directors:

Mr. Shen Hongbo
Mr. Jiang Zhihong
Mr. Su Zhi
Mr. Yang Yushe
Mr. Zhao Lei

FIFTH SESSION OF THE SUPERVISORY COMMITTEE

Mr. Liu Yuanzhong *(Chairman)*
Ms. Yang Qing
Mr. Tang Yuejun
Mr. Wei Changzheng
Ms. Song Xiao

AUTHORIZED REPRESENTATIVES

Mr. Huang Ming
Mr. Chiu Ming King

JOINT COMPANY SECRETARIES

Ms. Tian Min
Mr. Chiu Ming King *(a fellow member of the Hong Kong Chartered Governance Institute)*

AUDIT COMMITTEE

Mr. Shen Hongbo *(Chairman)*
Ms. You Jie
Mr. Jiang Zhihong
Mr. Su Zhi
Mr. Zhao Lei

REMUNERATION AND REVIEW COMMITTEE

Mr. Su Zhi *(Chairman)*
Mr. Wu Jianying
Mr. Huang Ming
Mr. Shen Hongbo
Mr. Zhao Lei

NOMINATION COMMITTEE

Mr. Zhao Lei *(Chairman)*
Dr. Hou Yongtai
Ms. You Jie
Mr. Shen Hongbo
Mr. Su Zhi

STRATEGY COMMITTEE

Ms. You Jie *(Chairlady)*
Dr. Hou Yongtai
Mr. Wu Jianying
Mr. Huang Ming
Mr. Yang Yushe

LEGAL ADVISERS

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15 Queen's Road Central
Hong Kong

Loeb & Loeb LLP
2206-19
Jardine House
1 Connaught Place Central
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

CORPORATE INFORMATION

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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No. 1386 Hongqiao Road
Changning District
Shanghai, China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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33 Hysan Avenue
Causeway Bay, Hong Kong

H SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wan Chai, Hong Kong

A SHARE REGISTRATION INSTITUTION

China Securities Depository and Clearing Corporation Limited Shanghai Branch
166 Lujiazui East Road
New Pudong District
Shanghai, China

INFORMATION ON H SHARES

Place of listing:	The Main Board of The Stock Exchange of Hong Kong Limited
Stock code:	6826
Number of H shares issued:	32,895,100 H shares *(as at 31 December 2023)*
Nominal value:	RMB1.00 per H share
Stock short name:	HAOHAI BIOTEC

INFORMATION ON A SHARES

Place of listing:	Sci-tech Innovation Board of the Shanghai Stock Exchange
Stock code:	688366
Number of A shares issued:	138,582,158 A shares *(as at 31 December 2023)*
Nominal value:	RMB1.00 per A share
Stock short name:	HAOHAI BIOTEC

REGISTERED OFFICE

No. 5 Dongjing Road
Songjiang Industrial Zone
Shanghai, China

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Ltd. (Xinhua Road Sub-branch, Shanghai)
No. 506 Xinhua Road
Changning District
Shanghai, China

Bank of Shanghai, Co., Ltd (Changning Branch, Shanghai)
No. 320 Xianxia Road
Changning District
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INVESTOR ENQUIRIES

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FINANCIAL HIGHLIGHTS

	31 December 2023 RMB'000	31 December 2022 RMB'000	31 December 2021 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000
Results of operation					
Revenue	2,634,910	2,103,438	1,750,116	1,324,427	1,595,498
Gross profit	1,853,509	1,446,923	1,259,746	990,423	1,231,499
Profit before tax	508,260	235,726	382,649	257,026	434,349
Net profit attributable to owners of the parent	416,121	180,470	352,234	230,072	370,779
Profitability					
Gross profit margin	70.3%	68.8%	72.0%	74.8%	77.2%
Net profit margin	15.7%	9.0%	19.8%	17.1%	23.2%
Earnings per share (RMB)					
Basic earnings per share [Note 1]	2.44	1.04	2.00	1.30	2.27
Assets					
Total assets	7,105,497	6,892,399	6,950,356	6,298,705	6,151,871
Total liabilities	1,088,204	990,016	890,070	564,460	498,518
Total equity attributable to ordinary equity holders of the parent	5,650,064	5,514,609	5,713,461	5,490,751	5,454,780
Gearing ratio	15.3%	14.4%	12.8%	9.0%	8.1%

Note 1: Diluted earnings per share is the same as basic earnings per share as the Group had no potential dilutive ordinary shares in issue during the Reporting Period.

CHAIRMAN'S STATEMENT

Dear Shareholders,

Thank you for your unremitting support and concern for Haohai. On behalf of the Board, I am pleased to present to all Shareholders the 2023 annual report of Haohai Biological.

In 2023, China's economy saw a steady pickup, and medical demand and supply got back on track over time. During the Reporting Period, we worked more on product marketing, which was repaid by significant growth in sales volume and revenue for all product lines as compared to the previous year. During the Reporting Period, the Group recorded revenue of approximately RMB2,634.91 million, representing an increase of 25.27% as compared to the corresponding period in 2022. The profit attributable to owners of the parent and the net profit attributable to owners of the parent after deducting non-recurring profit or loss were approximately RMB416.12 million and RMB383.41 million, representing an increase of 130.58% and 141.52% respectively as compared to the corresponding period in 2022.

In 2023, we continued to increase investment in R&D and focused on expanding our innovative product lines in ophthalmology and medical aesthetics. The Group's innovative molded hydrophobic aspheric intraocular lens ("**IOL**") product has been approved for registration and marketing in the PRC in June 2023. The Group's innovative biogel product for intraocular filling completed the clinical trials and entered the registration and application stage in January 2024. The Group's hydrophobic molded toric aspheric IOL product has completed the clinical trials and entered the registration and application stage in February 2024. In addition, during the Reporting Period, the Group's clinical trials for hydrophilic aspheric multifocal IOL, hydrophobic molded aspheric trifocal IOL, aqueous humor permeable posterior chamber IOL and other key research and development projects were successfully conducted and the Group's fourth-generation organic cross-linked HA dermal filler has entered the late stage of registration and application. Going forward, we will continue to enrich our product reserves by stretching our own funds to develop advanced technologies and products in ophthalmology, medical aesthetics, orthopedics and surgical treatments.

In 2023, we focused on investor returns and shared the gains of development. Driven by the Company's confidence in its future sustainable development and recognition of its own value, the Company, with the approval of the Board of Directors and the general meeting, has commenced the repurchase of A shares since September 2023. As at the date of this annual report, the Company has repurchased an aggregate of 1,346,828 A shares, accounting for 0.79% of the total share capital of the Company, with a total transaction amount of approximately RMB140 million. Meanwhile, we have commenced the repurchase of H shares and repurchased a total of 3,872,400 H shares in 2023, representing 1.92% of the total share capital of the Company and utilized proceeds totaling approximately HK$167 million. Furthermore, we have taken into account the investors' demand for returns and the long-term development of the Company. On 8 March 2024, the Board of Directors proposed to declare the final dividend of RMB1.00 per share for the year 2023 to our shareholders, representing an increase of 150%, as compared to the corresponding period in 2022, so that all shareholders can share the dividends from the Company's development.

CHAIRMAN'S STATEMENT

In 2023, the performance and fruits of R&D as well as our ability to innovate demonstrated on the course for development have also been widely recognized by all walks of life. During the Reporting Period, the Company won the titles of the "2023 Shanghai Top 100 Manufacturing Enterprises", the "2023 Shanghai Top 100 Private Manufacturing Enterprises", the "2023 Shanghai Top 100 Emerging Industries" and the "2023 Top 50 of Shanghai Top 100 Growth Enterprises". The Company has been included in the list of Shanghai Top 100 Enterprises for the fifth consecutive year. Shanghai Qisheng, a subsidiary of the Company, was conferred the title of "National Intellectual Property Advantage Enterprise" by the China National Intellectual Property Administration and "Shanghai Patent Work Demonstration Enterprise" by the Shanghai Municipal Intellectual Property Administration. Shanghai Likangrui and Shenzhen New Industries, subsidiaries of the Company, were rated as local "SRDI Enterprises" for the first time. During the Reporting Period, eight of the Group's enterprises, including the Company, were recognized as "National High-Tech Enterprises".

In 2024, we, committed to improving people's living standards and promoting patients' rehabilitation, will stay focused on differentiated development as our corporate strategy. That will mean top priority to scientific research innovation and achievement transformation for better management capabilities and operational efficiency. We will refresh our efforts to expand and improve our product lines and integrate our industrial chain through a combination of organic growth and mergers and acquisitions. We will strengthen our corporate branding and enhance our brand value to make the Group a leading Chinese and internationally renowned biomedical enterprise in the field of biomedical materials.

In conclusion, once more, I would like to express my sincere gratitude to every Shareholder and investor who has always been following us!

Hou Yongtai
Executive Director and Chairman of the Board

8 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Overview

In 2023, China's economy saw a steady pickup, and medical demand and supply got back on track over time. Productions and the operation of the Company and its subsidiaries were conducted as scheduled. During the Reporting Period, the Group worked to grow its marketing and promotion channels and double its product marketing efforts, which significantly increased the sales volume and revenue of each product line as compared with the previous year.

During the Reporting Period, the Group recorded a revenue of RMB2,634.91 million, representing an increase of RMB531.47 million, or 25.27%, as compared to the corresponding period in 2022. The breakdown of the Group's revenue from the main business of each product line by therapeutic areas is as follows (by the amount and as a percentage of the total revenue of the Group):

Product line	2023		2022		Change
	RMB'000	%	RMB'000	%	%
Ophthalmology products	924,650	35.10	765,969	36.42	20.72
Medical aesthetics and wound care products	1,052,801	39.95	744,342	35.39	41.44
Orthopedics products	474,259	18.00	386,477	18.37	22.71
Anti-adhesion and hemostasis products	145,924	5.54	176,272	8.38	-17.22
Other products	37,276	1.41	30,378	1.44	22.71
Total	2,634,910	100.00	2,103,438	100.00	25.27

During the Reporting Period, the overall gross profit margin of the Group was 70.34%, representing an increase as compared to 68.79% for the corresponding period in 2022, mainly driven by the increase in the revenue from high-margin hyaluronic acid products and its share of the Group's revenue.

The Group stayed committed to independent innovation and continued to increase investment in research and development ("**R&D**"). During the Reporting Period, R&D expenses amounted to RMB220.10 million, representing an increase of RMB37.91 million, or approximately 20.81%, as compared to the corresponding period in 2022. R&D expenses remained high at 8.35% of revenue (2022: 8.66%). Currently, the Group is focusing on expanding its innovative product lines in ophthalmology and medical aesthetics. During the Reporting Period, in addition to the Group's innovative molded hydrophobic aspheric intraocular lens ("**IOL**") product which has been approved for registration and marketing in the PRC in June 2023, the hydrophobic molded toric aspheric IOL product has completed the clinical trials and entered the registration and application stage in February 2024, and the clinic trials for hydrophilic aspheric multifocal IOL, hydrophobic molded aspheric trifocal IOL, aqueous humor permeable posterior chamber IOL and other key research and development projects were successfully conducted; the Group's innovative bio-gel product for intraocular filling completed the clinical trials in January 2024 and entered the registration and application stage; the Group's fourth-generation organic cross-linked HA dermal filler has entered the late stage of registration and application.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group's net profit attributable to shareholders of the Company and net profit attributable to shareholders of the Company after deducting non-recurring profit or loss was approximately RMB416.12 million and RMB383.41 million respectively, representing an increase of 130.58% and 141.52% as compared to the corresponding period in 2022, mainly due to the increase in gross profit as a result of the growth in revenue. In addition, it was also contributed by the following events: (1) in 2022, Aaren Scientific, Inc. ("**Aaren**"), a subsidiary of the Company in the United States, showed signs of impairment due to business reorganization, and the Company conducted impairment tests accordingly and recorded asset impairment losses of approximately RMB46.07 million on the related goodwill, intangible assets, fixed assets and construction in progress; however there was no such impairment loss during the Reporting Period; and (2) productions and the operation of our companies located in Shanghai was suspended from March to May 2022, which resulted in the Group incurring a loss of approximately RMB37.35 million in 2022, while there was no such loss during the Reporting Period. The above factors together resulted in a substantial increase in net profit attributable to shareholders of the Company for the Reporting Period as compared to the previous year.

As at the end of the Reporting Period, the total assets of the Group were RMB7,105.50 million, and the net assets attributable to shareholders of the Company were RMB5,650.06 million, representing an increase of RMB213.11 million and RMB135.45 million respectively, as compared to that as at the end of 2022.

Ophthalmology products

Focusing on the leading technologies in the global ophthalmology field, the Group is committed to expediting the localization of China's ophthalmology industry through independent R&D and investment integration, with the goal of becoming an internationally renowned manufacturer of comprehensive ophthalmology products. During the Reporting Period, the Group's ophthalmology business has covered the fields including cataract treatment, myopia prevention and control, refractive correction, and ocular surface medication, and has owned a number of products under development in the field of fundus disease treatment.

The Group is the largest OVD product manufacturer in the PRC. According to the research reports of Guangzhou Biaodian Medical Information Co., Ltd.* ("**Biaodian Medical**"), impacted by the suspension of production and delivery by our companies in Shanghai from March to May 2022, the market share of the Group's OVD products decreased from 50.83% in 2021 to 44.52% in 2022, still ranking first in China for the past 16 consecutive years. Meanwhile, the Group is a major supplier in the domestic IOL market, and Contamac, a subsidiary of the Company in the UK, is one of the world's largest independent manufacturers of ophthalmology and optometry materials such as materials for IOL and Orthokeratology Lens to customers in more than 70 countries worldwide.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the Group's revenue from the sales of ophthalmology products was RMB924.65 million, representing an increase of approximately RMB158.68 million, or 20.72%, as compared to the corresponding period in 2022. The breakdown of revenue from ophthalmology products by specific products is as follows:

Item	2023		2022		Change
	RMB'000	%	RMB'000	%	%
Cataract product line	494,972	53.53	366,000	47.78	35.24
IOL products	380,164	41.11	277,149	36.18	37.17
OVD products	114,808	12.42	88,851	11.60	29.21
Myopia prevention and control, and refractive correction product line	399,452	43.20	377,006	49.22	5.95
Ophthalmology and optometry materials	208,067	22.50	172,924	22.58	20.32
Ophthalmology and optometry end products	191,385	20.70	204,082	26.64	-6.22
Other ophthalmology products	30,226	3.27	22,963	3.00	31.63
Total	924,650	100.00	765,969	100.00	20.72

Note: During the Reporting Period, the Group adjusted the therapeutic field of some ophthalmic products from "ophthalmology and optometry materials" to "ophthalmology and optometry end products". Therefore, the revenues of "ophthalmology and optometry materials" and "ophthalmology and optometry end products" and their percentages in 2022 listed herein are different from the corresponding data listed in the Company's 2022 Annual Report.

IOL and OVD products are mainly used for cataract surgery. During the Reporting Period, the revenue of the Group from the cataract product line amounted to RMB494.97 million, representing an increase of approximately RMB128.97 million, or approximately 35.24% as compared to the corresponding period in 2022. Specifically, the revenue from IOL products was RMB380.16 million, representing an increase of RMB103.02 million, or approximately 37.17% as compared to the corresponding period in 2022, mainly because of the steady recovery of cataract surgeries nationwide during the Reporting Period. Meanwhile, the Group's IOL product series still maintained a stable pricing system after the past two rounds of provincial centralized volume-based purchasing and was fully selected in the national centralized volume-based purchasing in November 2023. The Group consolidated and further increased the market share of IOL products by utilizing its competitive edge in multi-brand full product line, channel and cost. During the Reporting Period, the sales volume of IOL products independently manufactured by Henan Universe, a subsidiary of the Company, as well as Lenstec IOL products distributed by NIMO as agent increased significantly as compared with the previous year, among which, the sales volume of the high-end regionally-refractive bifocal IOL product SBL-3 increased by 69.37% as compared with that of the previous year, which greatly drove the growth of the revenue of the Group's IOL product line. During the Reporting Period, the OVD products achieved revenue of RMB114.81 million, representing an increase of approximately RMB25.96 million, or approximately 29.21%, as compared to the corresponding period in 2022, creating a record high in revenue for such product line.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the revenue of the Group from the myopia prevention and control and refractive correction product line was RMB399.45 million, representing an increase of RMB22.45 million or approximately 5.95% as compared to the corresponding period in 2022. Specifically, the revenue from the ophthalmology and optometry materials business (operated by Contamac) in the upstream part of the supply chain was RMB208.07 million during the Reporting Period, representing an increase of RMB35.14 million, or approximately 20.32% as compared to the corresponding period in 2022, mainly due to the resumption of global production and operation activities and the continuous expansion of products including gas permeable materials in international markets including the United States. In addition, the Group's hydrophobic molded embryo product, which is independently developed and produced by its subsidiary, Henan Simedice, and led by Contamac for sale to customers manufacturing IOL around the world, contains high-quality hydrophobic materials and optically superior regions, which can help customers to significantly shorten the pre-launch research and development and registration and application cycle as well as improve the production efficiency. During the Reporting Period, Contamac gradually rolled out the global marketing of this product, with sales volume increasing over 180%. Optometric end products include Orthokeratology Lens and their eye drop products, functional frames, and phakic refractive lens and other products used in the process of fitting and wearing them. During the Reporting Period, optometric end products achieved a revenue of RMB191.39 million, representing a decrease of RMB12.70 million or 6.22% as compared to the corresponding period in 2022, which was mainly due to the fact that the Group ceased to include Hebei XSK, a non-wholly-owned subsidiary of the Group, in the scope of consolidation following the disposal of its 60% equity interest on 1 July 2022, which recorded a consolidated revenue of RMB13.51 million in the previous year.

Other ophthalmology products mainly include injectors, scalpels, suture needles and other products used in various ophthalmic operations. During the Reporting Period, the Group's other ophthalmology products recorded revenue of RMB30.23 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Cataract is the biggest cause of blindness in China. The only effective treatment for cataract is IOL implantation through surgery. In terms of industrial chain construction, the Group currently has initially completed the layout of the entire industrial chain of IOL products. We have opened up the upstream raw material production link of the IOL industrial chain through our subsidiary Contamac; mastered the R&D and production process of hydrophilia and hydrophobic IOL products through our subsidiaries Aaren, Henan Universe, and Henan Simedice; and strengthened the downstream sales channels of IOL products through the professional ophthalmology high-value consumables marketing platform of NIMO. In terms of the layout of product lines, leveraging on its domestic and foreign brands, the Group has covered a full range of products from ordinary spherical monofocal IOL to multifocal IOL. In addition, while leveraging on the support of the National Key R&D Programs under the "13th Five-Year Plan", the Group creates synergy among the ophthalmology R&D innovation platforms of the Group in the PRC, the United States and the United Kingdom. The Group has promoted the R&D activities for high-end toric, multifocal and extension-depth-of-field ("**EDOF**") IOL products and has adopted the one-time injection molding process that is different from the traditional turning and milling process, thus achieving a comprehensive layout of high-end IOL materials, complex optical features, and innovative processing technology. Among them:

(1) the innovative molded hydrophobic aspheric IOL product has been approved for registration and marketing in June 2023 in China;

(2) the hydrophobic molded toric aspheric IOL product has completed the clinical trials, which started in July 2021, and entered the registration and application stage in February 2024;

(3) the hydrophilic aspheric multifocal IOL product has started the clinical trials in November 2022; and

(4) innovative hydrophobic molded aspheric trifocal IOL has started its clinical trials in China in July 2023.

China is one of the countries with the largest number of blind and visually impaired patients in the world, with cataracts accounting for 32.5% and refractive errors accounting for 44.2% of visual impairment factors, while the prevalence of ophthalmic diseases in the highly myopic population is much higher than that in the normal-vision population. In 2019, the number of myopia patients worldwide was approximately 1.4 billion, among which, the number of myopia patients in China exceeded 600 million, and as a result the capacity of China's myopia prevention and control and refractive correction market is considerable while the penetration rate is low.

MANAGEMENT DISCUSSION AND ANALYSIS

In the field of myopia prevention, control and management, the Group used its self-developed optical design system based on Contamac's world-leading gas permeable material to develop the "Optoshare" (童享) series of new Orthokeratology Lens products, which was approved for registration and marketing in China in December 2022. Meanwhile, the Company, respectively through Hengtai Vision and Nanpeng Optics, which are subsidiaries of the Company, has the right to exclusively distribute "Maierkang myOK", a high-end Orthokeratology Lens product, "Hiline", an Orthokeratology Lens product, "Bestivue", a peripheral defocus lens, and rigid gas permeable contact lens of Hengtai Optics Co., Ltd.* ("**Hengtai Optics**") in China. With more than 40 years of professional experience in the field of corneal contact lenses, Hengtai Optics has deep technical precipitation and a complete layout of intellectual property rights in mainland China and the global market. The "myOK" Orthokeratology Lense product is made of oxygen permeability material with 141 DK and has 7 Chinese patents. "Hiline" Orthokeratology Lens product has been sold in the Chinese market for more than 10 years, with a high reputation in the industry and brand reputation. The Group entered into in-depth cooperation with Hengtai Optics and obtained the exclusive distribution rights of all products registered by Hengtai Optics in China, providing a wider choice of optometric products for different consumer segments and expanding the market share and influence of the Group's Orthokeratology Lens products.

In addition, the Group's self-developed eye drops product "Eyesucom" is made of exclusively patented ingredients including medical chitosan and sodium hyaluronate, and is packaged in an aseptic packaging method without preservatives. The product has the functions of natural antibacterial, moisturizing and lubricating, promoting the repair of corneal epithelial damage and reducing staining, etc. It can comprehensively protect the eye surface health of the wearers of Orthokeratology Lens. Moxifloxacin hydrochloride eye drops used in the treatment of bacterial conjunctivitis belong to the fourth-generation fluoroquinolones and is one of the mainstream drugs used in the treatment of bacterial conjunctivitis.

In the field of refractive correction, the Group's subsidiary Hangzhou Aijinglun is mainly engaged in the R&D, production and sales of crystalline refractive lenses, and has independent intellectual property rights of its own developed "Yijing" Posterior Chamber-Posterior Chamber-Phakic Refractive Lens ("**PRL**") product, which has a refractive correction range of -10.00D~-30.00D and has been approved by the NMPA. Refractive lens surgery with crystalline lens can correct myopia without cutting normal corneal tissues and has the advantages of preserving the adjustment function of the human lens and surgical reversibility, so it is a safe and effective method to correct myopia. Currently, there are only two such products approved for sale in the Chinese market, and "Yijing" PRL product is the only domestic product and the only choice for patients with severe myopia above 1,800 degrees, and therefore the product is highly scarce. In addition, the Group began the process of upgrading its PRL products after the acquisition of Hangzhou Aijinglun, with the second generation of the aqueous humor permeable product conducting the clinical trials in China, which will enable aqueous humor circulation and provide a wider range of vision correction.

Through the above product layout, the Group has been able to provide a variety of myopia solutions from prevention and control to correction for all age groups.

MANAGEMENT DISCUSSION AND ANALYSIS

Medical Aesthetics and Wound Care Products

In the field of medical aesthetics and wound care, the Group has formed a business matrix covering four categories, namely hyaluronic acid ("**HA**") dermal filler, HA for skin and mucosal superficial tissue supplement, genetic-engineering preparations for epidermal repair, radio frequency devices and laser equipment. Through the multi-level business arrangements, the Group was able to meet the comprehensive demand of end customers for medical aesthetics in relation to epidermis, dermis and subcutaneous tissue.

The Group's human epidermal growth factor ("**hEGF**") for external use "Healin", developed and produced by genetic engineering technology, is the only epidermal growth factor product in China that has exactly the same quantity, sequence and spatial structure of amino acids as human natural epidermal growth factor and the first registered hEGF product for external use in the world. According to the research reports of Biaodian Medical, the market share of "Healin" products in 2022 continued to rise to 27.01% from 25.95% in 2021, continuing narrowing the gap with the top-selling brand in the market.

The Group has independently developed and mastered the cross-linking processes such as monophase cross-linking, low-temperature secondary cross-linking, linear non-particle cross-linking, and organic cross-linking. The Group's first-generation HA dermal filler "Matrifill" is the first mono-phase sodium hyaluronate gel for injection approved by the NMPA in the PRC. It is mainly positioned as a popular entry-level HA. The Group's second-generation HA dermal filler "Janlane" is mainly positioned at the mid-to-high end, and mainly features the dynamic filling function. The third-generation HA dermal filler "Hyalumatrix" has the linear non-particle feature and is positioned for high-end consumers by providing the "precise embellishment" function. The Group's HA Dermal Filler product portfolio has been widely recognized in the market and has become a leading brand of domestic HA dermal filler products for injection.

In February 2023, the Group's second-generation HA dermal filler "Janlane" completed the registration change, and in addition to the original indication of "injection in the middle to deep layers of the facial dermis to correct moderate and severe nasolabial fold wrinkles", a new indication of "subcutaneous (or submucosal) injection for lip vermilion and vermilion border to fill the lips to increase lip tissue volume" was added to further expand its clinical application scenarios.

In addition, the Group's fourth-generation organic cross-linked HA dermal filler has completed clinical trials and has entered the late stage of registration and review. This product uses natural products as cross-linking agents, and the degradation products are essential amino acids that cannot be synthesized by the human body. Compared with traditional chemical cross-linking agents, it has better long-term safety.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Reporting Period, the revenue of the Group from medical aesthetics and wound care products was RMB1,052.80 million, representing an increase of approximately RMB308.46 million, or approximately 41.44%, as compared to the corresponding period in 2022. The breakdown of the revenue by specific products is as follows:

Item	2023		2022		Change
	RMB'000	%	RMB'000	%	%
HA Dermal Filler	599,412	56.94	306,164	41.13	95.78
hEGF	170,371	16.18	149,816	20.13	13.72
Radio frequency devices and laser equipment	283,018	26.88	288,362	38.74	-1.85
Total	1,052,801	100.00	744,342	100.00	41.44

China has become the world's second-largest medical aesthetics market. As China's per capita disposable income continues to rise, consumers of different ages and genders are awakening to the pursuit of beauty, health and self-confidence, the demand for medical aesthetics is strong and diversified, and the supply is becoming increasingly abundant due to the iterative innovation of products and technologies as well as expansion of the indications of the existing products. All these factors are driving the robust development of the medical aesthetics industry. In recent years, regulators have launched compliance measures for the medical aesthetic market, which have also continued to strengthen the healthy development of the industry.

Data shows that China's medical aesthetics market size grew from RMB99.3 billion to RMB189.2 billion from 2017 to 2021, at a CAGR of 17.5%. According to "China Medical Aesthetic Industry Outlook 2023" jointly published by Allergan Aesthetics China and Deloitte Consulting, China's medical aesthetics market size is expected to realize a CAGR of 15%-20% in the next five years. Compared with other countries with a well-developed medical aesthetic industry, the number of medical aesthetic treatments per 1,000 people in China is only 1/3 of that in Brazil and the USA, and only 1/4 of that in South Korea. The lower penetration rate of China's medical aesthetic market will continue to be unleashed and enhanced in the coming years. Among the many medical aesthetic projects, non-surgical projects have a high degree of consumer acceptance due to the characteristics of small trauma, quick results, short recovery period, high cost-effectiveness, etc., and have occupied 52% of China's medical aesthetic market share (calculated by consumption amount), of which the proportion of injectable and energy-source projects accounted for 44% and 47%, respectively, and the CAGR in the next five years is expected to reach 20-30%.

MANAGEMENT DISCUSSION AND ANALYSIS

Leveraging on its competitive R&D efforts in biomedical materials, manufacturing and marketing platforms and comprehensive strengths in the technology and quality control of products, the Group's products, based on their characteristics and efficacy, have established the differentiated positioning and supplementary development, thus leading the trend of combined application of HA dermal filler in the non-invasive medical aesthetic market in the PRC. Meanwhile, the marketing team of the Group strived to enhance the consumer experience through multidimensional services for medical institutions, practitioners and consumers, and build brand attributes and dominate the lifestyle of consumer groups so as to improve the adhesiveness among the brands, medical institutions and consumers. During the Reporting Period, the Group's HA dermal filler products recorded sales revenue of RMB599.41 million, representing an increase of approximately RMB293.25 million, or 95.78%, as compared to the corresponding period in 2022. The third-generation HA dermal filler "Hyalumatrix" produced by the Group won the market's recognition for its high-end HA dermal filler due to its non-particle and high cohesion features, making it less susceptible to deformation and displacement after injection, and giving it a more natural and longer-lasting effect. The product has entered an upward path of rapid volume release through the Group's rhythmic and precise launches to high-quality medical aesthetic institutions. During the reporting period, the sales revenue of HA dermal filler "Hyalumatrix" exceeded RMB230 million, representing an increase of 129.32% as compared to the corresponding period in 2022. Meanwhile, the Group solidified its leading academic position in the industry through the high-end products of "Hyalumatrix", enhanced the adhesion of customers to the Group and drove the overall upward trend of the HA dermal filler product portfolio, of which the revenues of HA dermal filler products "Matrifill" and "Janlane" also increased by 94.14% and 57.70%, respectively, over the previous year.

During the Reporting Period, the revenue of the Group from hEGF products was RMB170.37 million, representing an increase of approximately RMB20.56 million, or 13.72%, as compared to the corresponding period in 2022. The increase in the revenue of hEGF products was due to the fact that the Group strengthened the academic promotion of this product, practitioners' awareness of product efficacy has been continuously strengthened, and the application of the product has been extended from traditional departments such as burns and dermatology to pediatrics, oncology, stomatology, general surgery, obstetrics and gynecology, endocrinology, gastroenterology and other departments.

During the Reporting Period, the revenue of the Group from the radio frequency and laser equipment product line was RMB283.02 million, representing a decrease of approximately RMB5.34 million, or 1.85%, as compared to the corresponding period in 2022, which was mainly generated by Juva Medical, a subsidiary of the Company. In March 2022, the NMPA issued the Announcement on Adjusting Parts of the "Medical Device Classification Catalog" (No. 30, 2022), which upgraded the regulatory category of radio frequency therapeutic device products from Class II to Class III medical devices, and since 1 April 2024, radio frequency therapeutic device and radio frequency skin therapeutic device products shall not be manufactured, imported or sold without obtaining the registration certificate for the medical device in accordance with the law. In November 2023, the National Institutes for Food and Drug Control released the Summary of the Third Batch of Medical Device Product Classification Identification in 2023, in which intermediate frequency/laser therapeutic instruments were listed as products recommended to be managed in accordance with the Class III of medical devices. The aforesaid policy change has had a certain impact on the sales of household and cosmetic grade products of the Group's radio frequency equipment product line in mainland China. However, the Group's medical grade radio frequency equipment product "Endymed Pro" is one of the few radio frequency equipment products in China that has obtained the registration certificate for Class III medical devices, which is scarce in the domestic market. During the Reporting Period, "Endymed Pro" high-frequency skin treatment device and related consumables achieved rapid and sustained growth.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company entered into an equity transfer agreement with the minority shareholders of Juva Medical on 31 July 2023 to acquire the remaining 36.3636% equity interest in Juva Medical at a total consideration of RMB152,727,100. Upon completion of the industrial and commercial change registration in September 2023, Juva Medical became a wholly-owned subsidiary of the Company. According to the 2022 Consumption Trend Report of Photoelectric Medical Aesthetics Industry released by So-Young Aesthetic Data Research Institute, 47.34% of the investigated users chose photoelectric items among the medical aesthetics items that the consumers love and want to try the most in 2022. The integration of the Group's radio c devices and laser equipment business will be further accelerated through controlling the entire equity interest in Juva Medical.

Orthopedics Products

During the Reporting Period, the revenue of the Group from orthopedics products amounted to RMB474.26 million, representing an increase of RMB87.78 million, or approximately 22.71% as compared to the corresponding period in 2022. The breakdown of the revenue from the orthopedics products by specific products is as follows:

Item	2023		2022		Change
	RMB'000	%	RMB'000	%	%
Sodium hyaluronate injection	312,660	65.93	258,435	66.87	20.98
Medical chitosan used for intra-articular viscosupplement	161,599	34.07	128,042	33.13	26.21
Total	474,259	100.00	386,477	100.00	22.71

In the field of orthopedics, the Group is the largest domestic manufacturer of orthopedic intra-articular viscoelastic supplements. Orthopedic intra-articular viscoelastic supplements are mainly used in degenerative osteoarthritis. Degenerative osteoarthritis is also a common disease in the senior population. According to statistics, the incidence of osteoarthritis in men over the age of 65 is 58%, and that in women is 65% to 67%; the incidence of people over the age of 75 is as high as 80%. At present, there are more than 100 million osteoarthritis patients in China. The Group is the only manufacturer having sodium hyaluronate injection products with full series of specifications of 2mL, 2.5mL and 3mL in the PRC market. During the Reporting Period, in addition to solidifying the production and sales of its own sodium hyaluronate injection products, the Group also actively expanded the outsourced processing services for sodium hyaluronate injection, which not only effectively utilized the existing production capacity, but also further assisted in achieving stable growth for this product line.

Meanwhile, the water-soluble chitosan technology used in the Group's medical chitosan product (for intra-articular viscosupplement) is the exclusive patented technology of the Group, making the product the only intra-articular viscoelastic supplement registered as a Class III medical device in the PRC. With its competitive advantage of technological differentiation, after gradually completing the entry of the medical insurance catalog in some regions, the sales volume of medical chitosan products (for intra-articular viscosupplement) further continued to climb during the Reporting Period, with a 26.21% increase in revenue as compared to the corresponding period in 2022.

The Group's medical chitosan product (for intra-articular viscosupplement) and sodium hyaluronate injection product have formed unique therapeutic effects and synergic advantages. With a good pricing system, the product portfolio continued to expand its market share. According to the research reports of Biaodian Medical, in 2022, the Group has been ranked the largest manufacturer of orthopedic intra-articular viscoelastic supplements in the PRC for nine consecutive years, with a market share continuously increasing from 45.49% in 2021 to 46.54% in 2022.

Anti-adhesion and Hemostasis Products

According to the research report of Biaodian Medical, the Group was the largest supplier of anti-adhesion materials in China, with the share of the anti-adhesion materials market reaching 29.90% in 2022. During the Reporting Period, the Group's anti-adhesion and hemostasis products recorded revenue of RMB145.92 million, representing a decrease of RMB30.35 million, or approximately 17.22%, as compared to the corresponding period in 2022, which was mainly influenced by domestic policy factors such as cost and volume control of high-value consumables.

The breakdown of the revenue from the anti-adhesion and hemostasis products by specific products is as follows:

Item	2023		2022		Change
	RMB'000	%	RMB'000	%	%
Medical chitosan used for anti-adhesion	68,033	46.62	73,203	41.53	-7.06
Medical sodium hyaluronate gel	56,006	38.38	82,613	46.87	-32.21
Collagen sponge	21,885	15.00	20,456	11.60	6.99
Total	145,924	100.00	176,272	100.00	-17.22

DISCUSSION AND ANALYSIS OF FUTURE DEVELOPMENT

Development Strategy

The Group always aims to continuously improve the health quality of Chinese people and promote the rehabilitation of patients, and takes differentiated development as its corporate strategy. The Group will continue to focus on four fast-growing therapeutic areas, including ophthalmology, medical aesthetics and wound care, orthopedics and surgery. The Group will pay attention to scientific research innovation and achievement transformation, and strengthen professional services; continue to maintain the Company's leading position in technology through cooperation with domestic and foreign well-known R&D institutions, independent R&D and technology introduction; continuously optimize and improve management capabilities and improve operational efficiency; continuously expand and improve product lines and integrate the industrial chain through the combination of endogenous growth and mergers and acquisitions; strengthen the Company's brand building and enhance brand value, making the Group a leading domestic and internationally renowned biomedical company in the field of biomedical materials.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Plan

In 2024, the Group will continue to deeply promote the deployment of internal resources of the Group, and further strengthen the integration of merged and acquired enterprises in all aspects of R&D, production, sales and services, enabling merged and acquired enterprises to quickly integrate into the Group's management system. This aims to maximize synergy, improve operational efficiency, develop innovative technologies, and expand market space, while continuing to enhance core competitiveness.

In the field of ophthalmology in 2024, The Group will focus on the changes in the industry policy environment, in particular the implementation of the results of the volume-based procurement of IOL, and make timely adjustments to its supply chain and sales strategies by leveraging on the Group's multi-brand product line advantages, channel advantages and cost advantages, in order to respond to the new marketing pattern in the "post volume-based procurement era". In the field of innovative product R&D, the Group will, by utilizing its superior R&D resources in China, the USA, the UK and France and by continuing the R&D investment in innovative products, keep promoting the upgrade of product portfolios. In 2024, the Group will focus on promoting the registration and application of hydrophobic molded toric aspheric IOL, the clinical trials of important projects such as hydrophilic aspheric multifocal IOL, hydrophobic molded toric aspheric trifocal IOL, the second generation of the aqueous humor permeable PRL products, as well as R&D of high-end IOL projects such as EDOF and multifocal toric IOL. In the field of myopia prevention and control, in 2024, the Group will continue to explore the integrated marketing and brand operation of products such as "Maierkang myOK", "Hiline" and "Optoshare" (童享) and accelerate the market penetration of the Group's Orthokeratology Lens product line, so as to increase the overall market share. In the field of fundus disease treatment, the Group will actively promote the registration and application of innovative bio-gel products for intraocular fillers and commence market warm-up in a timely manner.

In the field of medical aesthetics and wound care, in 2024, the Group will take advantage of the efficacy and price positioning of the "Matrifill", "Janlane" and "Hyalumatrix" series of HA dermal filler products to focus on building the brand image of "Hyalumatrix" high-end HA dermal filler products, strengthen the market promotion of "Janlane" HA dermal filler products for the new indications, assist downstream medical and aesthetic institutions to develop unique injection solutions for the indications, further expand the market penetration, improve the overall market share of the Group's HA dermal filler series products and strengthen the leading position of the Group's domestic HA dermal filler brand for injection through the extensive sales network. Meanwhile, the Group will continue to promote the registration and application of the fourth-generation organic cross-linked HA dermal filler as planned and start the pre-market warm-up efforts before its launch. In addition, the Group will accelerate the integration of the advantageous resources of Juva Medical to capitalize on the high degree of synergy between the Group and Juva Medical in terms of technology R&D, product layout and marketing. Under the new industry compliance trend, the Group will continue to adhere to standardized and professional development, take advantage of the scarcity of the "Endymed Pro" high-frequency skin treatment device to accelerate the capture of the domestic market share, and accelerate the entry into overseas radio frequency device/laser equipment markets such as the USA through its overseas subsidiaries, so as to ensure the overall upward development of the relevant product lines business.

In 2024, the Group will continue to use its own funds effectively, explore the fast-growing therapeutic areas such as ophthalmology, medical aesthetics, orthopedics and surgery, actively seek advanced technologies and excellent products and take the opportunity to introduce technologies or invest in cooperation, so as to increase the product reserve and ensure the long-term sustainable development of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue, Cost and Gross Profit Margin

During the Reporting Period, the Group recorded an aggregate revenue of approximately RMB2,634.91 million (2022: approximately RMB2,103.44 million), representing an increase of approximately RMB531.47 million or approximately 25.27% as compared with 2022. Due to the suspension of productions and the operation of companies of the Group in Shanghai during the period from March to May 2022, the Group's revenue in 2022 was materially and adversely affected. During the Reporting Period, under the macroeconomic environment that the pharmaceutical end market had been gradually returning to normal, companies of the Group carried out normal production and operation, and the operating conditions went up steadily. The sales volume and revenue of each major product line increased significantly as compared with the same period of last year.

During the Reporting Period, the overall gross profit margin of the Group was 70.34%, which increased 1.55 percentage points, as compared with 68.79% in 2022, mainly due to the good sales performance of HA dermal fillers with a higher gross profit margin, and the increase of its share of overall revenue boosted the Group's gross profit margin.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group were approximately RMB814.51 million, representing an increase of approximately RMB134.98 million or approximately 19.86% from approximately RMB679.53 million in 2022. During the Reporting Period, as the pharmaceutical terminal market gradually returned to normal, the Group actively expanded its marketing and promotion channels, recruited more marketing personnel, and increased marketing efforts in products, particularly HA dermal fillers, which resulted in an increase in related marketing expenses and labor costs.

R&D Expenses

During the Reporting Period, the R&D expenses of the Group were approximately RMB220.10 million, representing an increase of approximately RMB37.91 million or approximately 20.81% from approximately RMB182.19 million in 2022. The growth of R&D expenses was primarily due to the continuous increase of R&D investments and the expansion of innovative product lines of ophthalmology and medical aesthetics made by the Group, resulting in an increase in labor costs, R&D material consumption fees and clinical trial fees. During the Reporting Period, the Group's R&D expenses accounted for 8.35% of its revenue (2022: 8.66%), which remained at a relatively high level.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Expenses

During the Reporting Period, the Group's other expenses amounted to approximately RMB17.72 million, representing a decrease of approximately RMB54.69 million or 75.53% from approximately RMB72.41 million in 2022. The decrease was mainly because of signs of impairment of Aaren (a subsidiary of the Company in the USA) in 2022 due to business re-integration. Accordingly, the Company made provision for asset impairment loss of approximately RMB46.07 million for the goodwill, intangible assets, fixed assets and construction in progress of the Aaren business, whereas no such impairment loss occurred during the Reporting Period. In addition, a loss on change in fair value of approximately RMB7.78 million was recognized in 2022 due to a decrease in the fair value of convertible bonds of Recros Medica, Inc., a U.S. company, and Bioxis Pharmaceuticals ("**Bioxis**"), a French company, which were subscribed by the Group, whereas no such loss on change in fair value occurred during the Reporting Period.

Income Tax Expenses

During the Reporting Period, the Group's income tax expenses were approximately RMB95.99 million (2022: approximately RMB45.40 million), representing an increase of approximately RMB50.59 million or approximately 111.43% as compared with 2022. This increase was primarily due to the significant increase in the overall profit before tax during the Reporting Period as compared with 2022. During the Reporting Period, the Group's effective tax rate was 18.89%, basically the same as 19.26% in 2022.

Results of the Year

During the Reporting Period, the profit attributable to ordinary equity holders of the Company was approximately RMB416.12 million (2022: RMB180.47 million), representing an increase of approximately RMB235.65 million or approximately 130.58% as compared with 2022. The increase was mainly due to the significant increase in gross profit brought by the revenue increase, particularly the revenue growth in HA dermal fillers with a higher gross profit margin. In addition, in 2022, there were signs of impairment of Aaren due to business re-integration. The Company made provision for asset impairment loss of approximately RMB46.07 million for the goodwill, intangible assets and other long-term assets of Aaren business, whereas no such impairment loss occurred during the Reporting Period. The combination of the above factors resulted in a significant increase in the profit attributable to ordinary equity holders of the Company during the Reporting Period as compared with 2022.

Basic earnings per share during the Reporting Period amounted to RMB2.44 (2022: RMB1.04).

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

As at 31 December 2023, the total current assets of the Group were approximately RMB3,750.14 million, representing an increase of approximately RMB218.02 million or approximately 6.17% as compared with that as at 31 December 2022. In particular, cash and bank balances at the end of the Reporting Period increased by approximately RMB198.28 million as compared with that as at 31 December 2022, which was mainly due to the significant increase in the net cash inflow from operating activities of the Group during the Reporting Period.

As at 31 December 2023, the total current liabilities of the Group were approximately RMB715.95 million, representing an increase of approximately RMB204.67 million or approximately 40.03% as compared with that as at 31 December 2022. The increase was mainly because the Group raised more bank borrowings according to its operational needs, among which, the current portion of bank and other borrowings increased by approximately RMB182.25 million as compared with the end of 2022.

As at 31 December 2023, the Group's current assets to liabilities ratio was approximately 5.24 (31 December 2022: 6.91), representing a slight decrease as compared with that as at the year end of 2022, but it was still at a relatively high and stable level.

Employees and Remuneration Policy

The Group had 2,158 employees as at 31 December 2023. The breakdown of the total number of employees by function was as follows:

Production	849
R&D	366
Sales and Marketing	641
Finance	84
Administration	218
Total	2,158

During the Reporting Period, the remuneration policy for the Group's employees had no material change, and the employees' remuneration is based on their working experience, daily performance, the operation situation of the Company and external market competition. During the Reporting Period, the total remuneration of the Group's employees amounted to approximately RMB630.08 million.

MANAGEMENT DISCUSSION AND ANALYSIS

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the core management personnel, core technical or operational personnel and fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members and bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized, the Board approved the proposed adoption of the 2021 Restricted A Share Incentive Scheme on 29 December 2021. The Incentive Scheme was approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022. Pursuant to the Incentive Scheme, the Board has resolved to grant a total of 1,800,000 Restricted Shares in the First Grant and Reserved Grant on 11 March 2022 and 16 November 2022, respectively.

The Group continues to improve the training management system and mechanism, and provides various targeted training programs to its employees. During the Reporting Period, there was no material change in the Group's training programs.

Treasury Policies

The Group adopts centralized financing and treasury policies designed to strengthen the control on bank deposits and to ensure the secured and efficient use of the Group's capital. Surplus cash of the Group is generally placed in short-term deposits denominated in RMB, US Dollars and Hong Kong Dollars. It is the Group's policy to enter into principal guaranteed and conservative deposits transactions only and the Group is restricted from investing in high-risk financial products.

Asset Pledge

As at 31 December 2023, the Group had bank deposits of approximately RMB0.68 million as guarantee deposits for the issuance of performance guarantee. As at 31 December 2022, the Group's bank deposits of approximately RMB0.61 million and RMB1.84 million were pledged as quality guarantee deposits and performance guarantee deposits, respectively.

In addition, as at 31 December 2022, NIMO (a subsidiary of the Company) pledged all of its trade receivables to secure banking facilities of up to RMB65.00 million. During the Reporting Period, such credit facilities expired and the relevant bank borrowings were fully repaid.

Gearing Ratio

As at 31 December 2023, the total liabilities of the Group amounted to approximately RMB1,088.20 million and the gearing ratio (the percentage of total liabilities to total assets) was 15.31%, representing an increase of 0.95 percentage points from 14.36% as at 31 December 2022, which was mainly due to the increase in bank borrowings of the Group during the Reporting Period. In addition, the Company granted a share redemption option to the minority shareholders of Juva Medical upon the acquisition of 60% equity interest in Juva Medical. The fair value of the non-current liabilities related to such share redemption option as at 31 December 2022 was approximately RMB220.56 million. As the Company completed the acquisition of the equity interest held by the minority shareholders of Juva Medical during the Reporting Period, the impact of the increase in bank borrowings was partially offset by the derecognition of the non-current liabilities related to such share redemption option.

Cash and Cash Equivalents

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB569.32 million, representing an increase of approximately RMB10.12 million from that of approximately RMB559.20 million as at 31 December 2022. During the Reporting Period, the Group's net cash flows generated from operating activities was approximately RMB634.45 million, but was almost entirely used in various investment and financing activities. In addition, due to the continuous appreciation of the exchange rates of USD, GBP and other foreign currencies against RMB during the Reporting Period, the effect of exchange rate changes on cash increased the balance of cash and cash equivalents by approximately RMB10.05 million.

Bank Borrowings

As at 31 December 2023, the Company and its subsidiaries Shanghai Qisheng, Shanghai Haohai Medical Technology Development Co., Ltd.* and Bioxis had interest-bearing bank borrowings of approximately RMB174.64 million, RMB89.00 million, RMB83.50 million and EUR0.40 million (equivalent to approximately RMB3.13 million), respectively. As at 31 December 2022, the Company and its subsidiaries NIMO and Bioxis had interest-bearing bank borrowings of approximately RMB41.75 million, RMB5.31 million and EUR0.72 million (equivalent to approximately RMB5.35 million), respectively.

Risk of Exchange Rate Fluctuations

The sales, costs and expenses of the Group were principally and mostly denominated in RMB. Despite the fact that the Group might be exposed to foreign exchange risk, the Board expects that exchange rate fluctuation of the foreign currencies held by the Group will not have any material adverse impact on the Group in the future. During the Reporting Period and as at 31 December 2023, the Group did not enter into any hedging transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities.

Significant Subsequent Event

Please refer to note 45 to the financial statements in this annual report for the details of significant subsequent event of the Group.

Future Plans for Material Investments and Capital Assets

Saved as disclosed in this annual report, the Group has no any other material investment plans or capital asset plans during the year ended 31 December 2023.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this annual report, the Group did not have any material acquisitions or disposals related to subsidiaries, associates and joint ventures during the year ended 31 December 2023.

Significant Investment

Save as disclosed in this annual report, the Group had no other significant investment during the year ended 31 December 2023.

Purchase, Sales or Redemption of Listed Securities

Details of the H Shares repurchased by the Company during the year ended 31 December 2023 are as follows:

Months of repurchase in 2023	No. of Shares repurchased	Highest price paid per Share (HK$)	Lowest price paid per Share (HK$)	Aggregate Consideration[(1)] (HK$)
March	114,500	41.50	38.90	4,647,140.00
May	461,400	43.30	39.95	19,289,365.00
August	238,700	39.50	37.00	9,206,555.00
September	1,080,200	48.80	45.85	51,464,139.00
October	677,200	41.25	37.85	26,879,905.00
November	941,400	45.00	40.50	40,462,505.00
December	359,000	42.95	38.80	14,639,625.00
Total	3,872,400			166,589,234.00

Details of the A Shares repurchased by the Company during the year ended 31 December 2023 are as follows:

Months of repurchase in 2023	No. of Shares repurchased	Highest price paid per Share (RMB)	Lowest price paid per Share (RMB)	Aggregate Consideration[(1)] (RMB)
September	311,958	113.50	110.71	35,016,970.13
October	703,526	111.24	96.19	74,894,136.32
November	63,600	98.50	96.84	6,204,895.28
December	10,402	99.00	98.80	1,029,261.22
Total	1,089,486			117,145,262.95

Note (1): The aggregate consideration excludes transaction fees.

Save as disclosed in this annual report, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

REPORT OF THE DIRECTORS

The Board presents their report and the audited consolidated financial statements of the Group for the Reporting Period.

PRINCIPAL BUSINESS

We focus on the research and development, manufacturing and sales of biomedical materials. We strategically target the fast-growing therapeutic areas in the biomedical material market in China, including ophthalmology, medical aesthetics and wound care, orthopedics, anti-adhesion and hemostasis.

BUSINESS REVIEW

A fair review of the Group's business during the Reporting Period is provided in the Chairman's Statement on page 5 and the Management Discussion and Analysis on pages 7 to 25 in this annual report. Description of the risks and uncertainties that the Group may face can be found in the Internal Control, Audit and Risk Management of the Corporate Governance Report on pages 66 to 68 in this annual report. The objectives and policies on financial risk management of the Group are also set out in the note 44 to the financial statements. The events since the end of the Reporting Period and as at the date of this report can be found in Management Discussion and Analysis on page 24 and the note 45 to the financial statements in this annual report. Financial Highlights of the Group are set out on page 4 in this annual report, in which the Group's performance during the Reporting Period is analyzed with financial key performance indicators. In addition, an account of the Group's environmental policies, the Company's relationships with its stakeholders and compliance with relevant laws and regulations that exerts material impact on the Group are included in the Environmental, Social and Governance Report on page 74 in this annual report. The probable future business development of the Company is discussed in Management Discussion and Analysis on page 17 in this annual report. All such cross-referenced parts of this annual report form part of this "Report of the Directors".

RESULTS

The Group's results for the Reporting Period and the financial position of the Group as at 31 December 2023 are set out in the audited consolidated financial statements on pages 133 to 245 in this annual report.

A discussion and analysis of the Company's performance during the year and the material factors underlying its results and financial position are set out in the Management Discussion and Analysis on pages 7 to 25 in this annual report.

DIVIDENDS

On 8 March 2024, the Board proposed the following profit distribution plan for the year ended 31 December 2023: (1) distribute a final dividend of RMB1.00 (inclusive of tax) per Share to the Shareholders for the year ended 31 December 2023. Based on the total number of Shares issued by the Company as at the date of this annual report of 168,707,203 Shares and deducting the total number of 1,346,828 A Shares which have been repurchased but not cancelled, the proposed final dividend amounts to RMB167,360,375.00 (tax included) in total; and (2) 4 new shares for every 10 existing shares of the Company to be issued out of reserves to the Shareholders. In the event that the total share capital of the Company changes before the registration date of shareholding, the Company will maintain the dividend distribution per share and the proportion of capitalization issue per share unchanged, and the aggregate amount of the final dividend and the total number of shares to be issued will be adjusted correspondingly.

I. Holders of A Shares

In accordance with the Notice of Ministry of Finance, State Administration of Taxation and CSRC on Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Caishui [2015] No. 101) (《財政部、國家稅務總局、中國證監會關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)), for shares of listed companies obtained by individuals from public offerings or the market, where the holding period exceeds one year, the dividends shall be temporarily exempted from individual income tax; where the holding period is less than one month (inclusive), the full amount of dividends shall be counted as taxable income and where the holding period is more than one month and less than one year (inclusive), 50% of the dividends shall be counted as taxable income on a provisional basis. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. For dividends distributed by the Listed Company, where the period of individual shareholding is within one year (inclusive), the Listed Company shall not withhold the individual income tax temporarily. The tax amount payable, subject to individual transfer of shares, shall be calculated by China Securities Depository and Clearing Corporation Limited in accordance with its terms of shareholding. Custodian of shares including securities companies will withhold the tax amount from individual accounts and transfer the tax amount to China Securities Depository and Clearing Corporation Limited. China Securities Depository and Clearing Corporation Limited shall transfer the tax amount to the Listed Company within 5 working days of the next month, and the Listed Company shall declare the tax to the competent tax authorities upon receiving the tax amount within the statutory reporting period in that month.

Resident enterprise shareholders of A Shares shall report and pay for the enterprise income tax of dividends by themselves.

For the shareholders who are Qualified Foreign Institutional Investor (**QFII**), the Listed Company shall withhold and pay enterprise income tax at a rate of 10% pursuant to the requirements of the Notice of State Administration of Taxation Concerning the Relevant Questions on the Withholding and Payment of Enterprise Income Tax Relating to the Payment of Dividends, Bonus and Interest by PRC Resident Enterprises to QFII (Guo Shui Han [2009] No. 47) (《國家稅務總局關於中國居民企業向QFII支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函2009[47]號)). QFII shareholders who wish to enjoy tax concessions shall apply to the competent taxation authority for tax rebates (arrangements) according to the relevant rules and regulations after they receive the dividends, and tax rebates will be executed under tax agreements upon verification carried out by competent tax authorities.

REPORT OF THE DIRECTORS

Pursuant to the requirements of the Notice of the Ministry of Finance, the State Administration of Taxation and the CSRC on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、中國證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), listed companies shall withhold an income tax at the rate of 10% on dividends from the A shares of the company invested by Hong Kong investors (including enterprises and individuals) through the SSE, and apply for withholding via the competent tax authorities (before the Hong Kong Securities Clearing Company Limited is able to provide details such as investor identities and holding periods to China Securities Depository and Clearing Corporation Limited, the policy of differentiated rates of taxation based on holding periods will temporarily not be implemented). For investors who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authority of the listed company for the entitlement of the rate under such tax treaty. Upon approval by the competent tax authority, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

II. Holders of H Shares

In accordance with the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法》) and its implementation rules effective on 1 January 2008, where a PRC domestic enterprise distributes dividends for financial periods beginning from 1 January 2008 to non-resident enterprise shareholders, it is required to withhold 10% enterprise income tax for such non-resident enterprise shareholders. Therefore, the Company will, after withholding 10% of the final dividend as enterprise income tax, distribute the final dividend to non-resident enterprise shareholders, i.e. any shareholders who hold the Company's shares in the name of non-individual shareholders, including but not limited to HKSCC Nominees Limited, other nominees, trustees, or holders of H Shares registered in the name of other organizations and groups.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No. 348) and relevant laws and regulations, if the individual holders of H shares are residents of Hong Kong or Macau or those countries which have entered into a tax treaty with the PRC stipulating a dividend tax rate of 10%, the Company will withhold and pay individual income tax at the rate of 10% on behalf of these shareholders. However, if otherwise provided by tax laws, relevant tax treaties or notices, the tax will be withheld in accordance with the relevant requirements and tax levy and administration requirements.

According to the requirements of the Notice on the Tax Policies Concerning the Pilot Program of the Shanghai-Hong Kong Stock Connect published by the Ministry of Finance, the State Administration of Taxation and the CSRC (Cai Shui [2014] No. 81) (《財政部、國家稅務總局、中國證監會關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)), H-share companies shall withhold an individual income tax at the rate of 20% on dividends from the H shares of the company invested by mainland individual investors on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland securities investment funds from investment through the Shanghai-Hong Kong Stock Connect, individual income tax shall be calculated in accordance with the above requirements. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland enterprise investors from investment through the Shanghai-Hong Kong Stock Connect, H-share companies shall not withhold income tax of dividends, and mainland enterprise investors shall report and pay the tax amount by themselves. In particular, the dividends received by resident enterprises in mainland which hold H shares for at least 12 consecutive months shall be exempted from enterprise income tax according to law.

According to the requirements of the Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect published by the Ministry of Finance, the State Administration of Taxation and the CSRC (Cai Shui [2016] No. 127) (《財政部、國家稅務總局、中國證監會關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), H-share companies shall withhold an individual income tax at the rate of 20% on dividends from the H shares of the company invested by mainland individual investors on the Hong Kong Stock Exchange through the Shenzhen-Hong Kong Stock Connect. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland securities investment funds from investment through the Shenzhen-Hong Kong Stock Connect, individual income tax shall be calculated in accordance with the above requirements. For dividends of the shares listed on the Hong Kong Stock Exchange received by mainland enterprise investors from investment through the Shenzhen-Hong Kong Stock Connect, H-share companies shall not withhold income tax of dividends, and mainland enterprise investors shall report and pay the tax amount by themselves. In particular, the dividends received by resident enterprises in mainland which hold H shares for at least 12 consecutive months could be exempted from enterprise income tax according to law.

The shareholders of the Company shall pay the relevant tax and/or are entitled to tax reliefs in accordance with the above requirements.

DIVIDEND POLICY

The Company has adopted a dividend policy, pursuant to which, in order to maintain the balance of the Company's reasonable return on investment to investors and the sustainable development of the Group, the Board shall take into account the following factors when formulating the profit distribution plan: (1) the actual and expected financial results of the Group; (2) the dividends received by the Company from the subsidiaries; (3) the contract restrictions of the Group; (4) the Group's expected funding needs and future expansion plans; (5) the characteristics of the industry in which the Group operates; (6) external factors that have an impact on the Group's business, financial performance and positioning; (7) other factors that the Board considers appropriate.

REPORT OF THE DIRECTORS

In accordance with the Articles of Association, the Company's profit distribution policy is as follows:

1. Profit distribution principles: the Company adopts consistent and stable profit distribution policies, which should emphasize on investors' reasonable investment return while maintaining sustainable development of the Company, but the profit distribution shall not exceed the range of the accumulated distributable profits or damage the Company's ability to continue operations.

2. Form of the profit distribution: the Company may distribute profit in the form of cash, shares, or by the combination of cash and shares, and shall adopt cash distribution as the prioritised mean to distribute profit provided that the conditions for cash distribution are satisfied.

3. Profit distribution interval: (1) the Company must make profit distribution at least once a year, provided that the Company records profit for the year with positive accumulative profit undistributed; (2) the Company may make interim profit distribution. The Board may propose to declare interim dividend according to the current profit scale, cash flows, development stage and capital needs.

4. The Board shall propose differentiated cash dividend policies according to the procedures as set out in the Articles of the Association by considering the following different circumstances after taking into full consideration the characteristics of the industry in which the Company operates, its stage of development, its business model, profitability and whether there are any arrangements for significant capital expenses: (1) if the Company is at mature stage and there are no arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 80% of the total profit to be distributed; (2) if the Company is at mature stage and there are arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 40% of the total profit to be distributed; (3) If the Company is at growth stage and there are arrangements for significant capital expenses, in making profit distribution, cash dividends shall account for at least 20% of the total profit to be distributed; If the stage of development of the Company is difficult to identify and there are arrangements for significant capital expenses, the preceding provision shall apply.

5. The specific conditions for the cash dividend distribution are as follows: (1) positive figures are recorded for the distributable profits of the Company (i.e. the remaining after-tax profits after the Company has covered loss and has extracted statutory reserve fund) during the preceding financial year; (2) a standard unqualified audit report is issued by an auditor for the financial report of the Company during the preceding financial year. If the Company recorded negative distributable profits for the preceding financial year or the auditor issued non-standard qualified audit report, the Company shall not distribute cash dividends during that year; (3) the Company has no such events as major investment plans or significant cash expenditures (excluding fund-raising projects).

Whereas the CSRC has revised the rules on cash dividends for domestic listed companies, and implemented the "Guidance on the Supervision of Listed Companies No. 3 – Cash Dividends for Listed Companies (Revised in 2023)" since 15 December 2023, the Board held the meeting on 8 March 2024 to propose amendments to the Articles of Association relating to the provisions, among others, the profit distribution policy to comply with relevant regulatory requirements. Such proposal is subject to approval at the 2023 annual general meeting of the Company, and details of proposed amendments to the Articles of Association are set out in the Company's announcement dated 8 March 2024.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five financial years is set out on page 4 in this annual report. This summary does not form part of the audited consolidated financial statements.

PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Company are set out on pages 148 to 149 in this annual report.

USE OF PROCEEDS FROM THE A SHARE OFFERING

As approved by the document "Approval in Relation to Registration of the Initial Public Offering of Shanghai Haohai Biological Technology Co., Ltd." (Zheng Jian Xuke 2019 No. 1793) granted by CSRC, the Company was permitted to issue 17,800,000 ordinary shares (A Share) in RMB to the public at an issue price of RMB89.23 per Share on 21 October 2019 . The total amount raised amounted to RMB1,588,294,000. After deducting the issuing expenses, the proceeds amounted to approximately RMB1,529,268,758. The share proceeds have been fully received, and have been verified by Ernst & Young Hua Ming LLP. The proceeds are held in dedicated accounts of the Company.

I. Management of share proceeds

In order to reinforce and regulate the management and use of the fund raised, enhance the efficiency and benefits of use of proceeds, and protect investors' interests, the Company formulates the "Share Proceeds Management System of Shanghai Haohai Biological Technology Co., Ltd." (the "**Management System**") in accordance with requirements of the applicable laws and regulations, together with the actual situation of the Company. According to the Management System, the Company adopts a dedicated account storage system for the share proceeds, establishes a dedicated account for the share proceeds in the bank, and signed the "Tripartite Supervision Agreement on Dedicated Account for Share Proceeds" with the sponsor UBS Securities Co., Ltd., Shanghai Songjiang Sub-branch of China Everbright Bank Co., Ltd. and Shanghai Putuo Sub-branch of Bank of Ningbo Co., Ltd., signed the "Quadripartite Supervision Agreement on Dedicated Account for Share Proceeds" with Shanghai Jianhua, the sponsor and Shanghai Putuo Sub-branch of Bank of Ningbo Co., Ltd., both of which clarified the rights and obligations of all parties. There is no significant difference between the above-mentioned supervision agreements and the model of supervision agreement of SSE. The Company has strictly followed the performance when using the share proceeds, in order to facilitate the management and use of the share proceeds and to monitor their use and ensure that the special funds are used exclusively.

II. Actual use of share proceeds

The Company strictly uses the share proceeds in accordance with the Management System. For details of the actual use of share proceeds by the raised capital investment projects, please refer to the "Comparison Table of Use of Share Proceeds of A Share Offering for 2023".

Comparison Table of Use of Share Proceeds of A Share Offering for 2023

Unit: RMB ten thousand

Net amount of share proceeds	152,926.88	Total share proceeds invested during the year	16,221.06
Total amount of share proceeds involving changes in investment purpose	-	Accumulated total of share proceeds investments	104,475.56
As a percentage of the total amount of share proceeds involving changes in investment purpose	-		

Committed projects	If changed (including partial changes)	Committed Total Investment from Proceeds	Total investment after Adjustments	Total Amount committed for Investment as of the end of the Period [(1)]	Total amount invested during the Reporting Period	Accumulated Amount Invested as of the end of the Period [(2)]	Difference between Accumulated Total Amount invested and the Total Amount Committed for Investment as of the end of the Period (3) = (2)-(1)	Investment Rate as of the end of the Reporting (%) (4) = (2)/(1)	Date of the project becoming ready for intended use	Profits Achieved during the year	Whether the Expected profits have been achieved	Whether there are any Material Changes in relation to the Feasibility of the Projects
Committed projects												
International Medical R&D and Industrialization Project by Shanghai Haohai Biological Technology Co., Ltd. (上海昊海生科國際醫藥研發及產業化項目) [(note 1)]	-	128,413.00	128,413.00	128,413.00	16,221.06	79,590.21	-48,822.79	61.98	2025	-	N/A (note 2)	No
Supplementary liquidity [(note 3)]	-	20,000.00	20,000.00	20,000.00	-	20,135.79	135.79	100.68	N/A	N/A	N/A	No
Subtotal of committed investment projects	-	148,413.00	148,413.00	148,413.00	16,221.06	99,726.00	-48,687.00	67.19	-	-	-	-
Surplus proceeds investment [(note 4)]												
Supplementary liquidity	-	1,300.00	-	-	-	-	-	-	N/A	N/A	N/A	No
Fengxian-base Phase I Construction Project of Shanghai Jianhua Fine Biological Products Company Limited (建華生物奉賢基地一期建設項目)	-	-	4,552.22	4,552.22	-	4,749.56	197.34	104.34	2021	11,198.42 (Note 5)	N/A	No
Sub-total of surplus proceeds	-	1,300.00	4,552.22	4,552.22	-	4,749.56	197.34	104.34	-	-	-	-
Total	-	149,713.00	152,965.22	152,965.22	16,221.06	104,475.56	-48,489.66	68.30	-	-	-	-

REPORT OF THE DIRECTORS

Reasons for projects no progressing as scheduled (by specific fundraising projects)	During the year of 2023, the Company did not have any failure to meet its planned schedule.
Explanation for material changes in the feasibility of projects	N/A.
Initial investment in share proceed projects and replacement with share proceeds	During the year of 2023, there was no initial investment in share proceed projects and replacement with share proceeds of the Company.
Idle share proceeds used for short-term liquidity	During the year of 2023, there was no idle share proceeds used for short-term liquidity of the Company.
Cash management of idle share proceeds and investment in related products	The Proposal on the Use of Temporarily Idle Share Proceeds for Cash Management was considered and approved at the 6th meeting of the fifth session of the Board and the 6th meeting of the fifth session of the Supervisory Committee held on 19 December 2022. Pursuant to the proposal, the Company would use the temporarily idle fundraising proceeds up to RMB870.00 million for cash management on the premise of not affecting the progression of the investment plan of the Company's share proceeds. The share proceeds will be used to purchase investment products with high security, good liquidity and guaranteed capital (including but not limited to agreement deposit, notice deposit, time deposit, large certificate of deposit and income certificate, etc.) for a period not exceeding the construction period of the fundraising investment project. The period will be valid for 12 months from the date of consideration and approval by the Board. Within the aforementioned quota and period, the Company can use it cyclically. The Proposal on the Use of Temporarily Idle Share Proceeds for Cash Management was considered and approved at the 17th meeting of the fifth session of the Board and the 13th meeting of the fifth session of the Supervisory Committee held on 1 December 2023. Pursuant to the proposal, the Company would use the temporarily idle fundraising proceeds up to RMB610.00 million for cash management on the premise of not affecting the progression of the investment plan of the Company's share proceeds. The share proceeds will be used to purchase investment products with high security, good liquidity and guaranteed capital (including but not limited to agreement deposit, notice deposit, time deposit, large certificate of deposit and income certificate, etc.) for a period not exceeding the construction period of the fundraising investment project. The period will be valid for 12 months from the date of consideration and approval by the Board. Within the aforementioned quota and period, the Company can use it cyclically. The sponsor has issued a verification opinion on the matter. In 2023, the Company used idle share proceeds to purchase investment products with high security, good liquidity and guaranteed capital, with an ending balance of RMB610,000,000.00, from Shanghai Songjiang Sub-branch of China Everbright Bank Co., Ltd.

REPORT OF THE DIRECTORS

Surplus share proceeds used for permanently replenishing liquidity or returning bank loans	During the year of 2023, the Company did not use surplus share proceeds for permanently replenishing liquidity or returning bank loans.
Surplus shares proceeds used for projects under construction and new projects	During the year of 2023, there was no surplus shares proceeds used for projects under construction and new projects of the Company.
Surplus share proceeds of projects and the reasons	N/A.
Other uses of share proceeds	During the year of 2023, there was no other uses of the share proceeds of the Company.

Note 1: The amounts in this column are tax-included amounts.

Note 2: As of 31 December 2023, the construction of the "International Medical R&D and Industrialization Project by Shanghai Haohai Biological Technology Co., Ltd." have not been completed.

Note 3: Supplementary liquidity has been invested a total of RMB201.3579 million, which is RMB1.3579 million more than the total committed investment of RMB200.00 million, which is the net interest income from the share proceeds of the project.

Note 4: Surplus share proceeds have been invested a total of RMB47.4956 million, which is RMB1.9734 million more than the total committed investment of RMB45.5222 million, which is the net interest income from the share proceeds of the project.

Note 5: The benefits realized from the Fengxian-base Project of Shanghai Jianhua Fine Biological Products Company Limited during the year of 2023 (i.e. the revenue realized from the project) include all the products produced by Jianhua in the Fengxian plant.

SHARE CAPITAL

Share capital of the Company as at 31 December 2023 was as follows:

	Number of shares	Percentage of total issued share capital
A Shares	138,582,158	80.817%
H Shares	32,895,100	19.183%

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

Details of the H Shares repurchased by the Company during the year ended 31 December 2023 are as follows:

Months of repurchase in 2023	No. of Shares repurchased	Highest price paid per Share (HK$)	Lowest price paid per Share (HK$)	Aggregate Consideration[(1)] (HK$)
March	114,500	41.50	38.90	4,647,140.00
May	461,400	43.30	39.95	19,289,365.00
August	238,700	39.50	37.00	9,206,555.00
September	1,080,200	48.80	45.85	51,464,139.00
October	677,200	41.25	37.85	26,879,905.00
November	941,400	45.00	40.50	40,462,505.00
December	359,000	42.95	38.80	14,639,625.00
Total	3,872,400			166,589,234.00

Details of the A Shares repurchased by the Company during the year ended 31 December 2023 are as follows:

Months of repurchase in 2023	No. of Shares repurchased	Highest price paid per Share (RMB)	Lowest price paid per Share (RMB)	Aggregate Consideration[(1)] (RMB)
September	311,958	113.50	110.71	35,016,970.13
October	703,526	111.24	96.19	74,894,136.32
November	63,600	98.50	96.84	6,204,895.28
December	10,402	99.00	98.80	1,029,261.22
Total	1,089,486			117,145,262.95

Note (1): The aggregate consideration excludes transaction fee.

REPORT OF THE DIRECTORS

Save as disclosed in this annual report, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

PRE-EMPTIVE RIGHTS AND ARRANGEMENTS ON OPTIONS OF SHARES

There are no provisions for pre-emptive rights for the shareholders of the Company under the PRC laws and the Articles of Association. During the Reporting Period, the Company did not have any arrangement on options of shares.

MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the aggregate purchases attributable to the Group's five largest suppliers comprised 45.54% of the Group's total purchases for the year ended 31 December 2023, among which, the purchases attributable to the Group's largest supplier during the Reporting Period amounted to 14.83%.

During the Reporting Period, the aggregate sales attributable to the Group's five largest customers comprised 9.83% of the Group's total sales for the year ended 31 December 2023, among which, the sales attributable to the Group's largest customer during the Reporting Period amounted to 3.39%.

During the Reporting Period, none of the Directors or their close associates or shareholders which, to the knowledge of the Directors, owned more than 5% of the Company's total issued shares had any beneficial interest in the five largest suppliers or customers of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and its subsidiaries during Reporting Period are set out in note 13 to the financial statements.

RESERVES

As at 31 December 2023, the amount of the Company's reserves available for distribution calculated in accordance with the relevant rules and regulations of the PRC is RMB1,187,443,000.

TAX RELIEF AND EXEMPTION

Saved as disclosed in this annual report, the Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

BANK LOANS AND OTHER BORROWINGS

During the Reporting Period, the information on the bank loans and other borrowings of the Group are set out in note 29 to the financial statements.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Reporting Period.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth the particulars of the Directors, Supervisors and senior management as at the end of the Reporting Period and as at the date of this annual report:

Name	Capacity
Dr. Hou Yongtai	Chairman and Executive Director
Mr. Wu Jianying	Executive Director and General Manager
Mr. Tang Minjie	Executive Director and Chief Financial Officer
Ms. Chen Yiyi	Executive Director
Ms. You Jie	Non-executive Director
Mr. Huang Ming	Non-executive Director
Mr. Shen Hongbo	Independent Non-executive Director
Mr. Jiang Zhihong	Independent Non-executive Director
Mr. Su Zhi	Independent Non-executive Director
Mr. Yang Yushe	Independent Non-executive Director
Mr. Zhao Lei	Independent Non-executive Director
Mr. Liu Yuanzhong	Chairman of the Supervisory Committee and Shareholder Supervisor
Ms. Yang Qing	Independent Supervisor
Mr. Tang Yuejun	Independent Supervisor
Mr. Wei Changzheng	Employee representative Supervisor
Ms. Song Xiao	Employee representative Supervisor
Ms. Ren Caixia	Deputy general manager
Mr. Zhang Jundong	Deputy general manager
Mr. Wang Wenbin	Deputy general manager
Ms. Tian Min	Secretary of the Board and one of the joint company secretaries

CONFIRMATION OF INDEPENDENCE BY THE INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received confirmation letters from all Independent Non-executive Directors of their independence pursuant to Rule 3.13 of the Hong Kong Listing Rules. Based on their confirmations, the Company considers that all Independent Non-executive Directors are independent.

PARTICULARS OF THE PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

See "Profiles of Directors, Supervisors and Senior Management" under this annual report for biographical details of Directors, Supervisors and senior management of the Company. Save as disclosed in that section, up to the date of this annual report, there were no changes in information of the Directors, Supervisors or chief executive which shall be disclosed pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of our Directors (including our non-executive and Independent Non-executive Directors) has entered into a service contract with our Company for a term of three years subject to termination provision. Each of the Supervisors has entered into a service contract with our Company for a term of three years and in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration.

None of the Directors or Supervisors has or is proposed to have a service contract with any member of our Group which is not determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except as disclosed in this annual report, no Director or Supervisor had a material interest, directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group or its subsidiaries, to which the Company or any of its subsidiaries and controlling companies or any of its subsidiaries entered into during or at the end of the Reporting Period.

CONTRACT OF SIGNIFICANCE

Except as disclosed in this annual report, during the Reporting Period, no contracts of significance in respect of provision of services or otherwise were entered into between the Company or its subsidiaries and the controlling shareholders.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

In order to restrict competition activities with the Company, our controlling shareholders, Ms. You Jie (who is also a non-executive Director of the Company) and Mr. Jiang Wei (who is the spouse of Ms. You Jie) (collectively, the "**Covenantors**") have entered into a deed of non-competition in favour of the Company dated 8 December 2014 (the "**Deed of Non-Competition**"). The undertakings and covenants stipulated under the Deed of Non-Competition cover any business which is or may be in competition with the Core Operations (as defined therein) or the business of any member of our Group from time to time within the territories of Hong Kong and the PRC and such other parts of the world where such businesses are carried on by any member of our Group.

REPORT OF THE DIRECTORS

In determining whether the Covenantors had fully complied with the non-competition undertakings during the year ended 31 December 2023, the Company noted that (a) the Covenantors declared that they had fully complied with the non-competition undertakings in the Non-Competition Deed as at 31 December 2023, (b) no new competing business was reported by the Covenantors as at 31 December 2023, (c) there was no particular situation rendering the full compliance of the non-competition undertakings being questionable, and (d) the Independent Non-executive Directors had reviewed the compliance of non-competition undertakings by the Covenantors as part of the annual review process stipulated in the Deed of Non-Competition.

During the year ended 31 December 2023, the Directors were not aware of any business or interest of the Directors, Supervisors or any substantial shareholder (as defined in the Hong Kong Listing Rules) of the Company and their respective associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

INDEMNITY OF THE DIRECTORS

Pursuant to provisions of the Articles of Association, the Company may insure against the various possible legal risks faced by the Directors, Supervisors, general manager and other senior management in the ordinary course of performing their duties and the Company has arranged appropriate liability insurance for the Directors, Supervisors and senior management of the Company.

REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of emoluments of Directors, Supervisors, senior management and five highest paid individuals of the Company are set out in notes 8 and 9 to the financial statements. During the Reporting Period, there was no arrangement under which any Directors or Supervisors of the Company waived their remuneration.

Executive Directors are remunerated according to their performance appraisal in accordance with the specific management positions they hold in the Group and are no longer separately remunerated as Directors, such remuneration will be determined by the Board under approval and authorization of the general meetings. Non-executive Directors (including Independent Non-executive Directors) are remunerated at a fixed rate and should be determined by the Shareholders at the general meetings of the Company with reference to his/her background, experience and duties and responsibilities with the Company and the prevailing market conditions. Ms. You Jie, a non-executive Director, is not remunerated as a Director.

REPORT OF THE DIRECTORS

Remuneration of senior management members of the Company set out in this annual report, other than Directors and Supervisors, falls within the following bands:

Band	Number
RMB500,000-RMB1,000,000	1
RMB1,000,001-RMB1,500,000	3

REMUNERATION OF EMPLOYEES AND POLICIES

As at 31 December 2023, the Group had 2,158 employees in total. The remuneration package for our employees generally includes salary, allowances and bonuses. Employees can also receive benefits such as housing allowance and social insurance. The remuneration particulars of the employees of the Company are set out in note 6 to the financial statements.

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the core management personnel, core technical or operational personnel and fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, the Board approved the proposed adoption of the 2021 Restricted A Share Incentive Scheme on 29 December 2021. The Incentive Scheme was approved at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022. For the 2021 Restricted A Share Incentive Scheme, please refer to the "2021 Restricted A Share Incentive Scheme" section of this annual report.

PENSION SCHEME

Pursuant to the provisions of the relevant laws and regulations of the PRC, the Group is required to participate in contribution to retirement benefit schemes established by the relevant provincial and municipal government authorities. The Group and its employees are required to make contributions, at certain percentages of employees' total salaries, to the retirement benefit scheme in accordance with such scheme. Upon retirement, employees will receive the pension issued by the provincial and municipal government authorities on a monthly basis.

Details of the Company's pension scheme are set out in note 6 to the financial statements.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, none of the Directors or Supervisors or their respective associates (as defined in the Hong Kong Listing Rules) was granted by the Company or its subsidiaries any rights or options to acquire any shares in or debentures of the Company or had exercised any such rights during the Reporting Period.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the interests or short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix C3 of the Hong Kong Listing Rules were as follows:

Name	Number of H Shares (shares)	Approximate percentage of total issued H Shares (%)	Number of A Shares (shares)	Restricted Shares[1] (shares)	Approximate percentage of total issued A Shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Hou Yongtai			6,006,260 (L)	25,000 (L)	4.35	3.52	Beneficial owner
Wu Jianying			6,033,964 (L)	35,000 (L)	4.38	3.54	Beneficial owner
Chen Yiyi			424,260 (L)	25,000 (L)	0.32	0.26	Beneficial owner
Tang Minjie	11,000 (L)	0.03	24,260 (L)	25,000 (L)	0.04	0.04	Beneficial owner
You Jie[2]			28,800,000 (L)		20.78	16.80	Beneficial owner
			49,190,000 (L)		35.50	28.69	Interest of spouse
Huang Ming			2,000,000 (L)		1.44	1.17	Beneficial owner
Liu Yuanzhong			2,000,000 (L)		1.44	1.17	Beneficial owner
Wei Changzheng[3]			970 (L)	1,000 (L)	0.001	0.001	Interest of spouse

Notes: L denotes long position

1. The Company has granted a total of 1,800,000 Restricted Shares pursuant to 2021 Restricted A Share Incentive Scheme. At the end of the Reporting Period, the Restricted Shares of the first attribution period under this Incentive Scheme have been exercised, and this Incentive Scheme have not yet entered the second attribution period.

2. Ms. You Jie directly holds 28,800,000 A Shares in the Company. She is the spouse of Mr. Jiang Wei and therefore she is deemed under the SFO to be interested in 45,790,000 A Shares directly held by Mr. Jiang Wei and 3,400,000 A Shares held through Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership) ("**Shanghai Zhanze**") in the Company.

3. Pursuant to 2021 Restricted A Share Incentive Scheme, the spouse of Mr. Wei Changzheng, a Supervisor, was granted 2,000 Restricted Shares, 50% of which has been vested on 5 May 2023. Therefore, Mr. Wei Changzheng is deemed under the SFO to be interested in 970 A Shares and 1,000 Restricted Shares.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2023, none of the other Directors, Supervisors or any of their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations which are required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, to the knowledge of the Directors of the Company, the interests or short positions of persons other than Directors, chief executives or Supervisors of the Company in the shares and underlying shares of the Company which were required to be notified to the Company and Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows. In the event of changes in the shareholding of the shareholders in the Company, the shareholders will not be required to notify the Company and the Hong Kong Stock Exchange unless certain conditions are met. Therefore, the latest shareholding of the shareholders in the Company may be different from the shareholding submitted to the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS HOLDING A SHARES OF THE COMPANY

Name	Number of A Shares (shares)	Approximate Percentage of total issued A Shares (%)	Approximate Percentage of total issued share capital (%)	Capacity in which interests are held
Jiang Wei[1]	45,790,000 (L)	33.04	26.70	Beneficial owner
	28,800,000 (L)	20.78	16.80	Interest of spouse
	3,400,000 (L)	2.45	1.98	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanxi Corporate Management Limited Company[2]	3,400,000 (L)	2.45	1.98	Interest of corporation controlled by the substantial shareholder
Shanghai Zhanze Corporate Management Partnership Enterprise (Limited Partnership)[2]	3,400,000 (L)	2.45	1.98	Beneficial owner

Note: L denotes long position

1. Mr. Jiang Wei directly holds 45,790,000 A Shares. He is the spouse of Ms. You Jie, our non-executive Director, and therefore he is deemed under the SFO to be interested in the 28,800,000 A Shares held by Ms. You Jie in the Company. He holds 3,400,000 A Shares through his interest in controlling Shanghai Zhanze and its executive partner Shanghai Zhanxi Corporate Management Limited Company.

2. Each of Shanghai Zhanze and its executive partner Shanghai Zhanxi Corporate Management Limited Company is deemed to be interested in such shares.

3. On 31 May 2023, an equity transfer agreement was entered between Mr. Jiang Wei and Shanghai Zhanze, in which Mr. Jiang Wei transferred 3,071,000 A Shares held by him through Shanghai Zhanze into his direct possession, and such transfer was confirmed by the SSE on 19 January 2024.

SUBSTANTIAL SHAREHOLDERS HOLDING H SHARES OF THE COMPANY

Name	Number of H Shares (shares)	Approximate percentage of total issued H Shares (%)	Approximate percentage of total issued share capital (%)	Capacity in which interests are held
Prudence Investment Management (Hong Kong) Limited	1,969,600 (L)	5.99	1.15	Investment Manager

Notes: L denotes long position

1. The above disclosure is based on the information available on the website of the Hong Kong Stock Exchange (www.hkexnews.com.hk).

Save as disclosed above, as at 31 December 2023, to the best knowledge of the Directors, there were no other persons who had interests or short positions in the shares or underlying shares of the Company, which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

REPORT OF THE DIRECTORS

2021 RESTRICTED A SHARE INCENTIVE SCHEME

On 29 December 2021, the Board proposed to adopt the 2021 Restricted A Share Incentive Scheme, which was approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022.

I. Purpose of the Incentive Scheme

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's core management personnel, core technical or operational personnel, fully mobilize their enthusiasm and creativity, effectively strengthen the cohesion of the core team and the competitiveness of the Company, align the interests of the shareholders, the Company and the core staff members, bring their attention to the long-term development of the Company and ensure that the Company's development strategy and business goals shall be realized.

II. Form and Source of the Restricted Shares to be Granted

The form of incentive instrument adopted under the Incentive Scheme is Restricted Shares. The source of all Restricted Shares under the Incentive Scheme will be new ordinary A Shares to be issued by the Company to the Participants.

III. Total Number of Shares Available for Issue and Issued Shares

On 11 March 2022 and 16 November 2022, respectively, the Board resolved to grant a total of 1,800,000 Restricted Shares under the First Grant and the Reserved Grant, pursuant to the Incentive Scheme.

The total number of Shares available for issue under this Incentive Scheme was 1,800,000 A Shares, representing 1.07% of total issued Shares (i.e., 168,707,203 Shares) as at the date of the annual report.

During the Reporting Period, the number of shares available for issue under all incentive schemes (i.e. this Incentive Scheme) was 900,000 A Shares, representing 0.65% of the weighted average number of A Shares in issue for the Reporting Period.

IV. Participants of the Incentive Scheme

The participants under the Incentive Scheme (the "**Participants**") include directors, members of the senior management, core technical staff of the Company and its subsidiaries, and other persons of the Group considered by the Board to be required to be incentivized (excluding independent non-executive Directors, Supervisors, persons who individually or jointly hold or control 5% or more of the total issued share capital of the Company or their spouses, parents and children). The total number of shares to be granted to any Participant under all share incentive schemes of the Company which are within their validity period shall not exceed 1.00% of the total share capital of the Company.

V. Grant Price of the Restricted Shares

Pursuant to the STAR Market Listing Rules and the Management Measures for Share Incentive Scheme Adopted by Listed Companies, the Grant Price shall not be lower than the par value of each Share and in principle should not be lower than the higher of the following prices:(i) 50% of the average trading price of the A Shares for the 1 day immediately preceding the A share announcement of the draft Incentive Scheme, being RMB61.34 per A Share; (ii) 50% of the average trading price of the A Shares for the 20 days immediately preceding the A Shares announcement of the draft Incentive Scheme, being RMB66.69 per A Share; (iii) 50% of the average trading price of the A Shares for the 60 days immediately preceding the A Shares announcement of the draft Incentive Scheme, being RMB70.75 per A Share; and (iv) 50% of the average trading price of the A Shares for the 120 days immediately preceding the A Shares announcement of the draft Incentive Scheme, being RMB91.14 per A Share.

On 7 March 2022, the Grant Price of this Incentive Plan, as approved by the general meeting, was RMB95.00 per Share. Based on the Incentive Plan and the implementation of the Company's final dividend for the year ending 31 December 2021, the Board resolved to adjust the Grant Price to RMB94.30 per Share on 16 November 2022. Based on the implementation of the Company's final dividend for the year ending 31 December 2022, the Board resolved to adjust the Grant Price to RMB93.90 per Share on 11 September 2023.

VI. Validity Period, Attribution Arrangements and Black-Out Periods

The Incentive Scheme will become effective upon the Grant Date, and shall be valid until the date on which all Restricted Shares have been attributed or lapsed. Such period shall not exceed 36 months. As at the date of this annual report, the remaining life of the First Grant under the Incentive Scheme is approximately 10.5 months, and that of the Reserved Grant is approximately 18.5 months.

Subject to the attribution conditions having been fulfilled, the Restricted Shares may be attributed to the Participants in tranches 12 months after the Grant Date. An attribution date must be a trading day within the validity period of the Incentive Scheme, and shall not fall within any of the periods during which the listing rules of the place where the Company's securities are listed prohibit the attribution. Within the validity period of the Incentive Scheme, if the relevant provisions of the listing rules of the place where the Company's securities are listed on the attribution period change, the attribution date for the Participants shall conform to the provisions of the revised relevant laws, regulations and normative documents.

REPORT OF THE DIRECTORS

Attribution arrangements of the First Grant under the Incentive Scheme are as follows:

Tranche	Attribution Period	Attribution Percentage
First tranche	From the first trading day after the expiry of 12 months following the Grant Date of the First Grant until the last trading day within the 24 months following the Grant Date of the First Grant	50%
Second tranche	From the first trading day after the expiry of 24 months following the Grant Date of the First Grant until the last trading day within the 36 months following the Grant Date of the First Grant	50%

Attribution arrangements of the Reserved Grant under the Incentive Scheme are as follows:

Tranche	Attribution Period	Attribution Percentage
First tranche	From the first trading day after the expiry of 12 months following the Grant Date of the Reserved Grant until the last trading day within the 24 months following the Grant Date of the Reserved Grant	50%
Second tranche	From the first trading day after the expiry of 24 months following the Grant Date of the Reserved Grant until the last trading day within the 36 months following the Grant Date of the Reserved Grant	50%

Those Restricted Shares which have not been attributed during the period of their respective tranches as a result of failure to fulfil the attribution conditions are not allowed to be deferred to be attributed in the next attribution period(s) and shall lapse.

There is no additional black-out period for the Restricted Shares under the Incentive Scheme upon attribution. The requirements of black-out are implemented in accordance with relevant laws, regulations and regulatory documents including the Company Law and the Securities Law and the Article of Association.

VII. Details of Movement in the Incentive Scheme during the Reporting Period

Details of the movement of Restricted Shares under the First Grant during the Reporting Period are set out below:

			Number of Restricted Shares				
Name of Participant(s)	Category of Participant(s)	Date of Grant[1]	Granted but Unvested as at 1 January 2023	Newly Granted	Attributed[2]	Lapsed[3]	Granted but Unvested as at 31 December 2023
Dr. Hou Yongtai	Executive Director	11 March 2022	50,000	0	24,260	740	25,000
Mr. Wu Jianying	Executive Director and general manager	11 March 2022	70,000	0	33,964	1,036	35,000
Mr. Tang Minjie	Executive Director	11 March 2022	50,000	0	24,260	740	25,000
Ms. Chen Yiyi	Executive Director	11 March 2022	50,000	0	24,260	740	25,000
Ms. Sheng Ailian	Spouse of a Supervisor	11 March 2022	2,000	0	970	30	1,000
199 employees	Other employee participants	11 March 2022	1,218,000	0	528,342	97,658	592,000
Total			1,440,000	0	636,056	100,944	703,000

Notes:

(1) The closing price of A Shares immediately before the grant date of the First Grant was RMB92.25 per A Share.

(2) During the Reporting Period, the first vesting of the First Grant has been completed in two installments on 5 May 2023 and 26 September 2023, respectively. The purchase prices of the vesting Shares are RMB94.3 per Share and RMB93.9 per Share, respectively. The weighted average closing prices of the Shares immediately before the dates (i.e. 5 May 2023 and 26 September 2023) on which such Shares were vested were RMB102.90 per Share and RMB98.06 per Share, respectively.

(3) The lapsed Restricted Shares under the First Grant is due to the failure of the performance at the Company level in the first attribution period under the Incentive Scheme, the departure of individual Participants or the failure of the performance assessment at the individual level.

REPORT OF THE DIRECTORS

Details of the movement of Restricted Shares under the Reserved Grant during the Reporting Period are set out below:

			Number of Restricted Shares				
Name of Participant(s)	Category of Participant(s)	Date of Grant[(1)]	Granted but Unvested as at 1 January 2023	Newly Granted	Attributed[(2)]	Lapsed[(3)]	Granted but Unvested as at 31 December 2023
93 employees	Other employee participants	16 November 2022	360,000	0	146,102	40,398	173,500

(1) The closing price of A Shares immediately before the grant date of the Reserved Grant was RMB81.90 per A Share.

(2) During the Reporting Period, the first vesting of the Reserved Grant has been completed on 26 December 2023. The purchase price of the vesting Shares is RMB93.9 per Share. The weighted average closing price of the Shares immediately before the date on which such Shares was vested was RMB99.25 per Share.

(3) The lapsed Restricted Shares under the Reserved Grant is due to the failure of the performance at the Company level in the first attribution period under the Incentive Scheme, the departure of individual Participants or the failure of the performance assessment at the individual level.

Saved as disclosed in this annual report, there is no options or awards available for grant under any scheme of the Company at the beginning and the end of the Reporting Period.

VIII. Fair Value and Accounting Standards

The fair value of the Restricted Shares under the First Grant and the Reserved Grant of the Incentive Scheme on their respective grant date are as follows:

Date of Grant	Attribution Period	Fair Value (RMB per share)
First Grant (i.e. 11 March 2022)	First tranche	20.33
	Second tranche	26.96
Reserved Grant (i.e. 16 November 2022)	First tranche	13.36
	Second tranche	19.55

For the method of determining the fair value and the accounting standards and policies adopted for the Restricted Shares, and further details of the 2021 Restricted A Share Incentive Scheme are set out in the Company's announcements dated 29 December 2021, 11 March 2022 and 16 November 2022, the circular dated 15 February 2022.

PUBLIC SHAREHOLDINGS

Based on the public information available to the Company and so far as the Directors are aware, up to the date of this annual report, at least 25% of the issued share capital of the Company is held by the public.

CONNECTED TRANSACTIONS

I. Entering into the Spray Pump Customization Agreement

On 26 March 2021 (after trading hours), the Company entered into the Spray Pump Customization Agreement with Haohai Technology (Changxing) Company Limited (昊海科技(長興)有限公司) (“**Haohai Changxing**”), pursuant to which the Company agreed to engage Haohai Changxing to process spray pumps for use in the Company’s product packaging until 31 December 2023. At that time, Haohai Changxing is held indirectly as to 49% by Mr. Jiang Wei, a controlling shareholder of the Company and the spouse of Ms. You Jie, also a controlling shareholder of the Company and a non-executive Director. Ms. You Jie separately indirectly controls 51% in Haohai Changxing. Haohai Changxing is therefore a connected person of the Company under the Hong Kong Listing Rules and the transactions contemplated under the Spray Pump Customization Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the applicable percentage ratios stipulated under Rule 14.07 of the Hong Kong Listing Rules in respect of the transactions contemplated under the Spray Pump Customization Agreement are more than 0.1% but less than 5%, the transactions contemplated under the Spray Pump Customization Agreement are subject to reporting, announcement and annual review requirements but are exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules.

In 2023, the Company’s total transaction amount with Haohai Changxing contemplated under Spray Pump Customization Agreement was RMB6,959,044. The annual cap for the year 2023 was RMB11,400,000.

The above annual caps were determined according to (1) the historical procurement volume of the Company, actual market conditions and unexpected market events; (2) the expected growth of sales volume of relevant products; and (3) the prevailing price in market.

REPORT OF THE DIRECTORS

During the Reporting Period, the Company followed the pricing policies and mechanisms set out in the agreement for the above continuing connected transaction when determining the prices and terms of those transaction.

The Independent Non-executive Directors have reviewed the above continuing connected transactions for the year ended 31 December 2023 and have confirmed that these continuing connected transactions were: (1) entered into in the ordinary and usual course of business of the Group; (2) entered into on normal commercial terms or better to the Group; and (3) in accordance with the terms of respective agreements governing the transactions that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Ernst & Young, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standards on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions Under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Hong Kong Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

In order to ensure that transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and its minority Shareholders, the Company implements a pricing policy and internal control procedure under the Spray Pump Customization Agreement, as further detailed below.

(1) The Company's procurement centre regularly monitors the unit price, payment methods and other transaction conditions of independent third parties and compares these terms with the Company's orders with Haohai Changxing on an ongoing basis. The Company is also in a position to freely negotiate and agree on the pricing and payment terms during the course of the Spray Pump Customization Agreement. The Company has the flexibility to reduce the orders places with Haohai Changxing should it consider that the terms being offered by Haohai Changxing are not sufficiently competitive or desirable. In addition, the procurement centre estimates the future purchase amount based on procurement plans submitted by the production department on a regular basis.

(2) After the expiry of each of the previous framework spray pump customization agreement, the Company assesses the desirability of entering into a new framework spray pump customization agreement with Haohai Changxing by considering whether Haohai Changxing has the ability and qualifications to continue to meet the Company's quality and quantity needs for spray pumps.

(3) The Company's financial department monitors the actual transaction amount regularly and compares this against the annual cap set, and will report to senior management if annual caps are likely to be exceeded. Senior management will consider the totality of matters (including but not limited to the transactions being carried out, the estimated future demand for spray pumps and the necessity of the future demand) based on discussions with the Company's production department, procurement centre and the financial department before preparing a summary report to the Board for further action.

(4) The Company's internal audit department regularly evaluates whether the spray pump procurement process under the Spray Pump Customization Agreement complies with the Company's standard procurement procedures. The internal audit department will also regularly evaluate for any potential procurement fraud, etc..

II. Grant of Restricted Shares to Connected Participants

As disclosed in "2021 Restricted A Share Incentive Scheme" above, the 2021 Restricted A Share Incentive Scheme was approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022.

The Restricted Shares under the First Grant will be granted to the participants at the grant price of RMB95.00 per A Share according to the 2021 Restricted A Share Incentive Scheme. Among such participants, Dr. Hou Yongtai, Mr. Wu Jianying, Mr. Tang Minjie and Ms. Chen Yiyi are executive Directors; Ms. Jiang Lixia, Ms. Jin Sha, Ms. Tian Min, Ms. Huang Ling, Ms. Li Zirui, Ms. Huang Rongrong, Mr. Robert John McGregor, Mr. David Simon Wyatt, Mr. Mak Cheung Kwai Anthony and Mr. Robert Edward Lewis are directors or supervisors of one or more subsidiaries of the Company; and Ms. Sheng Ailian is the spouse of Mr. Wei Changzheng, a Supervisor. Each of them is a connected person under Chapter 14A of the Hong Kong Listing Rules. A total of 345,000 Restricted Shares were granted to such Connected Participants on 11 March 2022.

Accordingly, the issue and grant of the Restricted Shares to the Connected Participants under the 2021 Restricted A Share Incentive Scheme constitutes non-exempt connected transactions of the Company, and is subject to reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Further details of the 2021 Restricted A Share Incentive Scheme and the grant of Restricted Shares to the Connected Participants are set out in the Company's announcements dated 29 December 2021, 7 March 2022, 11 March 2022 and 16 November 2022, and the circular dated 15 February 2022.

Save as disclosed above, during the year ended 31 December 2023, the Group had not entered into any connected transactions or continuing connected transactions which were subject to disclosure in this annual report under Chapter 14A of the Hong Kong Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules.

Information on connected transactions effective during the Reporting Period are contained in note 40 to the financial statements in this annual report, among which, note 40(b) is fully exempt connected transactions pursuant to the Rule 14A.76 of the Hong Kong Listing Rules.

The related party transactions in respect of the remuneration of Directors, Supervisors and chief executives of the Company constitute continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than Directors, Supervisors and chief executives) of the Company were not connected transactions or continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

The details on the related party transactions of the Group for the year ended 31 December 2023 are set out in note 40 to the financial statements in this annual report.

Save as disclosed above, none of the related party transactions constituted a connected transaction or continuing connected transaction which is subject to the shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Hong Kong Listing Rules throughout the Reporting Period.

CORPORATE GOVERNANCE CODE

The Company had complied with all applicable code provisions under the Corporate Governance Code as set out in Appendix C1 of the Hong Kong Listing Rules throughout the Reporting Period. The Company will continue to review and enhance its corporate governance practices to ensure compliance with the code provisions as set out in the Corporate Governance Code.

COMPLIANCE WITH THE MODEL CODE

The Company had adopted the Model Code as the code of conduct regarding securities transactions by the Directors and Supervisors of the Company. Having made specific enquiries to all Directors and Supervisors of the Company, all of them confirmed that they have complied with the required standard set out in the Model Code during the Reporting Period.

DONATIONS

During the Reporting Period, the Group made donations of RMB100,000.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. So far as the Directors are aware, there is no material litigation or claims which are pending or threatened against the Company.

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference. Since 29 December 2023, Mr. Guo Yongqing no longer served as an Independent Non-executive Director nor the chairman of the Audit Committee. Mr. Shen Hongbo was elected as an Independent Non-executive Director and the chairman of the Audit Committee on 29 December 2023. As at the date of this report, the Audit Committee comprises five Directors, namely Mr. Shen Hongbo (Chairman), Ms. You Jie, Mr. Jiang Zhihong, Mr. Su Zhi and Mr. Zhao Lei. The primary duties of the Audit Committee are to review and supervise the Company's financial reporting procedures, risk management and internal control systems, and the environmental, social and governance work. The 2023 annual results and financial statements of the Group for the year ended 31 December 2023 have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young has been appointed as Auditors in respect of the financial statements for the year ended 31 December 2023 prepared in accordance with International Financial Reporting Standards. These financial statements have been audited by Ernst & Young. Since the date of preparation for the listing on the Hong Kong Stock Exchange, the Company has been engaging Ernst & Young for their services. Ernst & Young will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE HONG KONG LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Hong Kong Listing Rules.

By order of the Board
Hou Yongtai
Executive Director and Chairman of the Board

8 March 2024

CORPORATE GOVERNANCE REPORT

The Company and its subsidiaries are committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

SUMMARY OF CORPORATE GOVERNANCE

In accordance with the Company Law, the Securities Law of the People's Republic of China and the regulatory requirements of the place where the Shares are listed, the Company has established a corporate governance structure comprising the general meeting, the Board, Supervisory Committee and the management, among which, the general meeting is the authority. The Board implements the resolutions passed at general meetings and is accountable to the general meetings, and it reports its work at general meetings. The senior management is responsible for the daily management, administration and operation of the Group. As a supervisory agency of the Company, the Supervisory Committee is responsible for the supervision of the Board and senior management so as to prevent them from the misuse of authority and infringement of lawful rights of the Shareholders, the Company and the Company's employees.

CORPORATE GOVERNANCE CODE

During the Reporting Period, the Company has complied with all the code provisions set out in the Corporate Governance Code and substantially adopted all the recommended best practices therein.

COMPOSITION AND TERM OF OFFICE OF THE BOARD

As at the end of the Reporting Period, the Board comprised of eleven members, consisting of four executive Directors, two non-executive Directors and five Independent Non-executive Directors. Listed below are incumbent Directors of the Company during the Reporting Period:

Executive Directors
Dr. Hou Yongtai *(Chairman)*
Mr. Wu Jianying *(General Manager)*
Mr. Tang Minjie *(Chief Financial Officer)*
Ms. Chen Yiyi

Non-executive Directors
Ms. You Jie
Mr. Huang Ming

Independent Non-executive Directors
Mr. Guo Yongqing(1)
Mr. Shen Hongbo(1)
Mr. Jiang Zhihong
Mr. Su Zhi
Mr. Yang Yushe
Mr. Zhao Lei

Note:

(1) On 29 December 2023, Mr. Guo Yongqing retired as an Independent Non-executive Director and all positions in each of the special committees under the Board. And Mr. Shen Hongbo was elected as an Independent Non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

During the Reporting Period, the Board had complied with the requirements of the Hong Kong Listing Rules on appointment of at least three Independent Non-executive Directors, representing at least one-third of members of the Board and at least one of whom shall have appropriate professional qualifications, or accounting or relevant financial management expertise. The qualifications of the five Independent Non-executive Directors of the Company fully comply with the requirements of Rules 3.10(1) and (2) of the Hong Kong Listing Rules.

None of the Independent Non-executive Directors of the Company has any business or financial interests in the Company and its subsidiaries, nor do they hold any executive positions in the Company, which effectively guaranteed their independence. The Company has received from each of the Independent Non-executive Directors an annual confirmation of their independence under Rule 3.13 of the Hong Kong Listing Rules. Accordingly, the Company is of the opinion that all the Independent Non-executive Directors are independent under Rule 3.13 of the Hong Kong Listing Rules.

The detailed biographies of the Directors are set out on pages 125 to 129 in this annual report. Members of the Board do not have any relationships between each other (including financial, business, family or other material or related relations). The Board is well-balanced in structure and each of its members possesses extensive knowledge, experience and talent in relation to the business operation and development of the Company. All the Directors are well aware of their joint and several responsibilities towards the shareholders of the Company.

Meetings of the Board

According to the Articles of Association, meetings of the Board shall be held at least four times a year. Meetings shall be convened by the chairman of the Board. Notice of the meetings shall be sent to all Directors and Supervisors before the meeting is held under the relevant provisions.

A meeting of the Board shall be attended by more than half of all the Directors. Meetings of the Board shall be attended by the Directors in person. If a Director cannot attend a meeting for any reason, he may appoint in writing another Director as his proxy to attend the meeting on his behalf. The instrument of proxy shall specify the scope of authority.

During the Reporting Period, the Board held 12 meetings in total, with details of the attendance of Directors specified as follows:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	12/12
Mr. Wu Jianying	12/12
Ms. Chen Yiyi	12/12
Mr. Tang Minjie	12/12
Ms. You Jie	12/12
Mr. Huang Ming	12/12
Mr. Shen Hongbo(1)	1/1
Mr. Guo Yongqing(1)	11/11
Mr. Jiang Zhihong	12/12
Mr. Su Zhi	12/12
Mr. Yang Yushe	12/12
Mr. Zhao Lei	12/12

Note:

(1) On 29 December 2023, Mr. Guo Yongqing retired as an Independent Non-executive Director and all positions in each of the special committees under the Board. And Mr. Shen Hongbo was elected as an Independent Non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same date.

CORPORATE GOVERNANCE REPORT

Board and the Management

The functions and powers of the Board and the management are well defined in the Articles of Association, aiming to provide an adequate balance and restriction mechanism for the purpose of sound corporate governance and internal control. The management of the Company is accountable to the Board. Under the leadership of the General Manager, the management is responsible for implementing the resolutions duly approved by the Board, formulating specific regulations of the Company and supervising the daily operation and management of the Company.

The Company has established internal systems to ensure that independent views and opinions are available to the Board. The Directors shall avoid from voting on relevant proposals associated with them when considered by the Board, and independent non-executive Directors have the right to receive independent professional advices on any matter relating to the performance of their duties at the Company's expense. The relevant mechanisms have been reviewed by the Board and are considered to be properly implemented and effective.

Directors' Continuous Training and Development

Pursuant to code provision C.1.4 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, all current Directors (i.e. Dr. Hou Yongtai, Mr. Wu Jianyin, Ms. Chen Yiyi, Mr. Tang Minjie, Ms. You Jie, Mr. Huang Ming, Mr. Guo Yongqing, Mr. Shen Hongbo, Mr. Jiang Zhihong, Mr. Su Zhi, Mr. Yang Yushe and Mr. Zhao Lei) participated in the trainings regarding the directors' duties and continuing responsibilities provided by the Company. Besides, according to the records maintained by the Company, all of the Directors also attended training courses organized by relevant regulatory authorities, the training courses covered topics such as reform of China's independent director system and supervision of information disclosure.

Chairman and General Manager

Pursuant to code provision C.2.1 of the Corporate Governance Code, the roles of the Chairman and the chief executive officer (the Company's General Manager) should be segregated and should not be performed by the same individual. During the Reporting Period, Dr. Hou Yongtai acted as the Chairman and Mr. Wu Jianying acted as the General Manager. The Chairman and the General Manager do not have any relationships (including financial, business, family or other material relationship connected with each other). The Articles of Association have defined the division of roles and duties between the Chairman and the General Manager.

Appointment and Re-election of Directors

Pursuant to the requirements of the Articles of Association, Directors (including non-executive Directors) shall be elected at the general meeting with a term of three years. A Director shall be eligible for re-election on the expiry of each term. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board, subject to approval by election at the general meeting.

Where vacancies on the Board exist, the Nomination Committee evaluates skills, knowledge and experience required by the Board, and identifies any special requirements for the vacancy. The Nomination Committee identifies appropriate candidates and convenes Nomination Committee meeting to discuss and vote in respect of the nominated Directors, and recommends candidates for Directors to the Board.

The Nomination Committee considers candidates with individual skills, experience and professional knowledge that can best assist and facilitate the effectiveness of the Board.

The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole.

The Company has put in place a Director nomination policy. For evaluating and determining the candidates of Directors, the Nomination Committee and the Board of Directors shall consider the following factors: personal characters; professional qualifications, skills, knowledge, and experience related to the Group’s business and strategy; willing to devote sufficient time to fulfill the duties of the Directors and members of the special committees of the Board of Directors; whether their appointment is in compliance with the requirements of the Listing Rules of the places where the Shares are listed regarding the Board and Directors (including the independence requirements of the Independent Non-executive Directors); whether their appointment is in compliance with the Company’s Board diversity policy and any measurable targets adopted by the Nomination Committee to diversify the members of the Board.

The nomination procedures for Company Directors include:

I. **Nomination procedures for appointment of new Directors**

Upon receipt of the proposal on appointment of new Director and the biographical information of the candidate, the Nomination Committee shall require the nominee to submit biographical information and the consent to be appointed as a Director, and evaluate the candidate based on the criteria for Director selection to determine whether such candidate is qualified for directorship. The Nomination Committee shall then make recommendations to the Board on the appointment of a suitable candidate to serve as a Director; if an Independent Non-executive Director is to be appointed, the recommendations should include the process of identifying the candidate, the reasons for recommending the candidate, the independence of the candidate, the views, perspectives, skills and experience that the candidate can bring to the Board, the candidate’s role in promoting the diversity of Board members, etc..

CORPORATE GOVERNANCE REPORT

II. Re-election of Directors at shareholders' meeting

The Nomination Committee shall review the overall contribution and service to the Company of the retiring Directors, including its attendance at Board meetings and general meetings (if applicable), and his/her level of participation and performance on the Board. The Nomination Committee shall require the nominee to submit biographical information and the consent to be appointed as a Director; and shall review and determine whether retiring Directors still meet the criteria for Director selection. The Nomination Committee shall then make recommendations to the Board on the re-election of Directors; if an Independent Non-executive Director is to be re-elected, the recommendations should include the process of identifying the candidate, the reasons for recommending the candidate, the independence of the candidate, the views, perspectives, skills and experience that the candidate can bring to the Board, the candidate's role in promoting the diversity of Board members and etc..

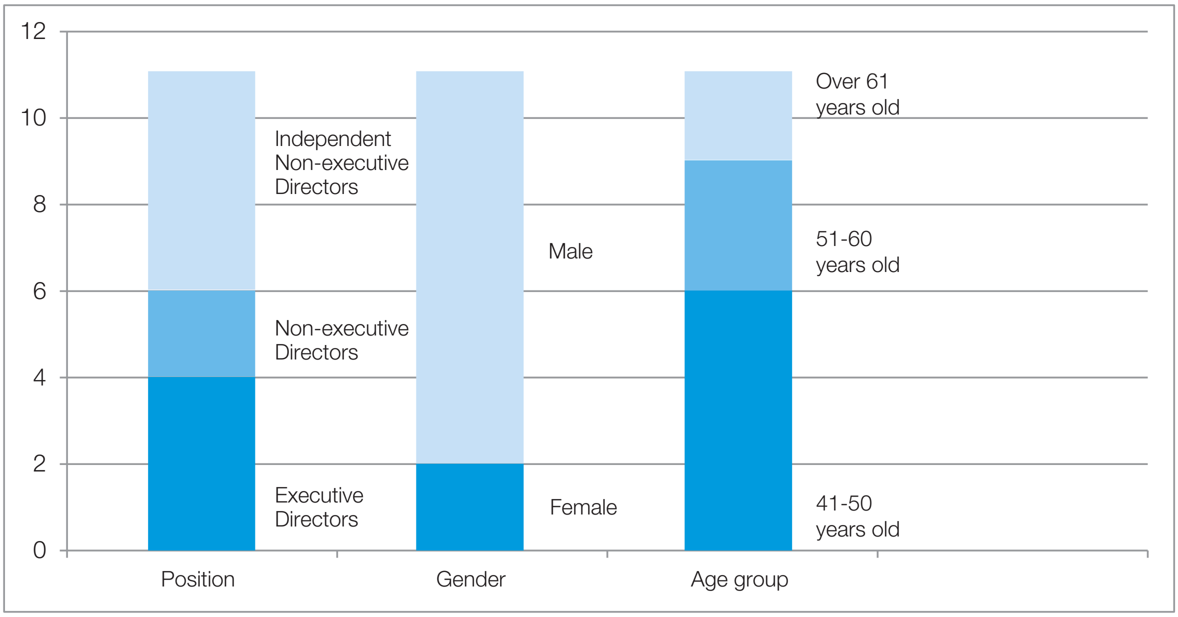
Board Diversity Policy

In accordance with the requirements of Corporate Governance Code and Corporate Governance Report, the Company has adopted a board diversity policy and submitted to the Board for approval. The policy is summarized as below:

The Board has adopted a policy on Board diversity (the "**Diversity Policy**"). The Diversity Policy specifies that in designing the composition of the Board, Board diversity shall be considered from a number of aspects, including but not limited to the age, cultural and educational background, professional experience, skills and knowledge. The appointment of Directors will be based on meritocracy, and candidates will be evaluated against objective criteria, having due regard for the benefits of diversity of the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to the gender, age, culture, ethnicity and educational background, professional experience, knowledge and skills.

The Nomination Committee will disclose the composition of the Board in the Corporate Governance Report every year and supervise the implementation of this Diversity Policy. The Nomination Committee will review the effectiveness of this Diversity Policy in due course and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

As at the date of this report, the diversity of the Board is illustrated as below. Further details on the biographies and experience of the Directors are set out on page 125 to page 129 of this annual report.



The Company's measurable objectives is that: in addition to meeting the requirements of the Company Law, the STAR Market Listing Rules, and the Hong Kong Listing Rules, the selection of candidates will be based on a range of diversified areas, including but not limited to the gender, age, professional experience, education background and term of service. The final decision will be based on the strengths of the candidate and the contributions he can make to the Board. During the Reporting Period, the Nomination Committee has reviewed the diversity of the structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable and maintain the diversity in aspects of gender, age, experience and skills. The Nomination Committee considers that the Board has maintained an appropriate balance in all aspects of member diversity (including the proportion of women members), and satisfy with the current situation.

As at 31 December 2023, the Company has a total of 4 senior management (excluding directors and supervisors), including 2 males and 2 females. The Group has a total of 2,158 employees, among which 1,132 are female and 1,026 are male, and the gender ratio is fairly balanced. The Group advocates gender diversity of employees, conducts comprehensive evaluation of talents from professional quality and work skills in the recruitment, and opposes gender discrimination.

Directors', Supervisors' and Senior Management's Liability Insurance

The Company has entered into Directors', Supervisors' and senior management's liability insurance policy to cover any possible legal action against them.

CORPORATE GOVERNANCE REPORT

Corporate Governance Function

The Board exercises its duties in accordance with the regulatory rules of the place where the Shares are listed and internal policies such as the Articles of Association, which include the following duties relating to corporate governance:

(1) to develop and review the Company's policies and practices on corporate governance;

(2) to review and monitor the training and continuous professional development of Directors and senior management;

(3) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(4) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(5) to review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

During the Reporting Period and as at the end of the Reporting Period, the Company has formulated the Articles of Association, Rules of Procedure for The General Meeting, Rules of Procedure for The Board, Rules of Procedure for The Supervisory Committee, Working Rules for The General Manager, Working Rules for The Independent Director, Working Rules for The Secretary to The Board, Rules for Management of Information Disclosure, Related Transaction Management Measures, Internal Audit System, Risk Assessment Management System, Rules for The External Guarantee Management, Investor Relationship Management System, Measures for The Management of Shareholding Changes of Directors, Supervisors and Senior Managers, Subsidiary Management System and other corporate governance policies.

BOARD COMMITTEES

There are four committees under the Board, namely, Audit Committee, Remuneration and Review Committee, Nomination Committee and Strategy Committee.

Audit Committee

The primary duties of the Audit Committee are to maintain an appropriate relationship with the Company's auditors, review the Company's financial information, and oversee the Company's financial reporting system, risk management and internal monitoring system, and ESG matters. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

As at the end of the Reporting Period, the Audit Committee consists of five Directors, namely Mr. Shen Hongbo (Independent Non-executive Director), Ms. You Jie (non-executive Director), Mr. Jiang Zhihong (Independent Non-executive Director), Mr. Su Zhi (Independent Non-executive Director) and Mr. Zhao Lei (Independent Non-executive Director), and one of them (i.e. Mr. Guo Yongqing) is an Independent Non-executive Director who possesses appropriate accounting or related financial management expertise as required under Rule 3.10(2) of the Hong Kong Listing Rules. Mr. Shen Hongbo is the chairman of the Audit Committee.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Audit Committee held six meetings in total to review the audited financial statements and annual report for the year ended 31 December 2022, the unaudited interim financial statements and interim report for the six months ended 30 June 2023, financial statements for the first quarter and the third quarter of 2023, the ESG report for 2022, the onshore and offshore audit firms' expenses in 2022, recommendation to engage onshore and offshore audit firms in 2023, and review the 2022 work summary and 2023 work plan of the audit department of the Company. The table below sets out the details of attendance of each member at meetings of the Audit Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Ms. You Jie	6/6
Mr. Shen Hongbo(1)	0/0
Mr. Guo Yongqing(1)	6/6
Mr. Jiang Zhihong	6/6
Mr. Su Zhi	6/6
Mr. Zhao Lei	6/6

Note:

(1) On 29 December 2023, Mr. Guo Yongqing retired as an Independent Non-executive Director and all positions in each of the special committees under the Board. And Mr. Shen Hongbo was elected as an Independent Non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same day.

Remuneration and Review Committee

The Remuneration and Review Committee has adopted the second model described in paragraph E.1.2(c) of Part 2 of Appendix C1 to the Hong Kong Listing Rules (i.e. making recommendation to the Board on the remuneration package of individual executive Director and senior management member). The primary duties of the Remuneration and Review Committee include: formulating job description, performance evaluation system and target, remuneration system and standards for the Company's members of the senior management; formulating share incentive scheme for the Company's Directors, Supervisors and members of the senior management pursuant to relevant laws, regulations or normative documents; making recommendations to the Board on remuneration policy and structure for the Company's Directors and members of the senior management and on the establishment of a formal and transparent procedure for developing remuneration policy, and making recommendations to the Board, from time to time, on total remuneration and/or interests that have been granted to Directors and members of the senior management; making recommendations to the Board on the remuneration of non-executive Directors; and such other matters authorized by the Board. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

As at the end of the Reporting Period, the Remuneration and Review Committee consists of five Directors, namely Mr. Su Zhi (independent non-executive Director), Mr. Wu Jianying (executive Director), Mr. Huang Ming (non-executive Director), Mr. Shen Hongbo (Independent Non-executive Director) and Mr. Zhao Lei (Independent Non-executive Director) among which, Mr. Su Zhi is the chairman of the Remuneration and Review Committee.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Remuneration and Review Committee held two meetings in total to review the remuneration of Directors and senior management in 2022 and remuneration plan of Directors, Supervisors and senior management in 2023, and debriefed the report in 2022 annual performance appraisal work of incentive participants under the 2021 Restricted A Share Incentive Scheme. The table below sets out the details of attendance of each member at the meeting of the Remuneration and Review Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Mr. Wu Jianying	2/2
Mr. Huang Ming	2/2
Mr. Shen Hongbo(1)	0/0
Mr. Guo Yongqing(1)	2/2
Mr. Su Zhi	2/2
Mr. Zhao Lei	2/2

Note:

(1) On 29 December 2023, Mr. Guo Yongqing retired as an Independent Non-executive Director and all positions in each of the special committees under the Board. And Mr. Shen Hongbo was elected as an Independent Non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same day.

Nomination Committee

The primary duties of the Nomination Committee include: making recommendations to the Board on the size and composition of the Board and the management based on the Company's business operation, asset scale and shareholding structure, and reviewing the structure, size and composition of the Board at least annually, and taking diverse factors into account when reviewing the composition of the Board; making recommendations to the Board on the appointment, re-election and succession planning of directors; assessing the independence of Independent Non-executive Directors and formulating policies relating to the diversity of members of the Board. Its terms of reference have been specified in writing and are available on the websites of the Hong Kong Stock Exchange and the Company.

As at the end of the Reporting Period, the Nomination Committee consists of five Directors, namely Mr. Zhao Lei (Independent Non-executive Director), Mr. Hou Yongtai (executive director), Ms. You Jie (non-executive Director), Mr. Shen Hongbo (independent non-executive Director) and Mr. Su Zhi (Independent Non-executive Director). Mr. Zhao Lei is the chairman of the Nomination Committee.

During the Reporting Period, the Nomination Committee held two meetings to recommend the reappointment of the financial officer and nominate an Independent Non-executive Director candidate. The table below sets out the details of attendance of each member at meetings of the Nomination Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	2/2
Ms. You Jie	2/2
Mr. Shen Hongbo[(1)]	0/0
Mr. Guo Yongqing[(1)]	2/2
Mr. Su Zhi	2/2
Mr. Zhao Lei	2/2

Note:

(1) On 29 December 2023, Mr. Guo Yongqing retired as an Independent Non-executive Director and all positions in each of the special committees under the Board. And Mr. Shen Hongbo was elected as an Independent Non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same day.

Strategy Committee

The primary duties of the Strategy Committee are to study and provide advice on the long-term development strategy plan of the Company; study and provide advice on material matters such as external investment, acquisition and disposal of assets, assets pledge, provision of external guarantee, entrusted financial management, connected transactions, financing plan and development strategies which shall be submitted to the Board for approval in accordance with the provisions of the Articles of Association, the Listing Rules of the place where the shares are listed and relevant laws and regulations; study and provide advice on other material matters affecting the development of the Company; review the implementation of the above matters and other matters authorized by the Board.

As at the end of the Reporting Period, the Strategy Committee consists of five Directors, namely Dr. Hou Yongtai (executive Director), Mr. Wu Jianying (executive Director), Mr. Huang Ming (non-executive Director), Ms. You Jie (non-executive Director) and Mr. Yang Yushe (Independent Non-executive Director). Ms. You Jie is the chairlady of the Strategy Committee.

CORPORATE GOVERNANCE REPORT

During the Reporting Period, the Strategy Committee held two meetings to review the 2022 work report of the Board, the proposal on granting general mandate to the Board to repurchase H Shares and the plan on the repurchase of A Shares through centralized bidding trading. The table below sets out the details of attendance of each member at meetings of the Strategy Committee held during the Reporting Period:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	2/2
Mr. Wu Jianying	2/2
Mr. Huang Ming	2/2
Ms. You Jie	2/2
Mr. Yang Yushe	2/2

SUPERVISORY COMMITTEE

The Supervisory Committee is a supervisory agency of the Company which is responsible for the supervision of the Board and its members and senior management such as the general manager and deputy general manager so as to prevent them from the misuse of authority and infringement of lawful rights of the Shareholders, the Company and the Company's employees. The number of members and the composition of the Supervisory Committee are in compliance with the provisions and requirements of the laws, regulations and the Articles of Association. During the Reporting Period, the Supervisory Committee consisted of five Supervisors, of whom two were employee representative Supervisors democratically elected by our employees. The background and biographical details of the Supervisors are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report.

During the Reporting Period, the Supervisory Committee held seven meetings and mainly reviewed the audited financial statements and annual report for the year ended 31 December 2022, reviewed the unaudited interim financial statements and interim report for the six months ended 30 June 2023, reviewed financial statements for the first quarter and the third quarter of 2023, supervised the use of proceeds from the A Shares Offering, and reviewed matters related to 2021 Restricted A Share Incentive Scheme.

AUDITORS AND THEIR REMUNERATIONS

At the 2022 annual general meeting convened on 12 June 2023, the Company approved the appointment of Ernst & Young Hua Ming LLP and Ernst & Young as the Company's domestic and international auditors for 2023, respectively, and authorized the Board to fix their respective remunerations; approved the appointment of Ernst & Young Hua Ming LLP as the internal control auditor for 2023 to conduct annual audit on the Company's internal control and issue internal control audit report, and authorized the Board to fix its remuneration.

The remuneration paid to the external auditors of the Company in respect of audit services for the annual report for the year ended 31 December 2023 was RMB2.545 million. And the remuneration paid to external auditors in respect of non audit services was RMB0.17 million, relating to consultation services.

In respect of the matters relating to the selection, appointment, resignation or dismissal of the external auditors, the Board concurs with the view of the Audit Committee.

RESPONSIBILITY OF THE DIRECTORS AND AUDITORS FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibility for preparing the financial statements for the year ended 31 December 2023 which give a true and fair view of the state of affairs of the Group as at 31 December 2023 as well as its profit and cash flows during the Reporting period. The accounts of the Company were prepared in accordance with all relevant regulations and applicable accounting principles. In preparing these consolidated financial statements, the Directors selected and applied suitable accounting policies and made accounting estimates that are reasonable in the circumstances. Moreover, the consolidated financial statement has been prepared on the assumption that the Company will continue as a going concern. The Directors are responsible for keeping proper financial records which disclose with reasonable accuracy the financial position of the Group at any time. The management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment on the Group's financial information and status, which are submitted to the Board for approval.

Ernst & Young, the auditors of the Company, have set out their responsibility in the independent auditors' report as set out on pages 133 to 138 in this annual report.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as the code of conduct regarding securities transactions by the Directors and Supervisors of the Company. Having made specific enquiries of all Directors and Supervisors, all of them confirmed that they have complied with the required standards set out in the Model Code during the Reporting Period.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL, AUDIT AND RISK MANAGEMENT

In accordance with D.2 of the code provisions set out in the Corporate Governance Code, the Board has established a risk management and internal monitoring system, which are designed to manage rather than eliminate the risk of failure to achieve business objectives. The Board acknowledges its responsibility for the effectiveness of the Group's risk management and internal monitoring system and the Directors are responsible for regularly reviewing the Group's internal monitoring and risk management system to ensure its effectiveness and efficiency.

The risk management and internal control work of the Group involves joint work of the Board, the Audit Committee, the audit department and the management. The Board is responsible for maintaining a robust and effective risk management and internal control system, and assessing the effectiveness of the said system annually through the Audit Committee, which shall cover all significant monitoring including finance, operation and compliance monitoring as well as risk management function. The Audit Committee is responsible for assisting the Board in monitoring the Group's risk management and internal control system, and review and discussion with the management annually to ensure the discharging of duties by the management so as to maintain the effectiveness of the said system, and is responsible for considering the important survey results in relation to risk management and internal control and making recommendations to the Board. The audit department, the executive body for the work of the Audit Committee, is responsible for facilitating the effective operation and management of the Company and providing support to the Board and the Audit Committee in discharging their duties. The management is responsible for designing, implementing and monitoring the Group's risk management and internal control system, and reporting to the Board and the Audit Committee the effectiveness of the said system.

During the Reporting Period, the Group evaluated the effectiveness of its risk management and internal control system, by carrying out internal control self-evaluation and four special audit projects, including clinical research project management, economic evaluation of the optometry center, research and development management of Songjiang Base, Shanghai Qisheng's internal control management. Among them, the internal control self-evaluation refers to a total of 13 important items, such as corporate governance, strategy and risk management, social responsibility. After evaluation, we have not identified any material or significant risk control defects in our internal control system, and maintained effective internal controls in all material aspects. For the general defects found in the internal control evaluation, we have made targeted improvements according to the specific circumstances to ensure that the realization of the Group's internal risk control objectives will not be affected. On 8 March 2024, the Audit Committee and the Board reviewed and approved the Company's 2023 Internal Control Self-evaluation Report, and the Board reviewed the effectiveness of internal controls for 2023. The Board considered that the Group's internal control system is sound and effectively implemented, and no material defects in the design or implementation of the Company's internal control were identified.

The Company has formulated Rules for Management of Information Disclosure and Rules for Management of The Insider to regulate inside information management. The Board leads the information disclose affairs, in particular, the secretary of the Board takes charge of organizing and implementing information disclosure affairs. The secretary of the Board shall report to the Board immediately upon receiving inside information, and the Board shall decide whether to release the information or not. During the Reporting Period, the Company formulated the Subsidiary Management System and further standardized the details of the internal reporting requirements for subsidiaries' major matters.

SIGNIFICANT RISKS

The Group's financial position, operating results and business prospect may be directly or indirectly affected by a series of risks and uncertainties relating to the businesses of the Group. During the Reporting Period, there was no change in the nature and extent of major risks faced by the Group. The potential risks taken by the Group are set out below:

I. Core Competitiveness Risk

The technological advancement of products is the basis for forming the Group's core competitiveness. However, in recent years, the field of biomedical materials has developed rapidly, and technical capabilities have been continuously upgraded. If breakthrough new technologies or products appear internationally or domestically in the indication area of the Group's products in the future, the failure of the Group in adjusting its technical route in a timely manner may cause the Group's technological level to lag behind, which will adversely affect the competitiveness of its products in the market.

In order to maintain and strengthen its core competitiveness, the Group continued to focus on the major technology R&D platforms of IOL, refractive lens and optical materials, medical chitosan, medical sodium hyaluronate/sodium hyaluronate, and hEGF technology, to develop new products in related fields. However, the R&D of biomedical materials has the characteristics of long cycle, high technical difficulty, large capital investment, high added value and return, and long product market life cycle. If the R&D project fails to make R&D results, or the market acceptance of the new product developed does not meet expectations, it will adversely affect the long-term core competitiveness of the Group and create uncertainty on the Group's profitability and operating results.

II. Operating Risk

In recent years, adverse reactions caused by the safety of pharmaceutical products have received close attention from the whole society. If the Group fails to strictly abide by the production safety system, which may lead to quality problems or adverse reactions of the Group's products, it will cause the Group to face the risks of compensation, product recall and administrative penalties, which will adversely affect the Group's operating performance and reputation.

At present, the Group's main business areas are characterized by broad market prospects and high gross profit levels. However, this will also attract new enterprises into these areas, which will intensify market competition in the medium and long term. The Group's market share and gross profit margin are affected by the intensified market competition, which in turn affects profitability.

In recent years, in order to complete the industrial chain layout of the Group, the Group has conducted a number of upstream and downstream industry mergers and acquisitions and investments around its main business, forming a certain scale of goodwill. If the integration effect of the company or business acquired fails to meet expectations in the future, adverse changes in operating conditions may cause the Group to make provision for impairment of the goodwill generated by the acquisitions and adversely affect the Group's performance. If the invested enterprise fails to get the expected performance or operates poorly, the Group will face the risk of investment loss or failure to recover the funds.

CORPORATE GOVERNANCE REPORT

III. Industry Risk

At present, the reform of China's medical and health system is gradually deepening, involving the approval, registration, manufacturing, packaging, licensing, and sales of medicine and medical devices. Major industry policies such as the basic list of medicines, list of medicines, the "Two-Invoice System", and large-scale procurement have been introduced. If the Group fails to make timely adjustments in accordance with the ongoing regulatory policies of the pharmaceutical industry, it may lead to increased compliance costs and reduced product demand of the Group, which will adversely affect the Group's financial position and operating performance.

IV. Macro Environmental Risk

The growth of the Group's performance has benefited in part from the improvement of Chinese residents' payment ability and health awareness, which in turn is reflected in the continued growth of China's biopharmaceutical industry. If the overall growth rate of the biopharmaceutical industry slows down in the future, or if public events that are adverse to the quality of the biopharmaceutical industry or related to public safety affect the overall image of the industry, it may cause the market demand for the Group's products to slow down, thereby adversely affecting the financial position and operating performance of the Group.

Internationalization is one of the key strategies for the development of the Group. The Group has acquired a number of companies overseas to promote the transfer of advanced technologies and products to China. If the overseas business conditions are affected by major changes in the laws and regulations, industrial policies or political and economic environment of the country and region where the overseas business is located, or unforeseen factors such as tension in international relations, war, trade sanctions or other force majeure, the normal development and sustainable development of the Group's overseas business may potentially be adversely affected.

ARTICLES OF ASSOCIATION

Pursuant to the general mandate granted to repurchase H Shares by the general meetings of the Company, the Company repurchased a total of 4,551,100 H Shares during the period from 30 December 2021 to 8 November 2022 and then cancelled. Therefore, the total share capital and registered capital of the Company decreased accordingly. Based on the foregoing, the Board has amended the Articles of Association without need to submit this amendment to the general meeting of the Company for consideration and approval. Please refer to the announcement of the Company dated 24 March 2023 for details of the above amendment.

Pursuant to the general mandate granted to repurchase H Shares by the general meetings of the Company, the Company repurchased a total of 575,900 H Shares during the period from 27 March 2023 to 17 May 2023 and then cancelled. And the Company issued a total of 782,158 A Shares under the 2021 Restricted A Shares Incentive Scheme during the Reporting Period. Therefore, the total share capital and registered capital of the Company changed accordingly. Based on the foregoing, the Board has amended the Articles of Association without need to submit this amendment to the general meeting of the Company for consideration and approval. Please refer to the announcement of the Company dated 2 February 2024 for details of the above amendment.

In view that (1) the State Council published the “Decision of the State Council to Repeal Certain Administrative Regulations and Documents” (《國務院關於廢止部分行政法規和文件的決定》), and the CSRC published the “Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies” (《境內企業境外發行證券和上市管理試行辦法》), accordingly, the “Special Regulations of the State Council on the Overseas Securities Offering and Listing of Shares by Joint Stock Limited Companies” (《國務院關於股份有限公司境外募集股份及上市的特別規定》) and the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (《到境外上市公司章程必備條款》) were abolished; (2) the Hong Kong Stock Exchange amended the Hong Kong Listing Rules based on the aforementioned new regulations with effect from 1 August 2023; (3)the CSRC also published the “Measures for the Administration of Independent Directors of Listed Companies” (《上市公司獨立董事管理辦法》) in August 2023, and amended the “Guidelines to Articles of Association of Listed Companies” (《上市公司章程指引》) in December 2023; and (4) the Company is planning to amend its scope of operation to reflect its actual business development. Based on the aforementioned situations and taking into account the Company’s actual operation and management needs, the Board proposed to amend relevant provisions in the Articles of Association to continuously comply with relevant regulatory requirements through its meeting held on 8 March 2024. Please refer to the announcement of the Company dated 8 March 2024 for details of the above proposed amendments.

Apart from the above, there had not been any significant changes in the Articles of Association during the Reporting Period and as of the date of this annual report. The current valid Articles of Association is available on the websites of the Hong Kong Stock Exchange and that of the Company.

JOINT COMPANY SECRETARIES

Mr. Chiu Ming King, the managing director of corporate services of Vistra Corporate Services (HK) Limited (an external service provider), has been appointed as a joint company secretary of the Company, effective from 17 November 2014. Ms. Tian Min is another joint company secretary of the Company, who acts as the main contact person of Mr. Chiu Ming King and the internal departments of the Company.

In compliance with Rule 3.29 of the Hong Kong Listing Rules, Ms. Tian Min and Mr. Chiu Ming King both undertook not less than 15 hours of relevant professional training to improve their skills and knowledge during the year ended 31 December 2023.

SHAREHOLDERS’ RIGHTS

I. Procedures for Shareholders to Convene an Extraordinary General Meeting

Shareholders who individually or in aggregate hold more than 10% of the shares carrying the right to vote at the meeting sought to be held requesting the convening of an extraordinary general meeting or a meeting of shareholders of different classes shall proceed in accordance with the procedures set forth below:

1. Two or more shareholders holding a total of more than 10% of the shares carrying the right to vote at the meeting sought to be held may sign one or more written requests of identical form and substance requesting the Board to convene an extraordinary general meeting or a class meeting and stating the subject of the meeting. The Board shall make a written response as to whether or not it agrees to hold the extraordinary general meeting or the class meeting within 10 days after having received the above-mentioned written request. The shareholding referred to above shall be calculated as of the date on which the written request is made by shareholder(s).

CORPORATE GOVERNANCE REPORT

2. If the Board agrees to convene the extraordinary general meeting or the class meeting, it shall issue the notice of the extraordinary general meeting or the class meeting in 5 days after making the resolution of the Board. If there is any change to the original proposal in the notice, it shall be approved by the relevant shareholders.

3. If the Board disapproves the proposal to convene the extraordinary general meeting or the class meeting, or fails to provide a response in 10 days after receiving the request, shareholders shall be entitled to propose to the Supervisory Committee in writing for the purpose of convening the extraordinary general meeting or the class meeting.

4. If the Supervisory Committee approves the convening of the extraordinary general meeting or the class meeting, it shall issue a notice thereof within 5 days of receipt of said request, provided that any changes made in such notice to the original proposal shall be subject to prior consent from the relevant shareholders.

5. If no notice is issued by the Supervisory Committee of the extraordinary general meeting or the class meeting within the stipulated period, the Supervisory Committee shall be deemed to have failed to convene and chair the extraordinary general meeting or the class meeting, in which case the shareholder(s) individually or jointly holding more than 10% of the Company's shares for consecutive 90 days may convene and chair such meeting on their own. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which general meetings are to be convened by the Board. The shareholding proportion of the convening shareholders before the announcement of the resolutions passed at the shareholders' general meeting shall not be under 10%.

6. In the event that the Supervisory Committee or shareholders convenes a general meeting by themselves, they shall notify the Board in writing and lodge a filing with the stock exchange(s). The Supervisory Committee or convening shareholders shall submit the relevant evidentiary materials to the stock exchange(s) when the notice of shareholders' general meeting and the announcement of the resolutions passed at the shareholders' general meeting are issued.

II. Procedures for Directing Shareholders' Enquiries to the Board

According to the Articles of Association, a shareholder may propose to access or obtain relevant information provided for in the Articles of Association of the Company. The Company has disclosed its address, hotline for investor relationship, fax and email in the Company website and the periodical reports, and arranges manpower specially for taking calls from investors, handling investors' emails, and timely reporting to the Company's management.

III. Procedures to Propose Motions at General Meetings

According to the provisions of the Articles of Association, whenever the Company convenes a general meeting, the Board, the Supervisory Committee and shareholder(s) individually or together holding more than 3% of the Company's shares shall have the right to propose motions in writing to the Company. The Company shall include such proposed motions in the agenda of such meeting if they are matters falling within the functions and powers of general meetings.

Shareholder(s) individually or together holding more than 3% of the Company's shares shall have the right to propose an extempore motion ten (10) days prior to the general meeting by submitting the same to the convener in writing. The convener shall serve a supplemental notice of general meeting to other shareholders within two (2) days upon receipt of the proposed motion, and shall include such proposed motions in the agenda of such general meeting if they are matters falling within the functions and powers of general meetings and submit to the general meeting for consideration. Where required otherwise by the listing rules of the stock exchange where the Company's shares are listed, such requirements shall be satisfied. Shareholders shall propose motions which meet the following requirements:

(i) the content does not infringe the law, regulations and falls within the scope of the Company's business and the functions and powers of general meetings;

(ii) with definite issues to discuss and specific matters to resolve; and

(iii) is made in writing submitted or delivered to the Board.

For matters in relation to nominating a person for election as a Director, please refer to the relevant procedures published on the Company's website.

IV. General Meetings

For the year ended 31 December 2023, seven general meetings of the Company were held. Details are as follows:

Date	Venue	Meeting
12 June 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2022 Annual General Meeting
12 June 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2023 First A Shareholders' Class Meeting
12 June 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2023 First H Shareholders' Class Meeting
15 September 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2023 First Extraordinary General Meeting
15 September 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2023 Second A Shareholders' Class Meeting
15 September 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2023 Second H Shareholders' Class Meeting
29 December 2023	24/F, WenGuang Plaza, No.1386, Hongqiao Road, Changning District, Shanghai, PRC	2023 Second Extraordinary General Meeting

CORPORATE GOVERNANCE REPORT

Statistics on Directors' attendance at general meetings:

Name	Meetings attended/ Meetings eligible to attend
Mr. Hou Yongtai	7/7
Mr. Wu Jianying	7/7
Ms. Chen Yiyi	7/7
Mr. Tang Minjie	7/7
Ms. You Jie	7/7
Mr. Huang Ming	7/7
Mr. Shen Hongbo(1)	1/1
Mr. Guo Yongqing(1)	6/6
Mr. Jiang Zhihong	7/7
Mr. Su Zhi	7/7
Mr. Yang Yushe	7/7
Mr. Zhao Lei	7/7

Note:

(1) On 29 December 2023, Mr. Guo Yongqing retired as an Independent Non-executive Director and all positions in each of the special committees under the Board. And Mr. Shen Hongbo was elected as an Independent Non-executive Director, the chairman of the audit committee, a member of the nomination committee and the remuneration and review committee of the Company on the same day.

INVESTOR RELATION

The Company has formulated Investor Relationship Management System, Information Disclosure Management System and other policies related to the investor relationship management to standardize investor relationship management by regulating information collection and disclosure, as well as investor relationship working principles, communication methods and main responsibilities. Having considered the various channels of communication and the participation of the Shareholders at the general meetings held during the Reporting Period, the Board considers that the foregoing policies were properly implemented and effective during the Reporting Period.

The Company publishes its announcements, financial information and other relevant information on the designated websites, as a channel to facilitate effective communication. At the same time, the Company communicates and exchanges with investors through road shows, visiting receptions, investor relations hotlines, dedicated mailboxes, and the "SSE E-networking (上證e互動)" platform, and strengthens communication with investors and analysts to effectively protect the legitimate rights and interests of investors, especially small and medium investors.

The Board welcomes shareholders' views and encourages them to attend general meetings to convey any concerns they might have to the Board or the management. Chairman of the Board and the chairmen of all committees (or their proxy) will attend the annual general meeting and other general meetings. At the general meeting, all shareholders attending the meeting may make enquires to the Directors and other management in respect of matters relevant to the resolutions. The Company has published detailed contact methods through its website, notices of the general meeting, circulars to the shareholders and annual reports for shareholders to express their views or make enquiries.

ABOUT THIS REPORT

This report is the eighth environmental, social and governance ("**ESG**") report released by the Company. It focuses on the disclosure of concepts, practices and performance regarding the economic, social, environmental and governance aspects of the Company and its subsidiaries. We look forward to enhancing communication with stakeholders, building consensus and promoting sustainable development through the release of the ESG report.

REPORTING PERIOD

1 January 2023 to 31 December 2023, part of which involves the information prior to 2023 for the integrity of the ESG report.

SCOPE OF THE REPORT

The financial data covered in this report is consistent with the 2023 annual report, and the disclosure scope of this report is consistent with that of the 2023 annual report. Unless otherwise stated, environmental KPIs specified in this report mainly cover the Company and its major domestic subsidiaries which are engaged in product R&D and production (the "**Major Domestic Subsidiaries**"). The Group will continuously assess the range of material ESG operations of different business segments or its key subsidiaries and determine whether they should be included in the scope of the ESG Report.

REPORTING PRINCIPLES

"Materiality" principle: The Group identifies significant ESG issues through stakeholder engagement and materiality matrix analysis.

"Quantitative" principle: The Group reports key performance indicators in quantitative measurement units where feasible.

"Consistency" principle: This report adopts a consistent methodology from previous years to make meaningful comparisons and to mark changes in statistical methods and key performance indicators.

ABOUT THIS REPORT

BASIS FOR COMPILATION OF THE REPORT

This report is prepared with reference to the "Environmental, Social and Governance Reporting Guide" (the "**ESG Reporting Guide**") under Appendix C2 of the Hong Kong Listing Rules.

ASSURANCE OF DATA RELIABILITY

The data and cases contained in this report are mainly derived from the Group's statistical reports and related documents. The Company undertakes that this report does not contain any false records, misleading statements or material omissions.

CONFIRMATION AND APPROVAL

This report was considered and approved by the Board on 8 March 2024.

ACCESS TO THE REPORT

The electronic version of this report is available for download at the SEHK's website (www.hkexnews.hk), the SSE's website (www.sse.com.cn) and the Company's website (www.3healthcare.com).

PERFORMANCE HIGHLIGHTS

BRAND AWARDS

- The Company received four awards, namely
  the "Top 100 Shanghai Manufacturing Enterprises in 2023",
  "Top 100 Shanghai Private Manufacturing Enterprises in 2023",
  "Top 100 Shanghai Emerging Industries in 2023"
  and "Top 50 Shanghai Growth Enterprises in 2023"
- The Company was selected in the "Top 100 Shanghai Hardcore Technology Enterprises List in 2023" jointly issued by the Shanghai Association for the Promotion of Industrial Technology Innovation, Shanghai Association for Science & Technology and Baoshan District People's Government.
- The Company was selected in the "2023 TBB Shanghai Manufacturing Brand Value List" and the "SFEO Shanghai Enterprise Brand Growth List" jointly released by the Shanghai Federation of Industrial Economics, Shanghai Federation of Economic Organizations and Shanghai Institute of Corporate Culture & Branding.
- The Company has been awarded the highest grade A in the credit assessment for pharmaceutical manufacturers in Shanghai for six consecutive years.

PRODUCT INNOVATION

- The Company's product, the Moxifloxacin Hydrochloride Eye Drop, was selected as one of the "Excellent New Pharmaceutical Products" in Shanghai's bio-pharmaceutical industry in 2022
- Shanghai Likangrui's Fermented Sodium Hyaluronate was approved for marketing by the National Medical Products Administration, making the Group the only manufacturer of sodium hyaluronate with both fermentation and cockle extraction methods in China
- The Hydrophobic Mold Injected Aspheric IOL, the innovative product of Henan Simedice, the Company's subsidiary, was registered in the National Medical Products Administration
- Shanghai Qisheng, the Company's subsidiary, added the function for lip indication in the product, the Modified Sodium Hyaluronate Gel for Injection, which has been registered in the National Medical Products Administration
- The Porcine Fibrin Sealant developed by Shanghai Likangrui was recognized as the "Shanghai High-tech Achievement Transformation Class A" and was selected in the "2023 (Second Batch) Recommended List of Innovative Products in Shanghai"
- The semiconductor laser hair removal equipment of Laserconn, the Company's subsidiary, was registered in the National Medical Products Administration

PERFORMANCE HIGHLIGHTS

PERFORMANCE HIGHLIGHTS

- Shanghai Likangrui, the Company's subsidiary, was recognized as the "Specialized and Sophisticated 'Little Giants' Enterprises" for the first time in Shanghai and was awarded the "Enterprise Technology Center Identified in Qingpu District"

- NIMO, the Company's subsidiary, was recognized as the "Specialized and Sophisticated 'Little Giants' Enterprises" for the first time in Shenzhen

- 8 enterprises under the Group have been recognized as the "China's High-tech Enterprises"

INTELLECTUAL PROPERTY RIGHTS

- The Company was awarded the "Shanghai High-Value Patent Cultivation Program" by Shanghai Intellectual Property Administration

- The Company's 5 kinds of registered trademarks for "Healin" and "sodium hyaluronate injection" were recognized as "China's AAA Famous Trademarks" by China National Intellectual Property Administration and China Trademark Association

- Shanghai Qisheng was awarded "China's Intellectual Property Advantageous Enterprise" by China National Intellectual Property Administration

- Shanghai Likangrui was awarded as "Pilot Enterprise of Patent Work in Qingpu District" by the Qingpu District Office of Shanghai Intellectual Property Administration

- Shanghai Qisheng was awarded the "Shanghai Patent Work Demonstration Enterprise" by Shanghai Intellectual Property Administration

- The Company was listed as one of the first batch of corporate trademarks and brands participating in the trademark brand value enhancement action, namely "Thousands of Enterprises and Hundreds of Cities" issued by China National Intellectual Property Administration

- The Company was awarded the "High-value Patent Industrialization Demonstration SME in Shanghai" by Shanghai Intellectual Property Administration

01 CORPORATE GOVERNANCE

The Group is committed to promoting sustainable development with a sound governance structure and risk control system. We cherish the trust for us from our investors and other stakeholders, and is improving our corporate governance structure and mechanism and enhancing the governance transparency.

CORPORATE GOVERNANCE

1.1 COMPLIANCE OPERATION

Risk control

The Group has established a stable and effective risk control mechanism by formulating the Internal Audit System, which specifies the duties and authority of the audit department and internal auditors, internal audit procedures, professional ethics of internal auditors, rewards and punishments. The Group has also developed the Risk Assessment Management System, which specifies the risk management structure and division of labor at all levels, and the procedures for risk identification and assessment. The Group actively identifies, assesses, monitors and responds to risks in business operations through the effective operation of risk control mechanisms.

Our risk management structure is jointly organized by the Board of Directors, the Audit Committee, the audit department and the management, with the Board of Directors being responsible for supervision and guidance, the Audit Committee being responsible for monitoring, and the audit department and the management being responsible for the specific implementation of risk management.

Board of Directors	Audit Committee	Audit Department	Management
• Being responsible for the provision of supervision and guidance for the identification and control of operational risks. • Responsible for maintaining the sound operation of the monitoring system and assessing its effectiveness with the assistance of the Audit Committee	• Responsible for assisting the Board in monitoring the Group's risk management and internal control systems • Responsible for investigating risk management and internal control matters and making recommendations to the Board of Directors	• Responsible for conducting internal control self-assessments and audits, and monitoring the implementation of risk control plans to facilitate the effective management of the Group	• Responsible for the specific implementation of the Company's risk assessment and management, and it has a legal department that provides legal support for the Group's compliance, internal control and risk management.

Risk management structure

During the reporting period, the Group assessed the effectiveness of the Group's risk management and internal control system by conducting internal control self-assessment and special audit programs. The internal control self-assessment covered a total of 13 major matters, including organizational governance, strategy and risk management, and social responsibility. We have not identified any major or material risk control deficiencies in the internal control system during the assessment and have maintained effective internal control in all material respects; for the general deficiencies identified in the internal control assessment, we have practically improved in accordance with the actuality, to ensure that the realization of the Group's internal risk control objectives will not be disturbed.

CORPORATE GOVERNANCE

Meanwhile, according to the annual work plan, the audit department, taking into account the actuality of the Group, has carried out four special audits on clinical research project management, economic evaluation of optometry center, R&D management for Songjiang site and internal control management for Shanghai Qisheng. The audits were conducted in strict compliance with the standard operating procedures for internal audit work, including the pre-audit planning, notification, evidence collection, preparation of working papers, exchange of audit opinions, completion of the audit report, post-audit rectification and feedback, etc.

In the future, we will continue to deepen the construction of risk management, optimize the risk management environment, constantly improve the risk management systems, strengthen the supervision and inspection for risk management, and enhance the level of risk management, so as to prevent various risks and promote the sustainable and sound development of the Group.

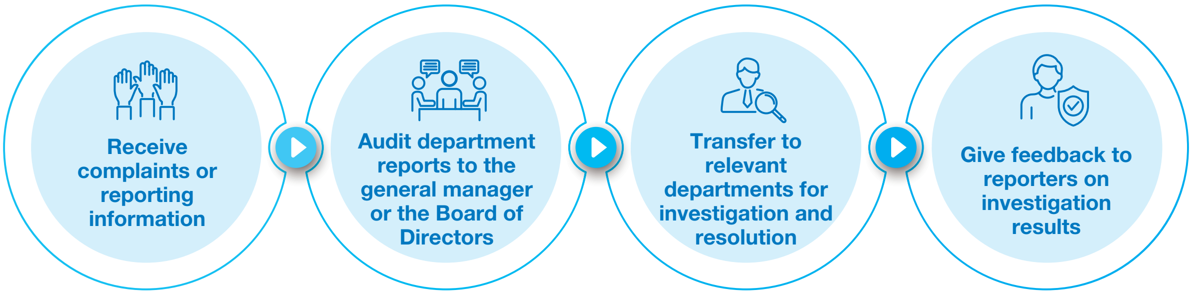
Integrity and honesty

The Group is committed to fostering a corporate culture of integrity and honesty through strictly following laws and regulations such as the *Criminal Law of the People's Republic of China*, the *Civil Code of the People's Republic of China* and the *Anti-Unfair Competition Law of the People's Republic of China*, keeping to business ethics and resisting the occurrence of unlawful acts such as corruption and bribery. The Group has established systems such as the Code of Conduct against Sales-related Corruptions, Anti-fraud and Whistle-blowing System, and the Reporting System for Conflict of Interests, which clearly enumerate prohibited corrupt and fraudulent act that violate the integrity of sales, the process of reporting, handling and remediation of fraud cases by the Group, the scope of declaration of conflict of interests and the declaration process. In addition, the Company's Employee Handbook sets out in detail the relevant provisions for corruption-free practices to standardize the integrity and self-discipline among employees. During the Reporting Period, the Group was not involved in any corruption-related lawsuits.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CORPORATE GOVERNANCE

We have set up an open, transparent, effective and accessible reporting channel to encourage employees and all parties in the society to report any corruption incidents or possible clues that they may find. We have published the reporting hotline and the reporting email address on the Company's website and promised to take strict confidentiality and protection measures for the personal information and reporting materials of reporters.



Process for handling anti-corruption reports

We have agreed on business ethics constraint clauses in the contracts signed with customers, requiring them to strictly follow the ethics and professional conduct in their business activities; We have agreed on integrity clauses in the contracts signed with important suppliers, requiring them to undertake not to engage in unfair competition.

Every year, we carry out internal anti-corruption and anti-unfair competition campaigns, provide training to our directors, supervisors and officers in the areas of responsibility for performance of duties, integrity and honesty by engaging third-party professional organizations, internal compliance campaigns, etc., and urge our directors, supervisors and officers to participate in compliance training organized by regulators. Meanwhile, the legal department of the Company provides anti-corruption campaigns and guidance to employees through special training, the corporate compliance official account, etc. During the reporting period, the legal department of the Company organized a total of 8 compliance trainings.

CORPORATE GOVERNANCE

Information security and privacy protection

The Group maintains information and data security through the establishment of a sound information security management system and advanced technical means.

The Company is staffed with full-time information technology and security management personnel to manage the hardware and software firewalls, and selects cloud services provided by professional third-party organizations. The server room environment complies with the international T3+ standard, the cloud infrastructure environment has passed China's Level 3 equal protection assessment, the industry's mature virtualization architecture is adopted in the cloud platform with the deployment of professional network and security equipment, and the cloud service includes butler maintenance services for the relevant systems, data backup and recovery, and other security services. For suppliers running management software online, we have clear requirements for the security qualifications, system security guarantee system, etc. We ensure the security of network, application and data of the software system through a full range of monitoring, protection, emergency recovery and other measures.

The Group has formulated an array of policies such as the Employee Handbook, Patent Management Regulation, Trademark Management Regulation, R&D Management System, File Management System, Emergency Plan for Loss and Disclosure, and Information System Security Policy and Management Procedures, pursuant to which, the Company classifies confidential information and adopted confidentiality measures specific to information data with different levels of confidentiality. The relevant system sets forth specific confidentiality requirements for employees in different positions and business lines. We also attach importance to the promotion of trade secrets and data protection, and provide training to our employees on relevant topics. In addition, we specifically agree on the confidentiality of information in our agreements with key partners (e.g., suppliers, customers, etc.).

CORPORATE GOVERNANCE

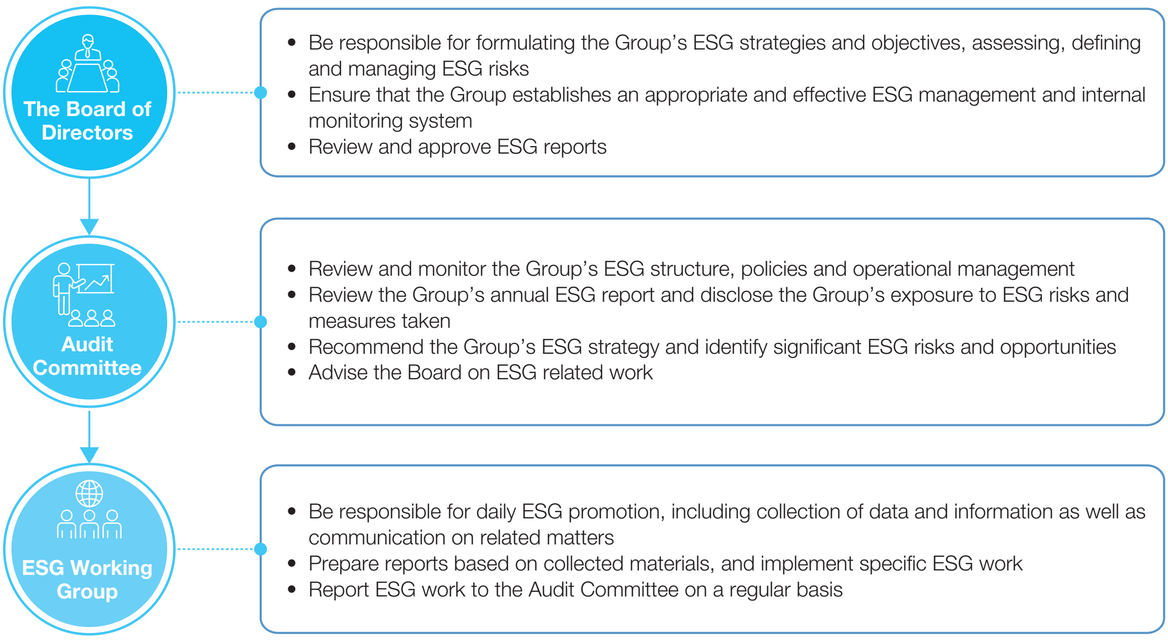
Meanwhile, the Group attaches importance to the protection of personal information and privacy of employees, customers and patients. The Group strictly abides by the Civil Code of the People's Republic of China, the Personal Information Protection Law of the People's Republic of China and other laws and regulations. We have included the respect for employees' privacy in our Employee Handbook and uphold the principles of lawfulness, reasonableness and minimization in collecting employees' personal information; we have incorporated the confidentiality of employee and customer information into our information management system, and regulate the access rights and scope of use of employee and customer information through the development and implementation of a series of information confidentiality and data security-related systems. In addition, we have been very protective over the privacy of clinical trial subjects and, in accordance with the provisions of Good Clinical Practice for Medical Devices and other provisions, identify subjects by letters, numbers or codes in medical record reports or other documents, and strictly limit access to subject information by authorized personnel in accordance with the law.

CORPORATE GOVERNANCE

1.2 ESG GOVERNANCE

ESG governance structure

The Company has established a three-tier management structure consisting of supervision by the Board of Directors, overall management by the Audit Committee and execution by the ESG working group, with clear division of duties and coordination at all levels. Among them, the ESG working group consists of the persons in charge of various departments and major subsidiaries of the Company, effectively ensuring the daily implementation of ESG-related work plans.



ESG governance structure

Board statement

The Board which is the highest decision-making body for ESG matters. The Board of Directors is responsible for formulating the Group's ESG strategies and objectives, assuming the overall responsibility for monitoring, guiding and reviewing the work related to ESG matters, and supervising the implementation of ESG strategies in the Company's daily operations. We have set ESG key performance objectives, and the Board of Directors assessed the implementation and fulfillment of ESG objectives and made improvements in light of the actuality of the Group.

CORPORATE GOVERNANCE

The Group maintains close communication with internal and external stakeholders in its daily operations and identifies ESG issues that have a significant impact on the Group in light of ESG regulatory requirements and the characteristics of the industry in which the Group operates, assesses the impact of each material issue on the sustainable development of the Group and ranks the issues in order of importance. We have discussed and approved the material ESG issues identified, and formulated corresponding strategies and management policies; in addition, we have kept abreast of the sustainability development trends and the performance of our peers at home and abroad, retrospected our sustainability performance and constantly reviewed the Group's material ESG issues.

The Board of Directors is responsible for overseeing the Group's overall risk management and internal control matters, including ESG-related risks. The Audit Committee is responsible for assisting the Board of Directors in identifying, determining, managing and monitoring the Group's ESG-related risks and providing decision-making support to the Board of Directors in relation to risk management and internal control matters. Moreover, the Board of Directors is responsible for supervising and reviewing the Group's compliance with ESG-related laws and regulations of external regulators.

Communication with stakeholders

The Group is fully aware of the importance of the opinions of stakeholders in the formulation and implementation of sustainable development strategies. In order to better respond to the concerns of stakeholders on sustainable development matters, we have actively established a regular and diversified communication mechanism with stakeholders to listen, understand and respond to the demands and expectations of stakeholders, so as to help the Group continuously improve its ESG management level. Based on the Group's business and operational characteristics, and taking into account the industry experience and practices at home and abroad, the Group's major stakeholders include customers, shareholders, government/regulators, employees, suppliers and the community.

CORPORATE GOVERNANCE

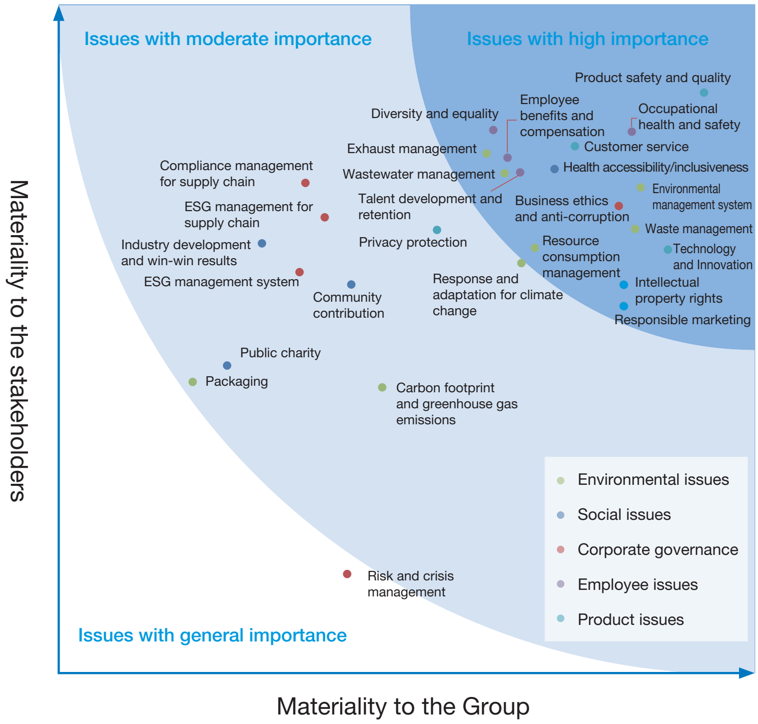
The following table sets out the issues of concern to various groups of stakeholders as well as our communication and response methods during the Reporting Period:

Stakeholders	Key Issues of Concern	Communication and Response
Customers	Product quality, honesty and trustworthiness, after-sales service	Quality management system construction, customer visits, adverse reaction hotline
Shareholders	Business performance, compliance operation	Information disclosure, reception and research, investor hotline
Government/ Regulators	Compliance, R&D and innovation, environmental protection	Legal operation, achievement transformation, safe production
Employees	Compensation and benefits, career development, humanistic care	Performance appraisal, professional training, employee activities
Supplier	Supplier management	Fair and transparent procurement, assessment and evaluation, supplier meeting
Community	Community communication, industry development, environmental protection	Donation, public welfare activities, industry conferences

CORPORATE GOVERNANCE

Material issues

Based on the Group's current business operations and taking into account ESG regulatory requirements, industry characteristics and stakeholders' concerns, the Group has identified a total of 27 material ESG-related issues and ranked the issues in order of importance to the Group and our stakeholders, and prepared a matrix of material issues for 2023.



The Group's matrix of material ESG-related issues for 2023

02 PRODUCTS AND INNOVATION

Innovation is an inexhaustible driving force for corporate development, and product quality is fundamental to corporate development. We are committed to bringing more high-quality pharmaceutical products to the society by continuously improving our R&D and innovation capabilities.

PRODUCTS AND INNOVATION

2.1 CONTINUOUS INNOVATION

As a high-tech bio-pharmaceutical enterprise focusing on the R&D, production and sales of medical biomaterials, we insist on R&D innovation, emphasize on intellectual property rights protection, and build the engine for the future development of the Company with scientific and technological innovation.

Product innovation

We continue to improve our R&D management system, upgrade our R&D platforms and hardware equipment, attract and cultivate high-quality R&D talents, and promote high-quality development through product innovation.

R&D management system

We have established a multi-level management structure consisting of project teams, industrialization centers and compliance and protection teams, and formulated a series of R&D management systems and R&D operating procedures to regulate R&D projects, procurement, assessment, incentives, file management and other aspects, ensuring the institutionalized and standardized R&D management. The Group monitors and assesses the whole R&D process from project demonstration, project approval to product R&D, registration and declaration and product launching, and promotes the R&D projects in an orderly manner from various aspects including project management, document management, on-site management, and safety management, to ensure that the risks of the R&D projects, the quality and the efficiency are controllable.

R&D team construction

The Group regards R&D talents as valuable assets and continues to introduce excellent talents to strengthen the R&D team construction. As of the end of the Reporting Period, there were 366 R&D technicians, accounting for about 16.96% of the total employees of the Group, of which 25 were with doctoral degree and 99 with master's degree.

As of the end of the Reporting Period, the Group had

366

R&D technicians accounting for about

16.96%

of the total employees of the Group

We form a long-term incentive mechanism for R&D talents by adopting the incentive model of performance plus project incentives and the equity incentive plan; we encourage and support our R&D personnel to participate in talent selection programs to stimulate internal innovation momentum. Meanwhile, in order to promote learning and exchanges and continuously improve the research and professional capabilities of our R&D personnel, we carried out training in various ways and organized R&D personnel to participate in national and regional seminars.

During the Reporting Period, the Group's mechanism for training and incentivizing R&D personnel once again came to fruition, with the Craftsman Innovation Studio led by Dr. Wei Changzheng of Shanghai Qisheng being awarded the title of "2023 Shanghai Craftsman Innovation Studio", and the studio led by Ms. Xia Jiemin of the Company being awarded the title of "Shanghai Model Worker Innovation Studio".

PRODUCTS AND INNOVATION

R&D platform guarantee

The Group has two national R&D platforms, namely the national enterprise technology center and the national postdoctoral research station, as well as four provincial and ministerial-level technology and R&D transformation platforms and one Shanghai academician expert workstation. By building R&D and industrialization platforms and continuously introducing advanced R&D equipment, we provide guarantee for attracting talents and sharing resources.

The R&D results we have achieved and the innovation capability we have demonstrated in our efforts for innovation have also been widely recognized by outsiders. During the Reporting Period, the major awards, product innovations and intellectual property rights performance we achieved can be found in the chapter "PERFORMANCE HIGHLIGHTS", in addition, we achieved the following project honors:

Shanghai Qisheng's project "Construction and Application of Highly Efficient Mining Technology System for Marine Bioactive Substances" won the first prize of China's "Natural Resources Science and Technology Award"

Shanghai Qisheng's project "New Technology and Application of Vascularized Tissue and Organ Repair" won the first prize of "Chongqing Science and Technology Award"

Shanghai Qisheng's "Pilot Project of Single-Dose Viscoelastic Supplement for Articular Cavity" won the gold prize in the 6th China (Shanghai) International Invention and Innovation Exhibition

Shanghai Qisheng's project "A Single-Dose Long-Term Viscoelastic Supplement for Articular Cavity" won the gold prize in the 35th Shanghai Excellent Invention Competition

Shanghai Qisheng's "Bionic Artificial Vitreous Gel" won the winning prize in the "Lingang Cup" 9th "China College Students' Entrepreneurship Competition" - Shanghai Youth Innovation and Entrepreneurship Competition

Shanghai Likangrui's "Biological Hemostatic Sealant R&D and Industrialization Project" won the third prize in the 3rd Shanghai Emerging Science and Technology Collaboration and Innovation Competition for 2023.

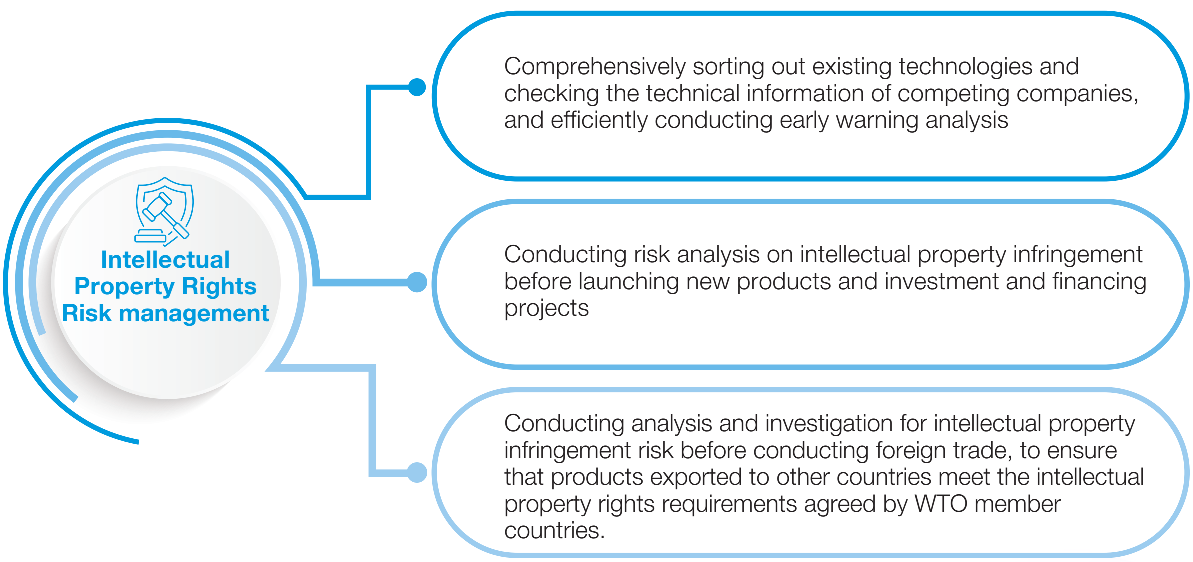
PRODUCTS AND INNOVATION

Intellectual property protection

The Group strictly complies with the Intellectual Property Law of the People's Republic of China, the Copyright Law of the People's Republic of China, the Trademark Law of the People's Republic of China and other national laws and regulations, and continues to improve its internal systems in respect of the protection of patent rights, trademarks and copyrights.

The Group has always regarded the protection of intellectual property rights as an important part of its corporate development strategy, and has established a standardized management system with the general manager as the first person responsible for intellectual property rights work. Meanwhile, it promotes the centralized management of intellectual property information, gradually realizes the unified registration, tracking, maintenance and management for intellectual property work of the Company and its subsidiaries. Based on that, it improves the management efficiency with the help of visual information management system.

The Group promotes a corporate culture focusing on intellectual property rights protection and raises the awareness of intellectual property rights among all employees through daily communication as well as diversified publicity and training. In terms of intellectual property risk management, we continuously strengthen the risk diagnosis at the early stage of product development, the infringement risk analysis after the launch of the products and early warning work, to reduce the potential external risk on intellectual property infringement, and form an intellectual property risk management system covering the entire life cycle of technologies and products. Meanwhile, we have identified problems in the intellectual property management through the internal control self-assessment and special audits conducted by the audit department on a regular basis, and carried out rectification in a timely manner, so as to build a core technology guarantee in an all-round manner. During the Reporting Period, we actively responded to the intellectual property disputes involving our subsidiaries and sought to handle them appropriately.



PRODUCTS AND INNOVATION

During the Reporting Period, the Company and its subsidiaries, Shanghai Qisheng, Shanghai Likangrui and Shanghai Jianhua, have been certified by intellectual property management system, and have been subject to regular review by the third party. During the Reporting Period, the new version of China's standard the *Enterprise Intellectual Property Compliance Management System – Requirements* (GB/T 29490-2023) has been released and will be implemented on 1 January 2024, replacing the *Enterprise Intellectual Property Management Standards* (GB/T 29490-2013). We have been actively implemented the compliance management requirements in the transition period, executing the management and accepting the certification of the external organization according to such new standard and promoting the construction of the intellectual property compliance management.

During the Reporting Period, the Group filed 65 new patent applications and was granted 46 new patents. As of 31 December 2023, it has been granted a total of 368 patents, encompassing 108 invention patents.

2.2 CRAFTSMANSHIP QUALITY

Responsible procurement

A stable, sound and sustainable supply chain is the cornerstone for us to provide high-quality products to our customers. The Group improves its supplier management system on an ongoing basis, strengthens communication with suppliers, and actively guides suppliers to fulfill their environmental and social responsibilities on the basis of protecting their rights and interests and promoting the sustainable development of the value chain.

The Group manages the whole life cycle including the admission, auditing, assessment and withdrawal of suppliers, and establishes and continuously improves supplier admission auditing and evaluation standards in terms of qualification, quality, environment, personnel and price. We continuously optimize our quality management system documents, establish a sound supplier management system and procedures, clarify the classification criteria of suppliers, the selection criteria and evaluation methods for suppliers at different levels, and standardize the procurement process, management for procurement documents, etc. We classify and manage pharmaceutical material suppliers in accordance with the law, and regularly conduct online or on-site audits for suppliers of direct pharmaceutical materials; we conduct written, online and on-site audits for suppliers from the dimensions of environment, personnel, equipment, warehousing and safety management in accordance with the supplier audit plan. In response to defects identified in the course of the audits, we promptly communicate with the suppliers and require them to take corrective measures within a specified timeframe, track the status of the corrective actions and help the suppliers optimize their operations and product quality, so as to ensure that products, services and the quality management system provided by the suppliers satisfy the product quality requirements.

PRODUCTS AND INNOVATION

In addition to supply chain compliance, the Group pays attention to the ESG performance of its suppliers. After comprehensively considering factors such as product quality, service capability and price level, the Group prioritizes suppliers with better environmental protection and social responsibility performance, and actively uses environmentally friendly and recyclable packaging materials to promote green development of the industry chain.

Meanwhile, the Group maintains close and effective communication with suppliers, and strengthens the communication with suppliers on quality, safety and standardization through supplier conferences, teleconferences, auditing work, etc. It also carries out targeted trainings for different types of suppliers to jointly solve problems and challenges in cooperation.

During the Reporting Period, the Group had a total of 375 suppliers, of which 312 were from mainland China and 63 were from Hong Kong, Macao and Taiwan and other countries.

Quality control

Focusing on product quality and safety and adhering to the concept of "whole life cycle management", the Group has established a quality management system covering all aspects of R&D, production and storage. The Group strictly complies with laws and regulations related to product quality and continuously improves its internal management system, forming a quality management structure with clear hierarchy and division of labor. We constantly strengthened the quality and safety main responsibility system and set a sense of responsibility for quality and safety, while continuously improving the quality management system through internal self-inspection, internal audits and special problem inspection. The Company and Shanghai Likangrui, as pharmaceutical manufacturers, have passed the GMP compliance inspection. Other major manufacturing and sales subsidiaries have been certified with the ISO 13485 Quality Management System for medical devices or the ISO 9001 Quality Management System, and are subject to third-party review on a regular basis.

PRODUCTS AND INNOVATION

The Group's production sites strictly follow the proved production processes, operating procedures and inspection methods for production, operation and inspection and release. We have established quality control procedures for the production process, identified key control nodes for product production, and let quality assurance personnel supervise the production process. In addition, we have inspection procedures in place for materials, intermediate products, semi-finished products and samples. Each batch of products is sampled and sent for inspection on the basis of the specified quantity, and all kinds of unqualified products identified during the production are handled according to the Control Procedures for Unqualified Products, thus preventing them flowing into normal products. The quality officer keeps a truthful and complete record of the quality supervision of the production process to ensure the traceability of product quality.

Pursuant to the management procedures for production environment monitoring, we monitor and manage the clean area environment for ensuring that the clean area environment meets the production and inspection environment requirements. According to the management procedures for product quality review, we conduct product quality review analysis for all products by species every year to confirm the stability and reliability of the process and the applicability of the current quality standards for raw and auxiliary materials and finished products. This helps identify the adverse trends in a timely manner and thus determine the product and process improvement. In addition, we have improved our quality assurance and quality control capabilities by adding and upgrading testing equipment and production facilities.

The Group attaches importance to the enhancement of employees' quality awareness. According to the annual quality training plan, It regularly conduct the quality training covering pharmaceutical regulations, internal inspection mechanism and non-conforming product management, and ensure that the training effect meets the target requirements by means of written assessment, operational assessment, etc. We actively organize our staff to participate in skill competitions and skill tests to improve their professional skills, enhance their quality awareness and knowledge exchange during the preparation process. Meanwhile, we assign our experienced technicians to serve as trainers and assessors for external competitions and tests.

Labor and Skills Competition for Biochemistry Laboratory Operators in Songjiang District, Shanghai

"Haohai Lecture Theater" - Medical Device Risk Management Training

PRODUCTS AND INNOVATION

Pharmacovigilance and product recall

Focusing on patients' health, drug use and drug safety, the Group strictly complies with the *Specifications for Pharmacovigilance Quality Management* (No. 65 of 2021), the *Guidance for the Preparation of Master Files of Pharmacovigilance System* and other laws and regulations, and establishes a pharmacovigilance system, formulates documents related to the pharmacovigilance system, and regularly reviews the compliance and feasibility of such documents, so as to maintain and guarantee the effective operation of the pharmacovigilance system, and carry out various pharmacovigilance activities in a lawful and compliant manner.

All of our drug production sites have set up drug safety committees and specialized pharmacovigilance departments. The drug safety committee is responsible for major risk judgment, disposal of major or emergency drug events, risk control decision-making and other major matters related to pharmacovigilance; the pharmacovigilance department is responsible for collecting, disposing of and reporting suspected adverse drug reactions, identifying and evaluating drug risks, proposing risk management recommendations and conducting and participating in the post-marketing drug safety studies and other pharmacovigilance-related work.

Our companies manufacturing pharmaceuticals and medical devices have set up pharmacovigilance systems and adverse medical device event monitoring systems in accordance with the requirements of laws and regulations as well as their respective actual situations, assigned dedicated personnel responsible for pharmacovigilance and monitoring of medical device events, collected feedback information on a regular basis, carried out self-inspection of pharmacovigilance and monitoring of adverse medical device reactions, rehearsed the emergency response plans for drug safety issues, inspected the systems, identified defects in a timely manner and carried out rectification work.

The Group regularly conducted internal and external pharmacovigilance training. During the Reporting Period, we carried out training on drug safety for our staff, including the publicity of relevant regulations such as the *Specifications for Pharmacovigilance Quality Management*, the reporting system and management of adverse drug reactions and other safety information and other rules and regulations, which further consolidated the awareness of the staff to participate in pharmacovigilance and improved their capability to carry out pharmacovigilance-related work. At the same time, the relevant specialized staff of the pharmacovigilance department participated in the promotion and implementation of pharmacovigilance-related regulations and skill enhancement training organized by relevant departments at all levels for many times, which further improved the professional and technical level of pharmacovigilance of the specialized staff.

During the Reporting Period, in accordance with the relevant laws and regulations on recall of medicines and medical devices, we refined and updated our internal systems such as the *Adverse Event Monitoring and Re-evaluation Control Procedures* and the *Product Recall Control Procedures*, and provided detailed provisions on the handling of recalls at various levels, so as to ensure the comprehensive compliance of all aspects of the emergency handling of medicines safety incidents.

During the Reporting Period, the Group did not have any product recall incidents caused by product quality defects.

PRODUCTS AND INNOVATION

2.3 RESPONSIBLE MARKETING

The Group emphasizes its services to customers and patients, and understands customers' needs and proactively collect customers' feedback or complaints about its products and services through various channels such as regular visits, customer satisfaction surveys and hotlines. Each of our production bases has established complaint handling procedures and formulated a clear complaint handling process. Each production base will classify, investigate, handle and analyze the product complaints received at the first time, and actively communicate internally with other departments in an effort to provide customers with satisfactory solutions. If the product complaints are indeed quality defects and safety hazards that require recall measures, we will handle them in accordance with the product recall procedures. During the Reporting Period, the Group did not receive any customer complaints relating to product quality, and other related complaints in respect of the products have been handled appropriately.

During the Reporting Period, we continued to promote the digitization and refinement of customer management and further expanded the application of our customer relationship management system ("**CRM**"), through which we digitally collected, managed and analyzed customer information, responded quickly to customer feedback and provided personalized services.

PRODUCTS AND INNOVATION

We design product specifications and labels in accordance with the Drug Administration Law of the People's Republic of China, the Regulations on the Supervision and Administration of Medical Devices, the Provisions for Drug Insert Sheets and Labels, the Measures for the Administration of Drug Packaging, the Provisions on the Administration of Instructions and Labels of Medical Devices and other laws and regulations, so as to safeguard the patients' right to be informed of the product information. Meanwhile, we strictly follow the requirements of the Advertising Law of the People's Republic of China and other laws and regulations relating to advertising and publicity of pharmaceutical products, and submit the contents of pharmaceutical product advertisements to the drug regulators for review and approval before launching.

With respect to the promotion for product and brand in our business activities, we have established a multi-level review mechanism for promotional materials. The product marketing department, the medical department, the legal department and the office of the Board of Directors are responsible for reviewing the advertisements of product and corporate brand and other external promotional materials from the perspectives of medical science, advertisement compliance, and information disclosure compliance respectively, so as to ensure that the promotional materials are scientific, objective and in compliance with the law. In addition, in order to enhance the awareness of responsible marketing and ensure the compliance of external publicity work, we regularly conduct training on responsible marketing for our staff, in particular, compliance training for staff of subsidiaries that are new to the Group, so as to enhance the staff's awareness of publicity compliance and responsible marketing and to safeguard the corporate image.

03 ENVIRONMENTAL PROTECTION

We are committed to green and low-carbon development, integrate the concepts of sustainable development and green management into the whole process of product production and corporate management, and actively respond to climate change to promote the Group's green and low-carbon transformation.

ENVIRONMENTAL PROTECTION

3.1 RESPONDING TO CLIMATE CHANGE

Environmental Management

We strictly comply with the *Environmental Protection Law of the People's Republic of China*, the *Energy Conservation Law of the People's Republic of China* and other environmental protection laws and regulations and industry standards applicable to the locations where we operate. We have established a comprehensive environmental management system and the Company has been certified with the ISO 14001 Environmental Management System during the Reporting Period. In order to ensure the orderly environmental management work of the Group, we have assigned "Environment, Health and Safety" ("**EHS**") officers at each of our major production bases to supervise and guide the environmental protection work in the course of production and operation, so as to ensure the effective implementation of laws and regulations and the internal system in the production and operation.

During the Reporting Period, the Company has been certified with

ISO 14001

Environmental Management System

We carry out assessments for the material impacts on the environment that may be caused by the production process, formulate corresponding contingency plans and response strategies for the identified key environmental risks, and carry out audits on a regular basis.

Meanwhile, we attach importance to the training and promotion on environmental protection awareness to our employees, and continuously enhance their awareness of energy conservation and environmental protection through posting slogans advocating green office in the office premises, organizing training to our employees on environmental protection knowledge and technology, etc.

Risks and Opportunities of Climate Change

In recent years, with the continuous growth of greenhouse gas emissions, climate change has become one of the global challenges for mankind. As a high-tech bio-pharmaceutical company, we pay attention to the global trend of greenhouse gas emissions, identify and assess the risks and opportunities of climate change, continuously optimize our internal climate risk governance structure, and formulate and adopt proactive countermeasures, with a view to effectively mitigating the potential impacts of climate change risks, reducing the Group's greenhouse gas emissions, and effectively contributing to the global action against climate change.

ENVIRONMENTAL PROTECTION

The Group has incorporated climate change into ESG and integrated climate change risk management into its enterprise risk management system. We have formed a top-to-bottom climate risk governance structure, with the Board of Directors being responsible for formulating strategies for climate change and environmental objectives, and monitoring the progress of the implementation of the objectives. The Audit Committee is responsible for assisting the Board of Directors in monitoring the climate change initiatives, making recommendations on the identification of climate change risks and the development of strategies, and reporting to the Board of Directors on a regular basis. The ESG working group is responsible for identifying climate change risks and implementing specific response initiatives.

We follow the guidelines recommended by the Task Force on Climate-related Financial Disclosures (TCFD) and comprehensively consider the possible risk exposures of our Company and the bio-pharmaceutical industry in combination with the scenario analysis. Specifically, for physical risks, we use the representative concentration pathways RCP2.6 and RCP8.5 developed by the Intergovernmental Panel on Climate Change of United Nations to make assumptions on future greenhouse gas emissions; for transition risks, we refer to the announced commitment scenarios modeled by the International Energy Agency and the zero-carbon emission scenario in 2050.

We have identified the following major risks and opportunities of climate change, taking into account the regulations, policies and plans of the major operating locations in China, the operation of the enterprise and the climate change situation of the operating locations. Among them, climate change risk includes physical risks, which are mainly identified as the risks caused by frequent extreme weather, and transition risks, which are mainly identified as the risks to policies and laws (carbon pricing), technologies (costs of transitioning to low-carbon emission technologies), markets (increasing prices of raw materials and energy), reputation (attention and expectations of stakeholders) and other aspects that may occur in the transition to a low-carbon economy.

ENVIRONMENTAL PROTECTION

Climate change risks	Description	Countermeasures
Frequent occurrence of extreme weather	Climate change will result in a high incidence of extreme weather such as typhoons, floods and extreme heat, and the Group's subsidiaries and production bases located in Shanghai and Guangdong Province will be more vulnerable to extreme weather. Extreme weather may damage plants, equipment and infrastructure, disrupt logistics and affect normal production operations; extremely hot weather may also change the properties of raw materials and put forward more stringent storage and production conditions for products, thereby affecting the Group's operating income and increasing its operating cost	• Follow weather changes to understand climate, and predict the impact of weather on production and operation in time, to take protective and emergency measures against weather disasters • Formulate emergency plans for extreme weather and production safety, and conduct annual emergency drills to respond to emergencies • Set up a dual power supply strategy in production bases to deal with emergencies such as power cuts that may be caused by extreme weather, and activate temperature-adjustable cold storage devices to store products at constant temperatures and protect them from extreme weather or temperatures • When constructing factory buildings, take extreme weather factors into consideration and select heat-resistant and fire-resistant materials, to guard against extreme weather events
Carbon pricing	Currently, some pharmaceutical companies have been included in the carbon emission quota management list. With the expansion of the carbon market coverage, there is a possibility that the pharmaceutical companies of the Group located in Shanghai may be subjected to the carbon emission quota management. When that possibility turns out to be a fact, the compliance costs will be incurred, further causing increase in operating costs and affecting corporate reputation, once the Group's carbon emissions exceed the quota	• Pay attention to related regulations and policies in time, and maintain annual greenhouse gas statistics to ensure timely response when being subjected to carbon emission quota management • Set carbon emission targets and reduce energy consumption per unit through equipment renovation and process optimization, to reduce greenhouse gas emissions and gradually reduce carbon emission intensity

ENVIRONMENTAL PROTECTION

Climate change risks	Description	Countermeasures
Cost of transitioning to low-carbon emission technologies	Currently, there is increasing policy pressure from the government for the pharmaceutical industry to adopt green technologies in the short to medium term. If the Group is required to comply with such regulations or chooses to respond to customer and public expectations by implementing clean energy and optimizing the energy efficiency of production equipment, we may incur higher operating costs for the adoption of low-carbon new technologies	• Before transforming to low-carbon technologies, evaluate the projects and choose the most suitable technology based on the investment return period and feasibility • Ensure a smooth transition and connection between new technology and existing technological processes • Enhance competitiveness by taking low-carbon technology advantages in products as an opportunity

Climate change risks	Description	Countermeasures
Increasing prices of raw materials and energy	Upstream suppliers of raw materials and energy to the Group may also be affected by climate change risks, leading to an increase in prices of raw materials and energy, and a rise in the production costs of the Group	• Keep a watchful eye on the raw material market to gain timely information on raw material prices and changes in energy policies, and respond to them in time • Optimize production processes, continuously innovate technologies, and reduce energy consumption • Continuously optimize supplier management and regularly analyze raw material supply risks
Attention and expectations of stakeholders	As a listed company on both the Hong Kong Stock Exchange and the Sci-tech Innovation Board, the Company's policies for and contributions to climate change as well as disclosure of relevant information will receive more and more attention from stakeholders. Failure to disclose relevant information or to meet stakeholders' expectations may negatively affect the Company's reputation and investors' decisions. What's worse, the failure may reduce the demand for goods and services, decrease investor interest, and reduce government support, ultimately compromising the Company's overall revenue	• Contribute to global action against climate change by adopting diversified energy-saving and carbon-reducing measures to reduce the Company's impact on the environment • Strengthen communication with stakeholders through the release of ESG reports and the management of investor relations

ENVIRONMENTAL PROTECTION

Opportunities presented by climate change	Description
Opportunities in resource efficiency	Reduce operating costs by improving production processes and reducing resource use (e.g., water, packaging materials, etc.); further enhance the rate of water cyclic utilization to reduce water waste; upgrade equipment, and optimize technology and processes to improve energy use efficiency in product development and production processes, reduce energy consumption intensity and lower our operating costs
Opportunities in product competitiveness	Reduce product carbon footprints from the procurement, production and packaging of raw materials to cater to customers' low-carbon preferences; enhance the competitiveness and attractiveness of our products to the market through the low-carbon technology in our products
Opportunities in adaptability	The Group identifies and assesses climate change risks, and then proposes and implements countermeasures, to enhance its adaptability to climate change

3.2 RESOURCE MANAGEMENT

Adapting to the ever-changing climate risks, we work to enhance the efficiency of energy and resource use. We, through reasonable and feasible modifications to facilities and improvements in production processes, optimize the use of resources, improve the efficiency of resource use in all aspects of production and operations, and set corresponding environmental targets to continuously strengthen energy and resource management.

Energy management

The main sources of energy used by the Group are electricity, natural gas, purchased steam and motor vehicle fuel. We have set energy management targets and carbon emission reduction targets based on our business operations, and continue to follow up on the achievement of these targets.

Goal of energy use efficiency

- By 2025, the comprehensive energy consumption density (total comprehensive energy consumption/operating revenue) will decrease by 10% as compared to 2021
- Constantly improve energy use efficiency, and seek opportunities for using clean energy

Carbon emission goal

- By 2025, the scope I and scope II carbon emission density (total greenhouse gas emissions (scope I and scope II)/operating revenue) will decrease by 10% as compared to 2021
- Gradually integrate the guidance of "dual carbon" target-related policies into the Group's emission management and explore opportunities for carbon reduction technology.

ENVIRONMENTAL PROTECTION

During the Reporting Period, all of our production bases and subsidiaries played their part in energy conservation. In early 2023, the Company engaged a third-party organization to carry out an energy-saving diagnosis of its Songjiang production base. The diagnostic mainly involved production and operation and energy management, energy measurement and statistics, energy use and energy process, energy consumption data review, energy indicator calculation and analysis, calculation and analysis of unit consumption of major products, energy cost calculation and analysis, energy saving calculation and analysis, energy saving potential analysis. Through the energy-saving diagnosis, we further tapped the energy-saving potential in production and operation, and improved the efficiency of energy use and management. During the Reporting Period, Henan Universe, the subsidiary, conducted a technological transformation for products by expanding the reaction kettle to improve the utilization rate and production capacity of raw materials. As a result, the unit power consumption was reduced. Meanwhile, Henan Universe simplified the sterilization process of products and consequently decreased the energy consumption by the production workshop.

Water resource management

During the Reporting Period, the water consumption by the Group's production and operation was mainly from municipal water supply, and there was no risk in obtaining suitable water sources. In respect of water resource management, we set scientific water saving targets and adopted a variety of water saving initiatives, to implement the water saving concept and promote the achievement of the targets. We developed a reclaimed water reuse system to improve water resource utilization rate. We used scientific water metering measures to conduct the water balance test and installed water meters to monitor any abnormality in daily water usage, thereby reducing unnecessary waste of water resources.

Goal of water use efficiency

- By 2025, the water use density (total water consumption/operating revenue) will decrease by 10% as compared to 2021
- Further improve water resource utilization efficiency beyond 2026

Management of packaging materials

Packaging materials used by the Group in the production process are mainly paper, plastic and glass. We are constantly exploring ways to make packaging materials more environmentally friendly by introducing new equipment, changing packaging materials, and adjusting packaging sizes.

During the Reporting Period, Shanghai Jianhua introduced equipment for the on-line molding of blister boxes, a kind of product packaging materials, instead of procuring them externally. This act saved the cartons, dialysis bags and transportation costs required for the packaging and transportation of blister boxes in the procurement process. Shanghai Jianhua also reduced the thickness of blister boxes from 0.8MM to 0.5MM, which eliminated the use of APET materials. During the Reporting Period, the subsidiary Hangzhou Aijinglun Technology Co., Ltd. changed the product manual from the previous 152*93MM to 210*297MM and from the original 8 pages to 1 page by reducing the font size of the manual text, which saved paper materials.

ENVIRONMENTAL PROTECTION

During the Reporting Period, the Group's energy consumption and greenhouse gas emissions as well as the use of water resources and packaging materials are as follows:

Category	Unit	2023	2022	2021
Energy consumption				
Externally purchased electricity	GWh	28.13	26.07	26.52
Unleaded gasoline	Tonnes	40.81	40.21	62.42
Diesel oil	Tonnes	0	0	0
Externally purchased steam	Tonnes	12,465.04	11,163.60	9,872.26
Natural gas	normal cubic meter	2,168,697	1,848,339	2,014,772
Integrated energy consumption[1]	Tonnes of standard coal	7,472.49	6,824.17	6,836.81
Integrated energy consumption intensity	Standard coal (kg)/ RMB10,000 of revenue[5]	33.48	38.81	48.92
Greenhouse gas emissions[2]				
Greenhouse gases (scope I)[3]	Tonnes of standard CO_2e	4,689	4,119	4,546
Greenhouse gases (scope II)[4]	Tonnes of standard CO_2e	19,689	18,174	21,314
Total greenhouse gas emissions	Tonnes of standard CO_2e	24,378	22,293	25,860
Greenhouse gas intensity	Tonnes of standard CO_2e/ RMB10,000 of revenue[5]	0.11	0.13	0.19
Water resource consumption				
Water consumption	Tonnes	309,367	274,515	320,552
Water consumption intensity	Tonnes/RMB10,000 of revenue[5]	1.39	1.56	2.30
Use of packaging materials				
Packaging materials	Tonnes	809.11	668.08	564.58
Packaging material intensity	Kilograms/RMB10,000 of revenue[5]	3.63	3.80	4.04

Note 1: The conversion coefficients chosen for the calculation of comprehensive energy consumption refer to the General Rules for Calculating Comprehensive Energy Consumption (GBT2589-2020).

Note 2: The accounting of greenhouse gas was based on the Guidelines on Greenhouse Gas Emission Accounting Methods and Reporting of Enterprises in Other Industrial Sectors (Trial) issued by the National Development and Reform Commission.

Note 3: Greenhouse gases (scope I) are generated from the combustion of unleaded gasoline, diesel and natural gas.

Note 4: Greenhouse gases (scope II) are generated from the use of externally purchased electricity and steam, and accounted and prepared in accordance with the Guidelines for Accounting and Reporting of Greenhouse Gas Emissions of Enterprises – Power Generation Facilities (2022 Revision) issued by the Ministry of Ecology and Environment.

Note 5: "Revenue" refers to the operating revenue of the Company and its Major Domestic Subsidiaries during the Reporting Period.

ENVIRONMENTAL PROTECTION

3.3 EMISSION MANAGEMENT

We are committed to reducing the discharge of waste and pollutants, including non-hazardous waste, hazardous waste, wastewater and waste gas emissions, and noise management. We comply with relevant laws and regulations of the operating locations to ensure that all waste and pollutants are discharged in a compliant manner, and monitor and manage our emissions with a string of measures. During the Reporting Period, the Group did not have any emissions exceeding the standard or violating the industry standard.

Waste management

The Group strictly complies with the solid waste control standards and laws and regulations of the operating locations, such as the Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Waste and the Standard for Pollution Control on Hazardous Waste Storage, and has formulated internal policies and operating procedures such as the Waste Management Regulations, the Waste Classification Management Regulations, the Control and Management Regulations on the Storage, Use and Disposal of Hazardous Chemicals, and the Emergency Plan for Hazardous Waste to strictly control the storage and disposal of solid waste.

We classify solid waste by hazardous waste, general industrial waste and domestic garbage. We establish different storage points and a hazardous waste storage center to centrally manage the stored hazardous waste, dedicate a responsible person for recording entries into the center, and engage qualified third parties for disposal. Furthermore, we regularly organize and carry out emergency drills for hazardous chemicals, and conduct on-site disposal demonstrations for the leakage and contamination of hazardous chemicals, to improve our employees' emergency disposal capabilities.

Waste management target

- Hazardous waste intensity (total amount of waste/revenue) to steadily drop
- Dispose of 100% of hazardous waste in a compliant manner
- Seek measures to reduce hazardous waste through waste analysis and evaluation

Wastewater management

During the Reporting Period, the wastewater produced by the Group included domestic sewage, R&D and production wastewater, and circulation cooling system sewage. We implemented the Pollutant Emission Standards for the Biopharmaceutical Industry, the Comprehensive Standards for Wastewater Discharge and other relevant standards and laws and regulations for wastewater discharge in our operating locations, and formulated wastewater discharge management procedures to control wastewater discharge.

ENVIRONMENTAL PROTECTION

The Group continues optimizing its wastewater discharge management initiatives. By strengthening the construction of wastewater discharge infrastructure, conducting wastewater monitoring and evaluation, and optimizing the wastewater collection and treatment process, the Group constantly enhances its wastewater treatment capability. We collect production wastewater and domestic sewage together and treat them at the sewage treatment plant before discharging them. For the small amount of production waste liquid generated during production, we collect it all together and engage a specialized hazardous waste treatment company for disposal. In addition, we take preventative measures such as using leak-proof containers and secondary containments, paving impermeable hardened ground, and installing rainwater cut-off valves and emergency accident pools to prevent the leakage of liquid chemicals and hazardous waste. Based on the wastewater discharge situation of our production bases, we have installed a wastewater monitoring system to monitor wastewater indicators online, and engaged a third party to provide regular maintenance and inspection services.

Waste gas management

During the Reporting Period, the waste gas emissions of the Group mainly included waste gas emissions from boilers, production processes and laboratories. The Group strictly complied with the Emission Standard of Air Pollutants for Boilers, the Pollutant Emission Standard for the Biopharmaceutical Industry, the Integrated Emission Standard of Air Pollutants, and other relevant standards and laws and regulations on waste gas emissions in its operating locations. The Group also formulated management procedures for waste gas emissions, to ensure the compliance of waste gas emissions with relevant standards.

Each of our production bases has adopted measures to control waste gas emissions. We construct air pollution treatment facilities for organized waste gas emissions at high altitude, install an on-line waste gas monitoring system to monitor waste gas emissions in real time, and engage a third party to provide regular maintenance and inspection services. For volatile organic compounds ("**VOCs**"), we regularly inspect the VOC emissions from each waste gas outlet, and have odor spray facilities for VOCs at the sewage plant. The quality inspection room and the production workshop are equipped with activated carbon adsorption devices which are replaced regularly. During the Reporting Period, we did not experience any incidents of non-compliant emissions.

Noise management

The Group strictly complies with the Law of the People's Republic of China on the Prevention and Control of Environmental Noise Pollution and the Environmental Noise Emission Standards at the Boundary of Industrial Enterprises. Environmental noise that may be generated in the construction process shall be reported to the local ecological environment authority before the commencement of construction. For environmental noise generated from production, each major production base has formulated a noise control management policy that suits its own conditions. Each production base has adopted measures such as outlet noise reduction, foundation vibration isolation, and building sound insulation based on the characteristics of noise sources to minimize the noise impact.

ENVIRONMENTAL PROTECTION

During the Reporting Period, the data of wastewater, waste gas and solid waste discharged from the Group's production operations is as follows:

Category	Unit	2023	2022	2021
Waste gas emissions				
Total waste gas emissions	Million cubic meters	327.35	238.08	317.05
Sulfur dioxide (SO2) emissions	Tonnes	0.09	0.07	0.32
Nitric oxide (NOx) emissions	Tonnes	0.79	0.88	1.28
Volatile organic compound (VOCs) emissions	Tonnes	0.57	0.53	0.71
Wastewater discharge				
Total wastewater discharge	Million cubic meters	0.20	0.19	0.20
Chemical oxygen demand (COD) emissions	Tonnes	9.01	5.99	8.46
Ammonia nitrogen emissions	Tonnes	0.11	0.07	0.29
Waste discharge				
Total non-hazardous waste produced	Tonnes	471.82	379.67	356.14
Intensity of non-hazardous waste produced	Kilograms/ RMB10,000 of revenue[3]	2.11	2.16	2.55
Packaging waste produced[1]	Tonnes	96.41	37.27	20.86
Packaging materials recycled[2]	Tonnes	105.74	86.38	71.99
Total domestic waste	Tonnes	263.29	261.02	263.29
Hazardous waste discharge				
Total hazardous waste produced	Tonnes	74.83	59.88	59.21
Intensity of hazardous waste produced	Kilograms/ RMB10,000 of revenue[3]	0.34	0.34	0.42

Note 1: The data caliber of the amount of packaging waste produced is the total amount of non-recyclable packaging waste (such as cartons, cardboards, bottles, etc.).

Note 2: The data caliber of the amount of packaging materials recycled is the total amount of recyclable packaging waste materials.

Note 3: "Revenue" refers to the operating revenue of the Company and its Major Domestic Subsidiaries during the Reporting Period.

04 HARMONIOUS TEAM

We hold that the personal value of employees is the core of the Group's overall value. Adhering to the concept of being "people-oriented", we continue to refine the talent management system to safeguard the rights and interests of employees. We provide employees with rich training resources and build clear promotion paths to help employees develop.

We strictly abide by the Labor Law of the People's Republic of China, the Labor Contract Law of the People's Republic of China and other laws and regulations. We have established a series of human resources management regimes, such as the Employee Handbook, which clearly stipulates the recruitment and promotion, salary and benefits, working hours and holidays. By making these efforts, we endeavor to build a scientific and standardized talent management system for safeguarding the legitimate rights and interests of employees.

We are firmly against child labor, forced labor and any form of discrimination, and ensure that the legitimate rights and interests of employees in terms of employment, promotion and remuneration are not unfairly treated in spite of differences in gender, age, race, religious belief and other factors. We have incorporated provisions against discrimination and the avoidance of child labor and forced labor into the Employee Handbook. If the aforementioned improper behavior and phenomena are found, after full investigation, the relevant responsible personnel will be held responsible according to the internal system, the severity of the consequences of the improper behavior and the post responsibilities. During the Reporting Period, the Group did not engage in any illegal employment practices involving child labor or forced labor.

HARMONIOUS TEAM

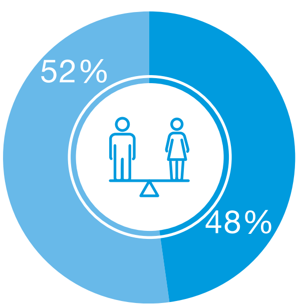
4.1 RECRUITMENT, PROMOTION AND TRAINING

We draw up annual recruitment goals and plans at the beginning of each year to attract high-quality human resources through campus recruitment, social recruitment, internal recommendation and other channels.

During the Reporting Period, we established a school-enterprise cooperation model with vocational colleges and universities. We not only serve as an internship base for students, providing internship opportunities for them, but also reserve talents for ourselves. Furthermore, we participated in campus recruitment and veteran recruitment sessions.

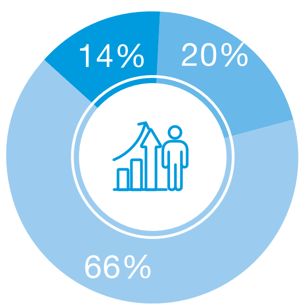
As of the end of the Reporting Period, the Group had a total of 2,158 employees, all of whom were full-time employees. The staff structure was as follows:

Number of employees by gender



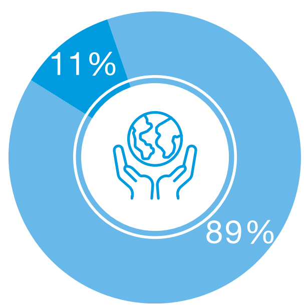
- Male/1,026
- Female/1,132

Number of employees by age



- Below 30 (excluding 30)/427
- 30-49/1,417
- Above 50 (including 50)/314

Number of employees by region



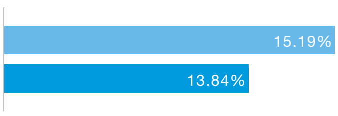
- Chinese mainland/1,929
- Hong Kong, Macao, Taiwan and overseas/229

HARMONIOUS TEAM

We encourage and guide each employee to develop a career development plan, treat employee promotion with the principles of fairness, justice and openness, and continuously expand promotion channels for the employees. We work out specific job descriptions and performance appraisal standards specific to positions for employees' reference, carry out annual performance appraisals for all employees and provide feedback on their performance. This will help the employees plan their career development paths more clearly and further achieve a win-win situation for the employees and the Company.

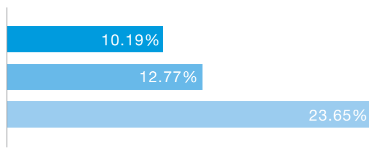
During the Reporting Period, the number of employee's turnover of the Group was 314, with a turnover rate of 14.55%. The turnover rate of employees was classified as follows:

Turnover rate of staff by gender



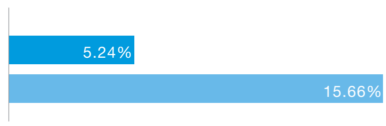
- Female
- Male

Turnover rate of staff by age



- Above 50 (including 50)
- 30-49
- Below 30 (excluding 30)

Turnover rate of staff by location

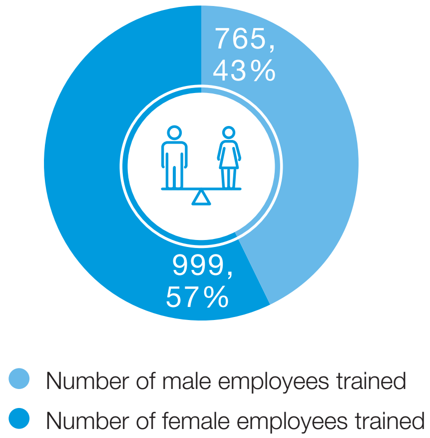


- Hong Kong, Macao, Taiwan and overseas
- Chinese mainland

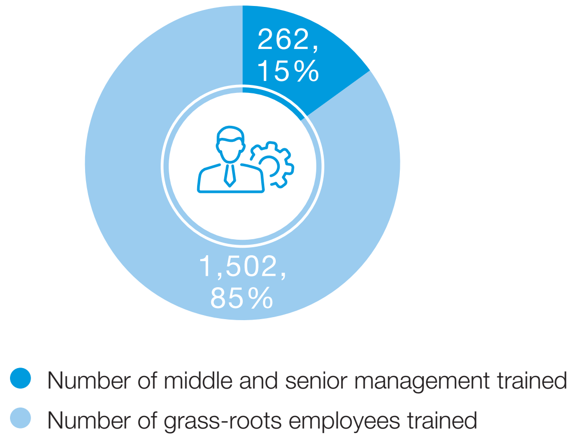
HARMONIOUS TEAM

The Group continuously updates and improves the existing training management system to provide employees with abundant training resources and help them improve the knowledge and skills required for their work. The Company and its subsidiaries map out annual training plans based on their respective actual situations, tailoring to local conditions and combining online and offline training plus internal and external training. During the Reporting Period, the Group, based on the annual training plan and combined with internal and external resources, mainly organized and carried out the induction training for new employees, training on skills for professionals and industry regulations, risk management training, and compliance training on integrity and information security, and evaluated the training results by means of written examinations and practical exercises. In 2023, a total of 1,764 people participated in the training, with a total training duration of 20,159.6 hours, and the average training duration of about 11.43 hours per person.

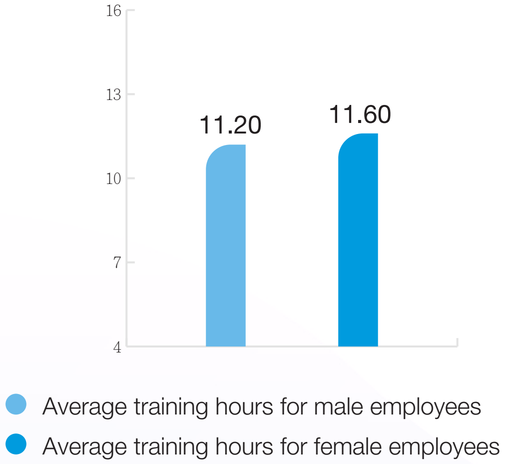
Proportion of employees in training by gender



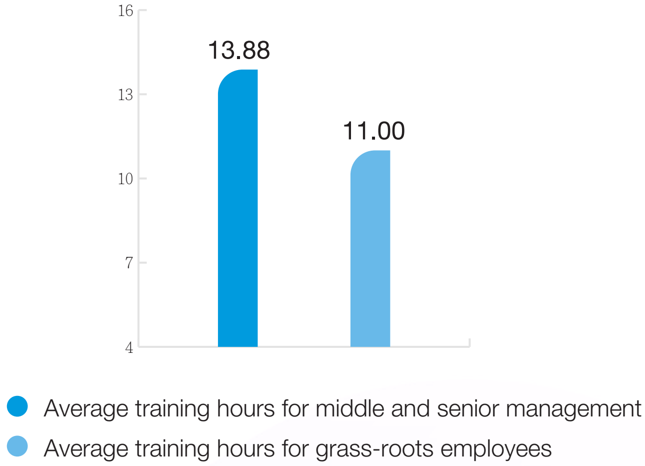
Proportion of employees in training by category



Average training hours for employees by gender



Average training hours for employees by category



HARMONIOUS TEAM

At the same time, the Group encourages employees to participate in industry conferences and skill competitions, and communicate with and learn from practitioners in the same industry, to enhance their competitiveness and self-development capabilities. During the Reporting Period, the Group's employees participated in skill competitions and social selection. Our employees won a gold medal in the "2023 Skill Competition for Drug Inspectors in Shanghai's Pharmaceutical Industry" and the title of "2023 Chunshen Pyramid Talent (Leading Talent in the Minhang District)" and other honorary titles.

4.2 COMPENSATION AND BENEFITS, AND HUMANISTIC CARE

Upholding the principle of equal pay for equal work and strictly observing national and local salary management regulations, the Group renews its efforts to improve the remuneration system and provide remuneration packages with competitive advantages. Employee compensation is linked to employees' work performance. We set up a performance appraisal mechanism that combines qualitative and quantitative indicators and features multifaceted appraisal specific to positions and duties, to evaluate employees' performance more fairly and objectively. The Company initiated the 2021 restricted A share incentive scheme to attract and retain the core management personnel and core technical or operational personnel. As of the end of the Reporting Period, 233 employees held 782,158 A shares of the Company based on the incentive scheme, representing approximately 0.46% of the total share capital of the Company.

Based on the incentive scheme,

233 employees held

782,158

A shares of the Company, representing approximately

0.46%

of the total share capital of the Company

The Group complies with local laws and regulations on social security and provides social insurance benefit programs for employees, and some of our subsidiaries even purchase supplementary medical insurance for their employees. Moreover, we provide such benefits as the transportation allowance, food and beverage allowance, housing allowance, high temperature allowance and shuttle bus service for employees in different cases.

We are vigorously fostering an inclusive corporate culture with a sense of belonging, which features the full respect for employees' right to information and participation and the listening to their opinions and voices. We, through the construction of smooth communication and expression channels, guarantee employees' right of expression and supervision, and create a bridge between grassroots employees and the management. By regularly organizing colorful group building activities, we work to enhance the sense of teamwork and trust among employees. In addition, we organize employee birthday parties and prepare elaborate small gifts for employees on special holidays to enhance their sense of belonging.

HARMONIOUS TEAM

During the Reporting Period, the Group organized various forms of group building activities, such as summer and autumn tours and competitive races, on a company-by-company basis. In the rich activities, employees fully demonstrated their skills and strengths, manifesting the positive corporate culture.

A visit paid by the Party branch secretary of Shanghai Qisheng to the Sihang Warehouse

NIMO's themed group building activity Harmonious team

4.3 HEALTH AND SAFETY

Prioritizing employees' lives and safety, we strictly abide by the Work Safety Law of the People's Republic of China and other laws and regulations to firmly establish the concept of production safety. Adhering to the policy of "conducting comprehensive management with safety first and prevention as the main task", we formulate the Work Safety Management Regime, the Ledger for Investigation, Treatment and Rectification of Hidden Dangers in Production Safety, the Safety Education and Training Program, the Emergency Response Plan for Sudden Production Safety Accidents, the Management System for Storage, Use and Disposal of Hazardous Chemicals and other rules and regulations, to regulate employees' work safety and forestall and defuse major safety risks.

HARMONIOUS TEAM

In order to improve employees' safety precautionary and self-rescue abilities, and enhance their awareness of self-protection and health management during production and work, each production base of the Group organizes emergency drills on safety accidents, records the drill content and activity process in detail, and sorts out a record sheet on the investigation into hidden safety hazards in production for employees' reference. During the Reporting Period, each production base investigated into hidden safety hazards in production covering all personnel at least once a month, and conducted safety education and training for new employees at three levels, namely, the Company, the project management department and the construction team. Each production base also carried out special training activities such as fire drill training and hazardous chemicals management training for employees from different departments, to heighten their safety awareness and risk prevention capability.

Drill of the comprehensive emergency response and rescue plan for production safety accidents

On 20 September 2023, Songjiang production base organized all employees to participate in the 2023 drill of the comprehensive emergency response and rescue plan for production safety accidents. The drill was organized by the Engineering Department with the participation of all employees from the plant. The employees practiced the applicability and emergency response capability of the emergency response plan in complex situations, such as during a fire in the charging area of the forklift in the finished product warehouse and chains of environmental pollution accidents.

With respect to the prevention and control of occupational diseases, the Group follows relevant laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases, the National Plan for the Prevention and Control of Occupational Diseases (2021-2025) and the Regulations on the Administration of Occupational Health in Workplaces, and has included the System of Monitoring and Management of Occupational Health. In this regard, the Group actively shoulders its main responsibility in occupational health, and establishes and perfects the management system of the prevention and control of occupational diseases, getting every employee involved. During the Reporting Period, the Company got certified with and complied with the ISO 45001 occupational health and safety management system.

The Group regularly carries out activities such as occupational health check-ups and the testing of occupational health and environmental hazards, to dodge the adverse effect of occupational diseases and hazards during work and safeguard the occupational health of employees. Over the past three years, the Group had not experienced any accident of work-related deaths, and the number of work-related deaths was nil. During the Reporting Period, the loss of working hours of the Group due to work-related injuries was nil.

05 HEART IN COMMUNITY

The Group assumes and fulfills its corporate social responsibilities by engaging in public welfare, giving back to the society with its existing resources, and diving deep into community development, to contribute to the sustainable development of the society.

HEART IN COMMUNITY

5.1 CONTRIBUTION TO COMMUNITY

As a pharmaceutical company, we are committed to benefiting patients through the development and production of high-quality pharmaceutical products, and contributing to society through our efforts, in order to drive the development of society. During the Reporting Period, the Group's charity donations totaled RMB100,000.

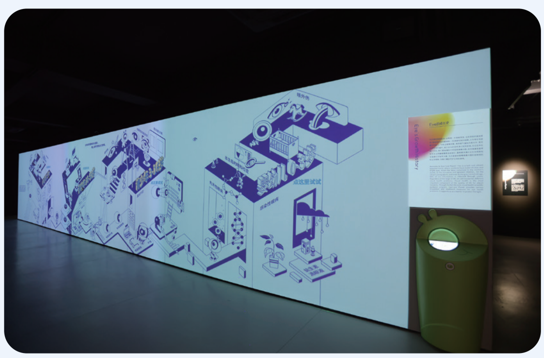
Launch of "Haohai Industrial Innovation Project for Eye Health"

In June 2023, the "Haohai Industrial Innovation Project for Eye Health" (昊海眼健康產創項目) was officially launched, which is a key project in the ophthalmology industry in the first phase of trial operation of Shanghai Haohai Biotechnology International Pharmaceutical R&D and Industrialization Base (上海昊海生科國際醫藥研發及產業化基地), a major project in Shanghai's strategic emerging industries. Our mission is to provide life-cycle visual health solutions for people of all ages. Focusing on the field of optometry and adopting the business model of "industry-university-research-medicine linkage", the project will continue to transform the core products of our overseas R&D centers located in the United States, the United Kingdom, and France to create an industrial layout of "front store and back factory" (前店後廠). In terms of diagnosis and treatment services, we have established extensive cooperation with ophthalmic medical institutions to streamline the demand scenarios of store diagnosis and treatment, online science education, personalized customization and offline experience, etc. Our products cover ophthalmology treatment fields such as myopia prevention and control, cataract treatment, optometry, ocular surface and ophthalmoscope. This is how we provide personalized visual health experience services featuring high-quality, full-scale precision medical treatment and intelligent manufacturing.

Opening of Eye Care Museum Themed with "Visual Health + Art"

On 12 October 2023, the 24th World Sight Day, the Eye Care Museum Themed with "Visual Health + Art" jointly created by the Company and Meishi Meijing Optometry Chain (美視美景視光連鎖) was officially opened. The museum allows visitors to experience a marvelous journey of eye care through digital scenes, immersive experiences, and intelligent human-machine interactions and parent-child games. During the Reporting Period, the museum has established social practice base cooperation with a number of elementary schools and grassroots communities, and undertook more than 40 study courses and popularization of science and practice activities in the public interest, covering nearly 1,000 attendances, for the sake of popularizing all-around eye care knowledge for social work, and advocating the concept of eye care that integrates medical science and optical profession.

Opening Ceremony of Eye Care Museum



A Corner of the Eye Care Museum

HEART IN COMMUNITY

5.2 CONTRIBUTION TO THE INDUSTRY

While seeking our own development, we attach importance to the cooperation and communication with peers by actively joining industry associations and industry promotion associations, and serving as a director of the work. Meanwhile, we are organizing and participating in academic exchanges and industry seminars and publishing in core journals of the professional papers, with an aim to enhance the discussion and exchange between peers for the overall progress of the pharmaceutical industry and common improvement.

In June and September 2023, the Company, with its ophthalmic products, participated in the “23rd National Cataract and Refractive Surgery Conference” and the “27th National Ophthalmology Academic Conference” of the Chinese Medical Association, and conducted a variety of academic exchanges with ophthalmology experts and representatives of enterprises.

In October 2023, the Company, as the chief sponsor, participated in the “China Medical and Health Textile Materials Industry Conference and 2023 International Textile Biomedical Materials Conference” organized by the Chinese Society for Biomaterials, and joined in the preparation of the planning textbook for the general ministries of higher education in the “14th Five-Year Plan” and a textbook for the construction of first-class disciplines, Biomedical Textiles (second edition). All these efforts aim to promote the standardized development of the pharmaceutical industry.

In August 2023, Shanghai Qisheng’s paper “Connections between Cohesion and Properties that Related to Safety and Effectiveness of the Hyaluronic Acid Dermal Fillers: A Comparative Study of the Cohesive and Non-cohesive Gels. Skin Research Technology” was included in the Science Citation Index (SCI).

In December 2023, our innovative in-process myopia correction lens, “Yijing” PRL-S5, was featured in the prestigious academic journal Nature in the article titled “Improving Implantable Lenses to Treat Myopia”, introducing our novel solution in the field of myopia to our peers.

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
Environment			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental protection: discharge management
	A1.1	The types of emissions and respective emissions data	Environmental protection: discharge management
	A1.2	Greenhouse gas emissions in total and intensity	Environmental protection: discharge management
	A1.3	Total hazardous waste produced and intensity	Environmental protection: discharge management
	A1.4	Total non-hazardous waste produced and intensity	Environmental protection: discharge management
	A1.5	Description of emission targets set and steps taken to achieve them	Environmental protection: discharge management
	A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them	Environmental protection: discharge management

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
A2: Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental protection: energy and resource management
	A2.1	Direct and/or indirect energy consumption by type (e.g., electricity, gas or oil) in total and intensity	Environmental protection: energy and resource management
	A2.2	Water consumption in total and intensity	Environmental protection: energy and resource management
	A2.3	Description of energy use efficiency initiatives and results achieved	Environmental protection: energy and resource management
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Environmental protection: energy and resource management
	A2.5	Total outsourced material used for finished products and with reference to per unit produced	Environmental protection: energy and resource management
A3: Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Environmental protection
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them	Environmental protection
A4: Climate Change	General Disclosure	Identification of policies on the significant climate-related issues which have impacted, and those which may impact, the issuer.	Environmental protection: climate change response
	A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer and the actions taken to manage them	Environmental protection: climate change response

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
Social			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Harmonious team
	B1.1	Total workforce by gender, employment type, age group and geographical region	Harmonious team: recruitment, promotion and training
	B1.2	Employee turnover rate by gender, age group and geographical region	Harmonious team: recruitment, promotion and training
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Harmonious team: health and safety
	B2.1	Number and rate of work-related fatalities in each of the past three years	Harmonious team: health and safety
	B2.2	Lost days due to work injury	Harmonious team: health and safety
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Harmonious team: health and safety

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work Description of training activities.	Harmonious team: recruitment, promotion and training
	B3.1	The percentage of employees trained by gender and employee category	Harmonious team: recruitment, promotion and training
	B3.2	The average training hours completed per employee by gender and employee category	Harmonious team: recruitment, promotion and training
B4: Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Harmonious team
	B4.1	Description of measures to review employment practices to avoid child and forced labor	Harmonious team
	B4.2	Description of steps taken to eliminate such practices when discovered	Harmonious team
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Product and innovation: craftsmanship quality
	B5.1	Number of suppliers by geographical region	Product and innovation: craftsmanship quality
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Product and innovation: craftsmanship quality
	B5.3	Description of practices relating to identifying environmental and social risks at each link of the supply chain where the practices are being implemented, how they are implemented and monitored	Product and innovation: craftsmanship quality
	B5.4	Description of practices relating to selecting suppliers to promote the use of green products and services where the practices are being implemented, how they are implemented and monitored	Product and innovation: craftsmanship quality

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to the health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Products and innovation: responsible marketing
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Product and innovation: craftsmanship quality
	B6.2	Number of products and service related complaints received and how they are dealt with	Products and innovation: responsible marketing
	B6.3	Description of practices relating to observing and protecting intellectual property rights	Product and innovation: continuous innovation
	B6.4	Description of quality assurance process and recall procedures	Product and innovation: craftsmanship quality
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored	Corporate governance: compliant operation
B7: Anti – corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Corporate governance: compliant operation
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Corporate governance: compliant operation
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Corporate governance: compliant operation
	B7.3	Description of anti-corruption trainings provided to directors and employees	Corporate governance: compliant operation

APPENDIX: CONTENT INDEX OF ESG REPORTING GUIDE ISSUED BY THE HONG KONG STOCK EXCHANGE

ESG Subject Area and General Disclosures and KPIs			Disclosed in
B8: Community investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Heart in community
	B8.1	Focus areas of contribution	Heart in community
	B8.2	Resources contributed to the focus area	Heart in community

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Dr. Hou Yongtai (侯永泰), aged 62, is the chairman and executive Director of the Company. Dr. Hou engaged in postdoctoral research at the pharmacology department of University of Pennsylvania in the U.S. from July 1992 to October 1995. Thereafter, he served as a research investigator at the department of cell and developmental biology of the University of Michigan in the U.S. from 1998 to 2000. From August 2000 to August 2003, he served as a researcher and doctoral degree supervisor at Shanghai Institute of Materia Medica, Chinese Academy of Sciences (中國科學院上海藥物研究所), where he was mainly responsible for establishing screening models for cancer drugs and the application of new biotechnologies (such as RNA interference) on new drugs development. He also served as the overseas manager of the strategy and investment committee at Shanghai Pharmaceutical (Group) Co., Ltd, a company principally engaged in investments, research in pharmaceutical products, medical devices, as well as manufacturing and sale of medical devices from July 2003 to June 2004 and was mainly responsible for assisting its formulation of overseas strategies and implementing its external relations and coordination. During July 2000 to June 2004 and April 2005 to March 2008 at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司), he served various positions such as the deputy general manager and the director of the research and development division. He was mainly responsible for formulating product development strategies, establishing its development team and development base as well as implementing its product research and development plans. He has also served as the chairman of Shanghai Qisheng from December 2007 to August 2010, and has been appointed as a director of Shanghai Likangrui since August 2022. He served as the chairman of Haohai Limited, the predecessor of the Company, from September 2009 to the date of conversion of the Company in July 2010. He has been appointed as the chairman and Director of the Company since July 2010, and was redesignated as an executive Director on 7 December 2014. Dr. Hou obtained a master's degree and a Ph.D. degree from Ohio University in the U.S. in March 1987 and August 1992, respectively.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wu Jianying (吳劍英), aged 60, is an executive Director and general manager of the Company. Mr. Wu worked as a surgeon at the General Surgery Department of the Second Affiliated Hospital of the Second Military Medical University (第二軍醫大學第二附屬醫院普外科) from 1991 to 1999. He thereafter worked at Shanghai Huayuan Life Sciences Research and Development Company Limited (上海華源生命科學研究開發有限公司) ("**Shanghai Huayuan**") from March 2003 to February 2004, at the Shanghai branch of China Huayuan Life Industry Limited (中國華源生命產業有限公司上海分公司) from February 2004 to May 2005 and at Cinkate Pharmaceutical and Chemical Intermediates (Shanghai) Company Limited (欣凱醫藥化工中間體(上海)有限公司), a company principally engaged in development and production of pharmaceutical and chemical intermediates, as well as selling its own products and providing relevant technical advisory services from May 2005 to July 2007. He served as the general manager at Haohai Limited from July 2007 to June 2010. He has served as the general manager at Shanghai Qisheng since August 2010, and served as the director of Haohai Holdings since July 2015, the vice chairman of Henan Universe since August 2015 and then the executive director, the executive director of Haohai Development since February 2016. He served as the director of Haohai Healthcare Holdings (Cayman) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since May 2016, the director of Haohai Healthcare Holdings (BVI) Co., Ltd., an indirectly wholly-owned subsidiary of our Company since August 2016, the chairman of NIMO since November 2016 and the general manager of NIMO since January 2022, and the director of Contamac since June 2017, and the director of Haohai Aesthetic Holdings (BVI) Co., Ltd., a subsidiary of our Company since November 2017. He also served as a director of Shanghai Pacific Biological Technology Co., Ltd. (上海太平洋生物高科技有限公司) and Shanghai Pacific Pharmaceutical Co., Ltd. (上海太平洋藥業有限公司), subsidiaries of the Company since May 2018, and a chairman of Hangzhou Aijinglun since April 2020. He also served as the director of International Optical Innovation Holdings Co., Limited, a subsidiary of the Company since November 2020, and the director of Art Vision Technology Co., Limited, a subsidiary of the Company since January 2021. He also served as the chairman of Hengtai Vision since April 2021, the chairman of Hebei XSK from April 2021 to July 2022, and the chairman of Nanpeng Optical since January 2022. He was retired as the general manager of Shanghai Likangrui and served as the chairman of Shanghai Likangrui in August 2022, and has served as an executive director of Shanghai Haoleyuan Biotechnology Co., Ltd., a subsidiary of the Company since November 2022, and has served as an executive director of Shanghai Haohai Intelligent Manufacturing Optometry Technology Co., Ltd.* (上海海昊海智造視光技術有限公司), a subsidiary of the Company since June 2023. He has been appointed as the Director and general manager since July 2010, and was redesignated as an executive Director on 7 December 2014. Mr. Wu obtained a master's degree in clinical medicine from the Second Military Medical University in June 1997 and the practicing doctor qualification in the PRC in May 1999.

Ms. Chen Yiyi (陳奕奕), aged 42, is an executive Director of the Company. Ms. Chen joined the marketing department of Haohai Chemical, a company principally engaged in the production and sale of polyurethane composite duct in July 2006 and worked as the marketing manager and assistant to general manager from January 2007 to December 2009, the supervisor of Henan Universe since November 2016, the director of NIMO since November 2016. She has also served as an executive director of Qingdao Huayuan since April 2018, a director of Henan Simedice, a subsidiary of the Company since February 2019, and a director of Hangzhou Aijinglun since April 2020, and a supervisor of Zhuhai Eyegood Vision Technology Co., Ltd. (艾格視光科技有限公司), a subsidiary of the Company since September 2020. She also served as the director of Art Vision Technology Co., Limited, a subsidiary of the Company since January 2021, the director of Hengtai Vision since April 2021, the chairman of Hebei XSK from April 2021 to July 2022, and the director of Nanpeng Optical since January 2022, and the director of Haohai Holdings since July 2023. She has been appointed as the Director since July 2010, and was redesignated as an executive Director on 7 December 2014. Ms. Chen obtained a bachelor of arts in June 2004 and a Master of arts in June 2006 from Huazhong University of Science and Technology.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Tang Minjie (唐敏捷), aged 48, is an executive Director of the Company. Mr. Tang joined the Company in August 2016, and became a director of NIMO since November 2016. Mr. Tang was appointed as the chief financial officer of the Company on 9 December 2016 and as an executive Director on 14 February 2017, and serves as the director of Contamac since June 2017, the director of Hengtai Vision since April 2021, and the director of Nanpeng Optical since January 2022, and the director of Haohai Holdings since April 2023. Prior to joining the Company, he worked at Ernst & Young during the period from August 1998 to July 2016 and most recently served as an audit partner from July 2010 to July 2016. Mr. Tang obtained a bachelor degree in economics from the former international business school of the University of Shanghai in July 1998, and was qualified as a certified public accountant ("CPA") in the PRC in June 2000 and CPA in the United States in June 2006.

NON-EXECUTIVE DIRECTORS

Ms. You Jie (游捷), aged 61, is a non-executive Director. She is currently a chief physician at the Shanghai Ninth People's Hospital, Shanghai Jiaotong University School of Medicine (上海交通大學醫學院附屬第九人民醫院) and doctoral supervisor at Shanghai Jiaotong University School of Medicine. She worked as a clinician at the Department of Oncology, Longhua Hospital, Shanghai University of Traditional Chinese Medicine (上海中醫藥大學附屬龍華醫院腫瘤科) from July 2004 to July 2014. She also worked at the Shanghai Ninth People's Hospital, Shanghai Jiaotong University School of Medicine from August 2014 until present, and held a position as a director of Shanghai Haolan Corporate Management Co., Ltd (上海昊瀾企業管理有限公司) since January 2018. She has been appointed as a Director since July 2010, and was redesignated as a non-executive Director on 7 December 2014. She obtained a clinical doctorate degree from Shanghai University of Traditional Chinese Medicine (上海中醫藥大學) in July 2004 and the practicing doctor qualification in the PRC in May 1999. Ms. You is the spouse of Mr. Jiang Wei, a controlling Shareholder of the Company.

Mr. Huang Ming (黃明), aged 48, is a non-executive Director of the Company. Since 1 January 2020, he ceased to be the joint company secretary of the Company. He worked as a manager in Haoyang Investments from September 2008 to June 2010, a director of Haohai Changxing Company Limited, a company principally engaged in the sale of agricultural byproducts since September 2010 and an executive director of Changxing Haoersi Biotechnology Company Limited (長興昊爾斯生物科技有限公司), a company principally engaged in the research and development of biological and plant products from May 2011 to December 2011. He has been serving as a supervisor of Shanghai Jianhua since November 2007, a supervisor of Shanghai Qisheng since December 2007, and a supervisor of Shanghai Likangrui from December 2010 to August 2022. He served as the director of Haohai Holdings from July 2015 to July 2023, the supervisor of Haohai Development since February 2016, the director of NIMO since December 2016, the director of Contamac since June 2017, and the director of China Ocean Group Limited, an indirectly wholly-owned subsidiary of the Company, since December 2017. He also has served as an associate researcher at Fudan University since October 2017. He also served as a supervisor of Shanghai Qisheng Medical Technology Development Co., Ltd. (上海旗盛醫藥科技發展有限公司), a subsidiary of the Company since April 2018 and served as a supervisor of Shanghai Pacific Biological Technology Co., Ltd. and Shanghai Pacific Pharmaceutical Co., Ltd., subsidiaries of the Company since May 2018. He worked as Secretary of the Board from October 2010 to December 2019, as our joint company secretary from November 2014 to December 2020, respectively. He has been appointed as the Director since July 2010, was re-designated as an executive Director on 7 December 2014, and was re-designated as a non-executive Director on 19 December 2019. Mr. Huang, with former name Huang Ping (黃平), obtained a bachelor of laws in July 1998 and a master of laws in June 2005 from East China University of Political Science and Law (華東政法大學), and a doctoral degree in corporate management from Fudan University in June 2011. He obtained his lawyer qualification in May 1999.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Yongqing (郭永清), aged 49, retired from an Independent Non-executive Director on 29 December 2023. He has worked at Shanghai National Accounting Institute (上海國家會計學院) since 2002, and is currently a professor at Shanghai National Accounting Institute. Mr. Guo is a non-practicing member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) and a member of the Accounting Standards for Business Enterprises Consultative Committee of Ministry of Finance (財政部企業會計準則諮詢委員會). He served as an independent director at Chongqing Porton Pharmacy Science & Technology Co., Ltd. (重慶博騰製藥科技股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 300363) from March 2016 to May 2022. He served as an independent director at Tianjin Capital Environmental Protection Group Company Limited (天津創業環保集團股份有限公司), a company listed on both SSE (stock code: 600874) and the Hong Kong Stock Exchange (stock code: 1065) from December 2015 to September 2022. He had served as an independent director at Yango Group Co., Ltd. (陽光城集團股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000671) from May 2020 to August 2022. He has been an independent director at Shanghai Electric Power Company Limited (上海電力股份有限公司), a company listed on the SSE (stock code: 600021) since June 2021. He has been a director at Sanxiang Impression Co., Ltd. (三湘印象股份有限公司), a company listed on the Shenzhen Stock Exchange (stock code: 000863) since June 2021. He has also been an independent director at Anxin Trust Co., Ltd. (安信信託股份有限公司), a company listed on the SSE (stock code: 600816) since September 2022, and an independent director at New China Life Insurance Company Ltd (新華人壽保險股份有限公司), a company listed on both SSE (stock code: 601336) and the Hong Kong Stock Exchange (stock code: 1336) since November 2022. He obtained a doctoral degree in management majoring in accounting from Shanghai University of Finance and Economics (上海財經大學) in 2002.

Mr. Jiang Zhihong (姜志宏), aged 55, has been an Independent Non-executive Director since 29 June 2020. He is currently the vice president and the chair professor of Macau University of Science and Technology. Mr. Jiang conducted post-doctor research work in the Department of Biochemistry and Molecular Pharmacology of Harvard Medical School in the United States during the period from November 1999 to September 2001. Mr. Jiang has served successively as an assistant professor, associate professor and professor at the School of Chinese Medicine in Hong Kong Baptist University during the period from October 2001 to June 2011. Mr. Jiang graduated from Nagasaki University in Japan with a doctor degree in pharmacy in 1998.

Mr. Shen Hongbo (沈紅波), aged 45, served as an Independent Non-executive Director since 29 December 2023. He is currently a professor and a tutor for students of doctoral degree in the Faculty of Economics of Fudan University. From March 2007 to March 2009, he pursued post-doctorate research work in the Faculty of Finance of Tsinghua University, and he was a visiting scholar in the Harvard Business School from January 2009 to February 2009. He has served as an independent non-executive director of the Company from October 2014 to June 2020; he has served as an independent director of STO Express Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 002468) from December 2016 to December 2022; and he has been serving as an independent director of Jiangsu Lianyungang Port Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601008) since April 2020. Mr. Shen has obtained a PhD degree in Management (Accountancy) from Shanghai University of Finance and Economics in January 2007, and became a member of The Association of Chartered Certified Accountants (ACCA) of United Kingdom since January 2015.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Su Zhi (蘇治), aged 46, has been an Independent Non-executive Director since 29 June 2020. He has worked at the Central University of Finance and Economics ("CUFE") (中央財經大學) since June 2009, is currently serving as professor and doctoral supervisor at the CUFE, and the chair professor and the head of the Department of Financial Technology of the School of Finance of CUFE. Mr. Su has been the deputy director of the academic committee of the Institute of International Technology and Economy under the Development Research Center of the State Council (國務院發展研究中心國際技術經濟研究所) since July 2018. Mr. Su has also worked as executive deputy director of CUFE & University of Electronic Science and Technology of China Joint Research Data Center (電子科技大學聯合數據研究中心) since March 2018. He has been an external supervisor of Bank of Guizhou Company Limited (貴州銀行股份有限公司), a company listed on the Hong Kong Stock Exchange (stock code: 6199) since May 2018, and has been an independent director of Fujian Start Group Co., Ltd. (福建實達集團股份有限公司), a company listed on the SSE (stock code: 600734) since November 2021. He has been an external supervisor of Bank of Communications Co., Ltd., which is listed on both the SSE (stock code: 601328) and the Hong Kong Stock Exchange (stock code: 3328) since June 2022, and has been an independent director of Jilin Jlu Communication Design Institute Co., Ltd. (吉林吉大通信設計院股份有限公司), a company listed on the GEM of the Shenzhen Stock Exchange (stock code: 300597) since December 2022. Mr. Su obtained a doctor's degree in economics majoring in quantitative economics from Jilin University in June 2006. He engaged in the finance research at the post-doctoral study station of the School of Economics and Management of Tsinghua University from April 2007 to May 2009.

Mr. Yang Yushe (楊玉社), aged 60, has been an Independent Non-executive Director since 29 June 2020. He has been working at the Shanghai Institute of Materia Medica, Chinese Academy of Sciences ("SIMM") (中國科學研究院上海藥物研究所) since 1998, and is currently the doctoral tutor and second-level researcher of SIMM. His main research areas include original anti-infective drugs, anticoagulant drugs, and central nervous system drug research and development. His representative achievement is the successful development of China's first new fluoroquinolone drug with independent intellectual property rights – Antofloxacin Hydrochloride in 2009. Mr. Yang won the second prize of the National Technology Invention Award (Rank first) in 2017, the first prize of the Shanghai Technical Invention Award (Rank first) in 2015, the Outstanding Achievement Award of Chinese Pharmaceutical Development for Innovative Medicine Award in 2013, and the title of Shanghai Advanced Worker in 2010 (Model Worker). Mr. Yang obtained a doctor degree in pharmacy from SIMM in 1996.

Mr. Zhao Lei (趙磊), aged 50, has been an Independent Non-executive Director since 29 June 2020. He is currently an associate director and researcher at the Commercial Law Office in the Institute of Law of the Chinese Academy of Social Sciences. Mr. Zhao has served successively as a lecturer and adjunct professor in Southwest University of Political Science and Law from 2005 to February 2013, and has served as an associate researcher at the Social Sciences in China Press of the Chinese Academy of Social Sciences from March 2013 to November 2016. Mr. Zhao has worked at the Institute of Law of the Chinese Academy of Social Sciences since December 2016. He has been serving as an independent director of Shenwan Hongyuan Group Co., Ltd., which is listed on both the Shenzhen Stock Exchange (stock code: 000166) and the Hong Kong Stock Exchange (stock code: 6806) since May 2021. He has served as an independent director at Chengdu Sino-Microelectronics Tech. Co., Ltd.* (成都華微電子科技股份有限公司), a company listed on the Sci-tech Innovation Board (stock code: 688709) since September 2021. He has served as an independent director at Triangle Tyre Co., Ltd.* (三角輪胎股份有限公司), a company listed on the SSE (stock code: 601163) since June 2023. Mr. Zhao obtained a doctor degree of Civil and Commercial Law from Southwest University of Political Science and Law in July 2007.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Liu Yuanzhong (劉遠中), aged 55, is the chairman of the Supervisory Committee of the Company and a shareholder Supervisor. Mr. Liu joined Liming Research Institute of Chemical Industry (黎明化工研究院) in 1992 and served as an engineer from November 1997 to October 2001. He has been working as an engineer and was responsible for research and development of insulation and car high polymer material at Haohai Chemical from December 2001 until now. He has also been a supervisor of Ningbo Langge Haohai New Material Co., Ltd (寧波朗格昊海新材料有限公司) since September 2013. He has been appointed as our Supervisor since July 2010. Mr. Liu obtained a bachelor's degree in industrial analysis from the Department of Applied Chemistry of Beijing Institute of Chemical Technology (北京化工學院) in July 1992 and a master's degree in engineering from East China University of Science and Technology (華東理工大學) in June 2009.

Ms. Yang Qing (楊青), aged 52, is an independent Supervisor of the Company. Ms. Yang engaged in post-doctoral research at the Department of Economics of the University of Vienna in Austria from March 2005 to August 2005 and acted as a freeman fellow in the University of Cambridge and the University of York in England from September 2006 to September 2007, and acted as a freeman fellow in the University of Illinois at Urbana-Champaign in the U.S. from August 2011 to May 2012, and participated in visiting research in Princeton University from September 2019 to August 2020. She has joined Fudan University since July 2001 and was responsible for research and teaching work, and she is currently a professor in the School of Economics. She has been appointed as the Supervisor since October 2014. Ms. Yang obtained a bachelor's degree in management information system from Kunming University of Science and Technology (昆明理工大學) in July 1995 and a doctor's degree in management from Fudan University in July 2001.

Mr. Tang Yuejun (唐躍軍), aged 45, is an independent Supervisor of the Company. He has been an associate professor at the School of Management, Fudan University from September 2011 until present. He has also been acting as a master's degree supervisor of MBA and EMBA from January 2011 until present, a master's degree supervisor of corporate management from September 2012 until present. He acted as a visiting scholar at the Arizona State University WP Carey School of Business in US from August 2017 to July 2018. He has served as an independent director at Hannan Airport Infrastructure Co., Ltd.* (海南機場設施股份有限公司), a company listed on the SSE (stock code: 600515) since March 2023. He has been appointed as our Supervisor since October 2014. Mr. Tang obtained a bachelor's degree in economics from Nankai University (南開大學) in June 2001, and a doctor's degree in management from the School of Business of Nankai University in June 2006.

Mr. Wei Changzheng (魏長征), aged 44, is the staff representative Supervisor. Mr. Wei has been the deputy manager of the research and development department at Haohai Limited, the predecessor of the Company, since October 2009, and he has continued to serve this position after the conversion of Haohai Limited into the Company. Mr. Wei has been a director in the department of research and development from April 2016 to May 2022, and a vice general manager of Shanghai Qisheng since May 2022. He has serviced as an executive director of Shanghai Qisheng Medical Technology Development Co., Ltd., a subsidiary of the Company from April 2018 to October 2022. He has been appointed as the Supervisor since July 2010. Mr. Wei obtained a doctor of science from Ocean University of China (中國海洋大學) in June 2007.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Song Xiao (宋霄), aged 40, is the staff representative Supervisor. Ms. Song joined the Company as the senior securities manager on 1 June 2022, and has been the supervisor of Shanghai Likangrui since August 2022. She has obtained the PRC Legal Profession Qualification Certificate awarded by the Ministry of Justice of the PRC, she worked at Shanghai Oceanwisdom Lawfirm from September 2014 to May 2022, and obtained her lawyer qualification in March 2016. She has been the staff representative Supervisor since 29 June 2022. She obtained a master of laws degree from the East China University of Political Science and Law in July 2013.

SENIOR MANAGEMENT (EXCEPT DIRECTORS AND SUPERVISORS)

Ms. Ren Caixia (任彩霞), aged 66, is the deputy general manager of the Company. She served various positions at Shanghai Huayuan from April 2002 to May 2007. She served as the deputy general manager of Haohai Limited from July 2007 to August 2010. She has acted as the general manager of Shanghai Jianhua since November 2007 and an executive director of Shanghai Jianhua from November 2010 to December 2018. She has been appointed as our deputy general manager since July 2010. Ms. Ren obtained a bachelor's degree in inorganic chemicals from the Department of Chemicals of Hefei University of Technology (合肥工業大學) in September 1982.

Mr. Wang Wenbin (王文斌), aged 57, is a deputy general manager of the Company. He has served as the executive deputy general manager in Shanghai Qisheng since May 1995, and has served as the general manager of Qingdao Huayuan since April 2018, and has served as a general manager of Shanghai Haoleyuan Biotechnology Co., Ltd., a subsidiary of the Company since November 2022. He served as the deputy general manager of the Company from September 2014 to September 2017 and from March 2019 to present. Mr. Wang obtained a bachelor's degree in medicine from the Second Military Medical University in July 1991 and the practicing doctor qualification in the PRC in May 1999.

Mr. Zhang Jundong (張軍東), aged 50, is a deputy general manager of the Company. He engaged in postdoctoral research in clinical medicine at the Second Military Medical University from November 2006 to October 2010. Between June 2009 to December 2013, he served at the prescription medicine business division of Xinyi Institute of Materia Medica in Shanghai Pharmaceuticals (Group) Co. Ltd. (上海醫藥(集團)有限公司處方藥事業部信誼藥物研究所) as a director of the institute, and he served as the research and development director of Shanghai Xinyi Pharmaceutical Co., Ltd. (上海信誼藥廠有限公司). He has served as an executive director of Shanghai Likangrui Agricultural Technology Development Co., Ltd., a subsidiary of the Company since June 2022. He has also served as a director and general manager of Shanghai Likangri, and an executive director of Shanghai Bosaimei Biotechnology Co., Ltd, a subsidiary of the Company since August 2022. He served as the deputy general manager of the Company from September 2014 to September 2017 and from March 2019 to present. Mr. Zhang obtained a bachelor's degree in pharmacy in July 1994 and a doctor's degree in medicine in June 2006 from the Second Military Medical University.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Tian Min (田敏), aged 34, is the Secretary of the Board and the joint company secretary of the Company. She joined the Group in July 2015, worked in the office of the Board of the Company, and was appointed as the Company's securities affairs representative in August 2019. She has also serviced as the secretary of the Board since December 2019, the joint company secretary of the Company since January 2020. She has served as the director of Juva Medical since April 2021, has serviced as an executive director of Shanghai Qisheng Medical Technology Development Co., Ltd., a subsidiary of the Company since October 2022, and has served as a supervisor of Shanghai Haoleyuan Biotechnology Co., Ltd., a subsidiary of the Company since November 2022. She has obtained the "People's Republic of China Legal Professional Qualification Certificate" issued by the Ministry of Justice of the PRC in March 2014, and obtained the qualification certificate of the secretary of the board of directors of the Shanghai Stock Exchange in July 2019. Ms. Tian obtained a Master of Laws degree from East China University of Political Science and Law in July 2015.

JOINT COMPANY SECRETARIES

Ms. Tian Min (田敏), aged 34, has served as the joint company secretary of the Company since 1 January 2020 and is also the Secretary of the Board. For the resume of Ms. Tian, please refer to the "Senior Management" section above.

Mr. Chiu Ming King (趙明璟), aged 46, was appointed as a joint company secretary of the Company on 17 November 2014. He has joined Vistra Corporate Services (HK) Limited since June 2012 and currently serves as the managing director of corporate services of Vistra Corporate Services (HK) Limited, and prior to joining Vistra Corporate Services (HK) Limited, he was an associate director of corporate services of TMF Hong Kong Limited from October 2009 to May 2012. Mr. Chiu has over 14 years of experience in the company secretarial field. He is currently the company secretary of several companies listed on the Stock Exchange.

Mr. Chiu has been an associate member of The Chartered Governance Institute (formerly known as the Institute of Chartered Secretaries and Administrators) and The Hong Kong Chartered Governance Institute ("**HKCGI**") (formerly known as the Hong Kong Institute of Chartered Secretaries) since 2003, and a fellow member of HKCGI since September 2015. He is also a holder of the Practitioner's Endorsement Certificate issued by HKCGI. He is currently a member of the Membership Committee and Professional Services Panel of HKICS. He has also been the HKICS' representative in the Young Coalition Professional Group of The Hong Kong Coalition of Professional Services since 2013.

Mr. Chiu obtained a bachelor of arts from University of Toronto in Canada in June 1999 and received a master of arts in professional accounting and information systems from City University of Hong Kong in November 2003.

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of Shanghai Haohai Biological Technology Co., Ltd.
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Shanghai Haohai Biological Technology Co., Ltd. (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 139 to 245, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
The Group recorded revenue from the sale of goods amounting to approximately RMB2,635 million in its consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023. Revenue from contracts with customers is recognised when control of goods is transferred to the customers. We focused on this area because revenue recognition was assessed to have higher risks of material misstatement, including significant risks, due to the large transaction volume. The Group's specific disclosures about revenue recognition are included in note 2.4 "Material accounting policies" and note 5 "Revenue, other income and gains" to the financial statements.	Our audit procedures included, among others: – Discussing with management and obtaining an understanding of the revenue recognition policy, and performing tests of controls on revenue recognition; – Performing tests of details on revenue records on a sampling basis to check the occurrence and accuracy; – Obtaining the sales contracts with customers, and reviewing key terms of revenue recognition and sales return; – Obtaining revenue and trade receivables confirmations from main customers and reviewing the reconciliation of any material difference provided by management by checking the related documents, and performing alternative procedures on the confirmations with no response; – Performing analytical procedures by comparing revenue to that of previous years for the same products; and – Testing the recognition of revenue transactions before and after the end of the period to assess whether they were recorded in the correct period.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of the carrying values of goodwill and other intangible assets with indefinite useful lives	
Goodwill and other intangible assets with indefinite useful lives arising from business combination subject to impairment test amounted to RMB413 million and RMB102 million, respectively, as at 31 December 2023. The Group is required to perform the impairment test for goodwill and other intangible assets with indefinite useful lives annually. The impairment test is based on the recoverable amounts of the respective cash-generating units ("CGUs"). We focused on this area because management's impairment assessment process on goodwill and other intangible assets with indefinite useful lives was complex and involved significant judgements and estimates, including expected future cash flow forecasts, associated growth rates and the discount rates applied. The Group's specific disclosures about goodwill and intangible assets are included in note 2.4 "Material accounting policies", note 3 "Significant accounting judgements and estimates", note 15 "Other intangible assets" and note 16 "Goodwill" to the financial statements.	Our audit procedures included, among others: – With the assistance of our valuation specialists, evaluating the assumptions and methodologies, including the discount rates and growth rates used by the Group in the impairment test of goodwill and intangible assets with indefinite useful lives arising from business combination; – Assessing the competence, professional quality and objectivity of our valuation specialists; – Evaluating the forecasts used with respect to future revenues and operating results by comparing the forecasts with the historical performance of the respective CGUs and the business development plans; and – Evaluating the appropriateness of related disclosures.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wang Jun Ying.

Ernst & Young
Certified Public Accountants
Hong Kong

8 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	2,634,910	2,103,438
Cost of sales		(781,401)	(656,515)
Gross profit		1,853,509	1,446,923
Other income and gains, net	5	134,286	147,852
Selling and distribution expenses		(814,508)	(679,532)
Administrative expenses		(422,346)	(405,304)
Reversal of impairment losses/(impairment losses) on financial assets, net		1,973	(15,516)
Research and development costs		(220,098)	(182,192)
Other expenses		(17,717)	(72,407)
Finance costs	7	(7,295)	(7,603)
Share of profits and losses of:			
A joint venture		–	3,204
An associate		456	301
PROFIT BEFORE TAX	6	508,260	235,726
Income tax expense	10	(95,991)	(45,395)
PROFIT FOR THE YEAR		412,269	190,331
OTHER COMPREHENSIVE INCOME			
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		36,258	18,401
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods:		36,258	18,401

Continued…

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Equity investments designated at fair value through other comprehensive income:			
Changes in fair value		(40,700)	(112,896)
Income tax effect		(3,390)	4,865
		(44,090)	(108,031)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		(44,090)	(108,031)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(7,832)	(89,630)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		404,437	100,701
Profit attributable to:			
Owners of the parent		416,121	180,470
Non-controlling interests		(3,852)	9,861
		412,269	190,331
Total comprehensive income attributable to:			
Owners of the parent		402,952	86,778
Non-controlling interests		1,485	13,923
		404,437	100,701
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB)			
– For profit for the year	12	2.44	1.04

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,407,916	1,286,396
Right-of-use assets	14	207,130	222,441
Other intangible assets	15	574,876	620,416
Goodwill	16	413,021	411,199
Investment in a joint venture	17	–	–
Investment in an associate	18	3,471	3,028
Equity investments designated at fair value through other comprehensive income	19	603,630	668,412
Deferred tax assets	30	53,124	59,323
Other non-current assets	20	92,185	89,068
Total non-current assets		3,355,353	3,360,283
CURRENT ASSETS			
Inventories	21	526,174	485,239
Trade and bills receivables	22	337,083	388,275
Prepayments, other receivables and other assets	23	122,125	104,851
Financial assets at fair value through profit or loss	24	11,083	–
Assets classified as held for sale	25	13,000	9,159
Pledged deposits	26	680	2,877
Cash and bank balances	26	2,739,999	2,541,715
Total current assets		3,750,144	3,532,116
CURRENT LIABILITIES			
Trade payables	27	55,108	54,533
Other payables and accruals	28	409,816	397,710
Interest-bearing bank and other borrowings	29	216,625	34,378
Tax payable		34,402	24,654
Total current liabilities		715,951	511,275
NET CURRENT ASSETS		3,034,193	3,020,841
TOTAL ASSETS LESS CURRENT LIABILITIES		6,389,546	6,381,124

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	191,324	83,880
Other payables and accruals	28	4,500	4,500
Deferred tax liabilities	30	161,665	163,508
Deferred income	31	13,625	5,500
Provision	32	1,139	793
Other non-current liabilities	33	–	220,560
Total non-current liabilities		372,253	478,741
Net assets		6,017,293	5,902,383
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Share capital	34	171,477	174,130
Treasury shares	34	(248,455)	(74,042)
Reserves	36	5,727,042	5,414,521
		5,650,064	5,514,609
Non-controlling interests		367,229	387,774
Total equity		6,017,293	5,902,383

Hou Yongtai
Director

Tang Minjie
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to ordinary equity holders of the parent										
	Share capital RMB'000	Treasury shares RMB'000	Share premium account* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2023	174,130	(74,042)	3,003,117	(47,985)	88,923	1,229	(264)	2,369,501	5,514,609	387,774	5,902,383
Profit for the year	–	–	–	–	–	–	–	416,121	416,121	(3,852)	412,269
Other comprehensive income for the year:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	(44,090)	–	–	–	–	(44,090)	–	(44,090)
Exchange differences on translation of foreign operations	–	–	–	–	–	30,921	–	–	30,921	5,337	36,258
Total comprehensive income for the year	–	–	–	(44,090)	–	30,921	–	416,121	402,952	1,485	404,437
Repurchase of A shares and H shares	–	(269,977)	–	–	–	–	–	–	(269,977)	–	(269,977)
Retirement of H shares	(3,435)	95,564	(92,129)	–	–	–	–	–	–	–	–
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(13,851)	(13,851)
Dividend declared	–	–	–	–	–	–	–	(68,515)	(68,515)	–	(68,515)
Capital injection of non-controlling shareholders	–	–	–	–	–	–	–	–	–	47,000	47,000
Acquisition of non-controlling interests	–	–	(121,493)	–	–	–	–	–	(121,493)	(54,930)	(176,423)
Share redemption options granted to non-controlling shareholders of a subsidiary	–	–	105,499	–	–	–	–	–	105,499	(1,243)	104,256
Share-based payments credited to the owner's equity	–	–	13,307	–	–	–	–	–	13,307	994	14,301
Issue of shares	782	–	72,900	–	–	–	–	–	73,682	–	73,682
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	(11,520)	–	–	–	11,520	–	–	–
At 31 December 2023	171,477	(248,455)	2,981,201	(103,595)	88,923	32,150	(264)	2,728,627	5,650,064	367,229	6,017,293

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to ordinary equity holders of the parent										
	Share capital RMB'000	Treasury shares RMB'000	Share premium account* RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income* RMB'000	Statutory reserve funds* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	175,822	–	3,091,122	61,243	88,923	(13,110)	(264)	2,309,725	5,713,461	346,825	6,060,286
Profit for the year	–	–	–	–	–	–	–	180,470	180,470	9,861	190,331
Other comprehensive income for the year:											
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	(108,031)	–	–	–	–	(108,031)	–	(108,031)
Exchange differences on translation of foreign operations	–	–	–	–	–	14,339	–	–	14,339	4,062	18,401
Total comprehensive income for the year	–	–	–	(108,031)	–	14,339	–	180,470	86,778	13,923	100,701
Repurchase of H shares	–	(147,672)	–	–	–	–	–	–	(147,672)	–	(147,672)
Retirement of H shares	(1,692)	73,630	(71,938)	–	–	–	–	–	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	54,130	54,130
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(12,000)	(12,000)
Dividend declared	–	–	–	–	–	–	–	(121,891)	(121,891)	–	(121,891)
Capital injection of non-controlling shareholders	–	–	–	–	–	–	–	–	–	761	761
Capital injection to partially-owned subsidiaries	–	–	(10,720)	–	–	–	–	–	(10,720)	10,720	–
Share redemption options granted to non-controlling shareholders of a subsidiary	–	–	(29,439)	–	–	–	–	–	(29,439)	(5,003)	(34,442)
Share-based payments credited to the owner's equity	–	–	26,725	–	–	–	–	–	26,725	3,504	30,229
Disposal of partial equity of subsidiaries without loss of control	–	–	(2,633)	–	–	–	–	–	(2,633)	2,707	74
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(27,793)	(27,793)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	–	–	(1,197)	–	–	–	1,197	–	–	–
At 31 December 2022	174,130	(74,042)	3,003,117	(47,985)	88,923	1,229	(264)	2,369,501	5,514,609	387,774	5,902,383

* These reserve accounts comprise the consolidated reserves of approximately RMB5,727,042,000 (2022: RMB5,414,521,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		508,260	235,726
Adjustments for:			
Finance costs	7	7,295	7,603
Share of profits and losses of:			
A joint venture	17	–	(3,204)
An associate	18	(456)	(301)
Investment loss of disposal of a subsidiary		–	90
Interest income	5	(77,731)	(86,446)
Interest income from financial assets at fair value through profit or loss		(263)	(278)
Fair value (gain)/loss of financial assets at fair value through profit or loss		(2,296)	7,784
Dividend income from equity investments at fair value through other comprehensive income	5	(423)	(678)
Interest income form debt investments	5	–	(1,437)
Net (gain)/loss on disposal and obsolescence items of property, plant and equipment	6	(591)	417
Depreciation of property, plant and equipment	6	112,557	112,111
Depreciation of right-of-use assets	6	24,388	22,262
Amortisation of other intangible assets	6	60,910	69,844
(Reversal of impairment)/impairment of trade and other receivables	6	(1,973)	15,516
Impairment of goodwill	6	–	9,574
Impairment of property, plant and equipment	6	–	6,936
Impairment of other intangible assets	6	–	29,561
Write-down of inventories to net realisable value	6	6,741	8,168
Recognition of government grants related to assets	31	(6,884)	(7,652)
Unrealised losses from changes in foreign currency exchange		5,614	2,684
Equity-settled share option expense	6	14,301	30,229
		649,449	458,509
Increase in inventories		(48,419)	(138,859)
Decrease/(increase) in trade and bills receivables		10,130	(52,330)
Decrease in prepayments, other receivables and other assets		5,928	7,454
Decrease/(increase) in pledged deposits		2,197	(2,263)
Increase/(decrease) in provision		346	(1,005)
Increase in trade payables		43,482	35,442
Increase/(decrease) in other payables and accruals		59,523	(33,357)
Decrease in other non-current assets		–	1,426
Cash generated from operations		722,636	275,017
Income tax paid		(88,186)	(43,721)
Net cash flows generated from operating activities		634,450	231,296

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	77,731	86,446
Interest income received from equity investments designated at fair value through profit or loss		263	1,718
Purchases of items of property, plant and equipment		(265,603)	(309,207)
Purchase of land use rights		–	(6,335)
Purchase of other intangible assets		(1,627)	(1,606)
Proceeds from disposal of items of property, plant and equipment		1,840	390
Proceeds from disposal of equity investments designated at fair value through other comprehensive income		14,565	9,068
Payment for acquisition of subsidiaries		–	(2,936)
Cash distribution received from a joint venture		–	51,168
Purchase of equity investments designated at fair value through other comprehensive income		(5,000)	(163,162)
Purchase of financial assets at fair value through profit or loss		(11,079)	–
Increase in time deposits with original maturity of more than three months		(188,163)	(365,623)
Proceeds from disposal of a subsidiary		–	17,586
Dividends received from equity investments designated at fair value through other comprehensive income	5	423	678
Net cash flows used in investing activities		(376,650)	(681,815)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		73,682	–
Principal portion of lease payments		(24,549)	(21,788)
Dividends paid to non-controlling shareholders		(15,051)	(10,800)
New bank loans		313,891	65,943
Repayment of bank loans and other borrowings		(16,385)	(47,911)
Repurchase of A shares and H shares		(269,977)	(147,672)
Acquisition of non-controlling interests		(292,728)	–
Capital injection from non-controlling interests		47,000	761
Interest paid		(5,095)	(4,992)
Dividends paid	11	(68,515)	(121,891)
Net cash flows used in financing activities		(257,727)	(288,350)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		73	(738,869)
Cash and cash equivalents at beginning of year		559,197	1,283,893
Effect of foreign exchange rate changes, net		10,048	14,173
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	569,318	559,197
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances and pledged deposits as stated in the statement of financial position	26	2,740,679	2,544,592
Time deposits with original maturity of more than three months when acquired	26	(2,170,681)	(1,982,518)
		569,998	562,074
Less: Pledged time deposits:			
Guaranteed deposits	26	680	2,456
Other pledged deposits	26	–	421
Cash and cash equivalents as stated in the statement of cash flows		569,318	559,197

NOTES TO FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE AND GROUP INFORMATION

The Company was established as a limited liability company on 24 January 2007 in the People's Republic of China (the "PRC"), and the Company was transformed into a joint stock company with limited liability on 2 August 2010. The registered office of the Company is located at No. 5 Tongjing Road, Songjiang Industrial Zone, Shanghai, PRC. The Company issued 40,000,000 H shares and 45,300 H shares on 30 April 2015 and 28 May 2015, respectively. The H shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "HKSE") since 30 April 2015. The Company issued 17,800,000 A shares on 30 October 2019 ("A Share Offering"). The A shares of the Company have been listed on the Sci-tech Innovation Board of the Shanghai Stock Exchange (the "SSE") since 30 October 2019. The total number of issued shares of the Company after the A Share Offering was 177,845,300 (comprising 40,045,300 H Shares and 137,800,000 A Shares).

During the period from March 2020 to May 2023, the Company repurchased and completed the cancellation of a total of 7,150,200 H shares. In May, September, and December 2023, a total of 782,158 A shares were issued to eligible participants pursuant to the completion of attribution of the first and reserved grants under the Company's 2021 Restricted A Share Incentive Scheme. From August to December 2023, the Company repurchased 3,296,500 H shares and 1,089,486 A shares. As of the date of this report, the aforementioned repurchased shares have not been cancelled yet.

Throughout the fiscal year ended 31 December 2023, the Group's primary activities were focused on the manufacture and sale of biologicals, medical hyaluronate and ophthalmology products, alongside with research and development of biological engineering. Furthermore, the Group was involved in the production and distribution of pharmaceutical and ophthalmology products, as well as offering related services.

In the opinion of the directors, the ultimate controlling stakeholders are Mr. Jiang Wei and his spouse, Ms. You Jie.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
上海其勝生物製劑有限公司 Shanghai Qisheng Biologicals Co., Ltd.* ("Shanghai Qisheng")	PRC/ Mainland China 27 May 1992	RMB160,000,000	100	–	Manufacture and sale of biological reagents, biologicals and biological materials
上海利康瑞生物工程有限公司 Shanghai Likangrui Bioengineering Co., Ltd.* ("Shanghai Likangrui")	PRC/ Mainland China 3 September 2001	RMB250,000,000	70	–	Research and development, consultation and services of biological engineering and pharmaceutical products and related technology transfer

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Name	Place and date of incorporation/ registration and place of business	Paid-up capital/ registered share capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
河南宇宙人工晶狀體研製有限公司 Henan Universe Intraocular Lens Research and Manufacture Co., Ltd. ("Henan Universe")	PRC/ Mainland China 23 April 1991	RMB9,923,200	–	100	Manufacture and sale of intraocular lens and related products
深圳市新產業眼科新技術有限公司 Shenzhen New Industries Material of Ophthalmology Co., Ltd* ("NIMO")	PRC/ Mainland China 27 April 2006	RMB11,000,000	–	80	Sale of ophthalmology products
Contamac Limited	United Kingdom 10 May 1991	GBP1,000	–	79	Manufacture and sale of contact lens and intraocular lens material, machines and accessories
歐華美科(天津)醫學科技有限公司 Ouhua Meike (Tianjin) Medical Technology Co., Ltd. ("JUVA MEDICAL")	PRC/ Mainland China 12 May 2014	RMB126,500,000	100	–	Sale machines of medical aesthetics, professional life cosmetology and home cosmetology
EndyMed Ltd.	Israel	ILS2,749,248	–	49	Research and development of radiofrequency instruments and product and sale of radiofrequency instruments

* English translations of names for identification purposes only

* All of the Company's subsidiaries registered in the PRC are limited liability companies under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS

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2. ACCOUNTING POLICIES

2.1 Basis of presentation

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments and certain other payables and accruals, 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. ACCOUNTING POLICIES (Continued)

2.1 Basis of presentation (Continued)

*Basis of consolidation **(Continued)***

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 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 Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.2 Changes in accounting policies and disclosures (Continued)

(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. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately, which have been reflected in the reconciliation disclosed in note 30 to the financial statements. However, they did not have any material impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under IAS 12.

(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. ACCOUNTING POLICIES (Continued)

2.3 Issued but not yet effective international financial reporting standards

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[1]
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
Amendments to IAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024

2 Effective for annual periods beginning on or after 1 January 2025

3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the HKICPA. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.3 Issued but not yet effective international financial reporting standards (Continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other case, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes an input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Business combinations and goodwill **(Continued)***

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Fair value measurement **(Continued)***

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over the estimated useful life. The principal annual rates used for this purpose are as follows:

Items	Principal annual rate
Land and buildings	2.4% to 5.0%
Plant and machinery	9.0% to 31.7%
Motor vehicles	9.5% to 33.3%
Office equipment and others	9.5% to 33.3%
Leasehold improvements	10.0% to 20.0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Patents and non-patent technology

Purchased patents and non-patent technology are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 15 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Intangible assets (other than goodwill) ***(Continued)***

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Research and development costs which do not meet these criteria are expensed when incurred.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 36 to 120 months.

Customer relationship

Customer relationship is acquired in business combinations and stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 3 to 15 years.

Exclusive distribution right

Exclusive distribution right is acquired in business combinations and stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Brands

Brand is acquired in a business combination. The brand consisted of one brand that was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc. (“Aaren Business”), a legal entity registered in the USA, with an indefinite useful life in 2016, one brand that was acquired from the business combination of Contamac Holdings Limited (“Contamac Holdings”) and its subsidiaries (“Contamac Group”) with an indefinite useful life in 2017 and one brand that was acquired from the package business combination of Ouhua Meike (Tianjin) Medical Technology Co., Ltd. (“JUVA MEDICAL Group”) and Bioxis Pharmaceuticals (“Bioxis”, together with JUVA MEDICAL Group, “JUVA Group”) which is amortised on the straight-line basis over its estimated useful lives of 10 years in 2021. The useful life of the brand is estimated to be indefinite because based on the current market share of the brand, management believes there is no foreseeable limit to the period over which the brand is expected to generate net cash flows for the Group.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Leases

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

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease components, the Group adopts the practical expedient not to separate non-lease components and to account for the lease component and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Buildings	2 to 10 years
Prepaid land lease payments	15 to 50 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Leases (Continued)

Group as a lessee (Continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of motor vehicles that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Investments and other financial assets **(Continued)***

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in profit or loss when the right of payment has been established.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Impairment of financial assets **(Continued)***

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Impairment of financial assets **(Continued)***

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals and interest-bearing bank and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Financial liabilities **(Continued)***

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value, and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in profit or loss net of any reimbursement.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the sale of certain industrial products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are initially recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate. The warranty-related cost is revised annually.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Revenue recognition **(Continued)***

Revenue from contracts with customers (Continued)

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

- Sale of goods

  Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

- Equipment technical service

  Revenue from equipment technical service is recognised over time, using a output method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. The output method recognises revenue on the basis of proportion of service completed to the estimated total revenue.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions"). JUVA MEDICAL Group also operates an employee share option scheme which some employees of JUVA MEDICAL Group were allowed to participate in.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes Model or by the difference between the price of the most recent investor investment on the grant date and the price received for the implementation of the transactions, further details are given in note 35 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Share-based payments **(Continued)***

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However. if a new award is substituted for the cancelled award and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 11 to the financial statements.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (Continued)

2.4 Material accounting policies (Continued)

*Foreign currencies **(Continued)***

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the weighted average exchange rates for the year. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Judgements (Continued)

Business model

The classification of financial assets at initial recognition depends on the business model of the Group's management of financial assets. In judging the business model, the Group considers corporate appraisal, methods of reporting the results of financial assets to key management members, risks affecting the results of financial assets and its management, as well as the methods of remunerating relevant business managers and so forth. In assessing whether the objective is to collect contractual cash flows, the Group needs to analyse and judge the reasons for disposing of the financial assets before maturity, time, frequency and value of the financial assets and so forth.

Contractual cash flow characteristics

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial assets. When it is necessary to judge whether the contractual cash flow is only the payment of the principal and the interest based on the outstanding principal, including the assessment of the correction of the time value of money, it is necessary to judge whether there is a significant difference compared with the benchmark cash flow. For financial assets with advanced payment characteristics, it is necessary to judge whether the fair value of the advanced payment characteristics is minimal.

Estimation uncertainty

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

Impairment of financial instruments

The Group assess the impairment of financial instruments based on the expected credit loss model ("ECLs"), and the application of the ECLs requires significant judgement and estimation, all reasonable and well-founded information should be taken into account, including forward-looking information. In making these judgements and estimates, the Group infers the expected changes in the credit risk of the debtor based on historical repayment data combined with economic policies, macroeconomic indicators, industry risks and other factors. Different estimates may affect the provision for impairment, which may not be equal to the actual amount of impairment loss in the future.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-current assets other than financial assets (other than goodwill)

The Group determines whether there are any signs of possible impairment of non-current assets other than financial assets at the balance sheet date. For intangible assets with indefinite useful lives, in addition to annual impairment tests, impairment tests are also carried out when there are any signs of impairment. Other non-current assets, other than financial assets, are tested for impairment when there are indications that their carrying amount is not recoverable. An impairment occurs when the carrying amount of an asset or group of assets is higher than the recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal. The net fair value less disposal costs is determined by reference to the agreed sale price or observable market value of a similar asset in a fair transaction, less incremental costs directly attributable to the disposal of that asset. When predicting the fair value of future cash flows, management must estimate the projected future cash flows of the asset or group of assets and select an appropriate discount rate to determine the present value of future cash flows.

Useful lives of intangible assets

The Group determines useful lives and the related amortisation at least on an annual basis. The Group's management determines the estimated useful lives and the related amortisation charge for the Group's intangible assets. This estimate is based on the historical experience of the actual useful lives of intangible assets of similar nature and functions. Management will increase the amortisation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in amortisable lives and, therefore, amortisation charge in the future periods.

Impairment of goodwill and other intangible assets with indefinite useful lives

The Group determines whether goodwill and other intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and other intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amounts of goodwill and other intangible assets with indefinite useful lives subject to impairment test at 31 December 2023 were approximately RMB413,021,000 (2022: RMB420,773,000) and RMB102,337,000 (2022: RMB96,716,000), respectively. Further details are given in notes 16 and 15 respectively.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of financial instruments

For financial instruments for which there is no active trading market, the Group determines their fair value through various valuation methods. These valuation methods include discounted cash flow model analysis. In the valuation, the Group needs to estimate future cash flows, credit risk, market volatility and correlation, and select an appropriate discount rate. These related assumptions are uncertain and their changes will affect the fair value of financial instruments.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable to items with similar terms and risk characteristics. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty. The fair value of the unlisted equity investments at 31 December 2023 was RMB592,399,000 (2022: RMB620,269,000). Further details are included in note 19 to the financial statements.

Variable consideration involving sales discounts or sales returns

For a combination of contracts with similar characteristics, the Group makes reasonable estimates of discount rates or return rates, etc., based on historical sales data, current sales conditions, and taking into account all relevant information such as the changes of customer and the change of market. The estimated discount or return rate may not be equal to the actual discount or return rate in the future, and the Group re-evaluates the discount or return rate at least at each balance sheet date and determines accounting based on the reassessed discount or return rate.

Provisions

The Group makes a reasonable estimate of the warranty rate based on historical warranty data and current warranty situation and taking into account all relevant information such as product improvement and market changes and provides for warranties for a combination of contracts with similar characteristics. The estimated warranty rate may not be equal to the actual warranty rate in the future and the Group reassesses the warranty rate at least at the end of each reporting period and determines the estimated liability based on the reassessed warranty rate.

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4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are related to a single operating segment, which is the manufacture and sale of biologicals, medical hyaluronate and intraocular lens, research and development of biological engineering and pharmaceutical products and the provision of related services. Therefore, management monitors the operating results of the Group's operating segment as a whole for the purpose of making decision about resources allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2023 RMB'000	2022 RMB'000
Chinese Mainland	2,181,814	1,699,078
Europe	136,051	140,814
USA	120,277	103,717
Other regions and countries	196,768	159,829
Total revenue	2,634,910	2,103,438

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
Chinese Mainland	2,199,447	2,152,373
U.K.	282,825	256,350
USA	31,047	33,587
Other regions and countries	185,280	190,238
Total non-current assets	2,698,599	2,632,548

The non-current asset information of continuing operations above is based on the locations of the assets and excludes equity investments designated at fair value through other comprehensive income and deferred tax assets.

Information about major customers

No revenue from a single customer contributed to 10% or more of the Group's revenue during the year.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	2,634,910	2,103,438

Revenue from contracts with customers

(a) *Disaggregated revenue information*

	2023 RMB'000	2022 RMB'000
Types of goods sold		
Medical aesthetics and wound care products	1,052,801	744,342
Ophthalmology products	924,650	765,969
Orthopedic products	474,259	386,477
Antiadhesion and hemostasis products	145,924	176,272
Other products	37,276	30,378
Total	2,634,910	2,103,438
Timing of revenue recognition		
Goods transferred at a point in time	2,631,224	2,096,764
Services rendered over time	3,686	6,674
Total	2,634,910	2,103,438

(b) *Performance obligation*

Information about the Group's performance obligation is summarised below:

Sale of products

The performance obligation is satisfied upon delivery of products and payment is generally due within six months from delivery, except for distributors, where payment in advance is normally required.

Equipment technical service

The performance obligation is satisfied over time as services are rendered. Service contracts are billed based on the time incurred or monthly.

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5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

Other income and gains

	2023 RMB'000	2022 RMB'000
Bank interest income	77,731	86,446
Government grants	41,820	40,276
Dividend income from equity investments designated at fair value through other comprehensive income	423	678
Interest income from debt investment	–	1,437
Gain on disposal of items of property, plant and equipment	627	185
Others	13,685	18,830
Total other income and gains	134,286	147,852

Note:

Various government grants have been received from local government authorities in various regions in the PRC, for compensating research activities. The government grants released have been recorded in other income and gains, among which there were no unfulfilled conditions or contingencies relating to these recognised government grants.

NOTES TO FINANCIAL STATEMENTS

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6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2023 RMB'000	2022 RMB'000
Cost of inventories sold	781,401	656,515
Depreciation of property, plant and equipment (note 13)	112,557	112,111
Depreciation of right-of-use assets	24,388	22,262
Amortisation of other intangible assets (note 15)	60,910	69,844
Auditor's remuneration	2,545	2,780
Research and development costs	220,098	182,192
Lease payments not included in the measurement of lease liabilities (note 14)	4,652	4,562
Employee benefit expense (excluding directors' remuneration as set out in note 8):		
Wages and salaries	577,016	495,058
Pension scheme contributions	53,065	38,157
Equity-settled share option expense	14,301	30,229
Foreign exchange differences, net	5,614	2,684
Impairment losses on financial assets, net:		
(Reversal of impairment)/impairment of trade receivables, net	(2,078)	14,795
Impairment of financial assets included in prepayments, other receivables and other assets, net	105	721
Impairment loss on property, plant and equipment	–	6,936
Impairment loss on other intangible assets	–	29,561
Impairment loss on goodwill	–	9,574
Write-down of inventories to net realisable value	6,741	8,168
Bank interest income	(77,731)	(86,446)
Interest income from debt investment	–	(1,437)
Net loss on disposal of a subsidiary	–	90
Net loss on disposal and obsolescence of items of property, plant and equipment	(591)	417

NOTES TO FINANCIAL STATEMENTS

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7. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on bank loans and other loans	5,187	5,288
Interest on lease liabilities	2,108	2,315
Total	7,295	7,603

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2023 RMB'000	2022 RMB'000
Fees	2,185	1,023
Other emoluments:		
Salaries, allowances and benefits in kind	4,348	4,257
Performance related bonuses	2,315	2,787
Equity-settled share option expense	1,734	3,100
Pension scheme contributions	395	368
Subtotal	8,792	10,512
Total	10,977	11,535

During the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows*:

	2023 RMB'000	2022 RMB'000
Mr. Jiang Zhihong	141	141
Mr. Guo Yongqing*	126	63
Mr. Yang Yushe	126	126
Mr. Zhao Lei	126	126
Mr. Su Zhi	126	126
Ms. Li Yingqi	–	63
Total	645	645

* The Company announced that Mr. Guo Yongqing no longer served as an independent non-executive director of the Fifth Board of Directors of the Company., and as a member in the various related board committees. Following his resignation, Mr. Guo Yongqing would no longer hold any position within the Company. The Board of Directors also elected Mr. Shen Hongbo as an independent non-executive director of the Company's Fifth Board of Directors. The Company convened the eighteenth meeting of the Fifth Board of Directors on 29 December 2023, appointing Mr. Shen Hongbo as a member of related board committees. His term commenced on 29 December 2023, and will continue until the expiration of the Fifth Board of Directors' term.

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2023						
Executive directors:						
Dr. Hou Yongtai	659	826	340	394	68	2,287
Mr. Wu Jianying	189	890	758	552	68	2,457
Mr. Tang Minjie	157	826	396	394	68	1,841
Ms. Chen Yiyi	157	702	330	394	68	1,651
Non-executive directors:						
Ms. You Jie	–	–	–	–	–	–
Mr. Huang Ming	126	–	–	–	–	126
Supervisors:						
Mr. Liu Yuanzhong	–	–	–	–	–	–
Ms. Yang Qing	126	–	–	–	–	126
Mr. Tang Yuejun	126	–	–	–	–	126
Mr. Wei Changzheng	–	728	298	–	68	1,094
Ms. Song Xiao	–	376	193	–	55	624
Total	1,540	4,348	2,315	1,734	395	10,332

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31 December 2023

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022						
Executive directors:						
Dr. Hou Yongtai	–	795	800	704	63	2,362
Mr. Wu Jianying	–	855	800	986	63	2,704
Mr. Tang Minjie	–	795	477	704	63	2,039
Ms. Chen Yiyi	–	675	396	704	63	1,838
Non-executive directors:						
Ms. You Jie	–	–	–	–	–	–
Mr. Huang Ming	126	–	–	–	–	126
Supervisors:						
Mr. Liu Yuanzhong	–	–	–	–	–	–
Ms. Yang Qing	126	–	–	–	–	126
Mr. Tang Yuejun	126	–	–	–	–	126
Mr. Wei Changzheng	–	741	181	–	63	985
Mr. Yang Linfeng	–	177	–	–	29	206
Ms. Song Xiao	–	219	133	–	24	376
Total	378	4,257	2,787	3,098	368	10,888

[1] Mr. Wu Jianying was the chief executive of the Group during the year.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2022: Nil).

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2022: four directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2022: one) highest paid employees who is neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	641	615
Performance related bonuses	537	800
Equity-settled share option expense	158	282
Pension scheme contributions	68	63
Total	1,404	1,760

The numbers of five highest paid individuals whose remuneration fell within the following bands is as follows:

	2023	2022
HK$1,000,001 to HK$1,500,000	1	–
HK$1,500,001 to HK$2,000,000	4	5
Total	5	5

During the prior year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 35 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

The Company is registered in the PRC and is subject to PRC corporate income tax ("CIT") on the taxable income as reported in its PRC statutory accounts adjusted in accordance with relevant PRC income tax laws.

The Company, Shanghai Qisheng, Shanghai Jianhua Fine Biological Products Co., Ltd. ("Shanghai Jianhua"), Henan Universe, and Qingdao Huayuan Fine Biological Product Co., Ltd. ("Qingdao Huayuan") were accredited as high and new-tech enterprises (the "HNTE") for the three years from 2023 to 2025 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during 2023 for the Company, Shanghai Qisheng, Shanghai Jianhua, Henan Universe and Qingdao Huayuan.

NIMO, Hangzhou Aijinglun Technology Co., Ltd. ("Hangzhou Aijinglun") and Sanhe Leike Optoelectronics Technology Co., Ltd. ("Laserconn") were accredited as HNTE for the three years from 2022 to 2024 by the relevant authorities. Therefore, the preferential income tax rate of 15% was applied during 2023 for NIMO, Hangzhou Aijinglun and Laserconn.

The applicable tax rate for the other subsidiaries registered in Chinese Mainland was 25% (2022: 25%) during the year.

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first HK$2,000,000 of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

The profits tax for subsidiaries in the USA has been provided at the rate of 21% (2022: 21%) on the estimated assessable profits arising in the USA during the year.

The profits tax for subsidiaries in the U.K. has been provided at the rate of 25% (2022: 19%) on the estimated assessable profits arising in the U.K. during the year.

The profits tax for subsidiaries in France has been provided at the rate of 25% (2022: 25%) on the estimated assessable profits arising in France during the year.

The profits tax for subsidiaries in Israel has been provided at the rate of 23% (2022: 23%) on the estimated assessable profits arising in Israel during the year.

	2023 RMB'000	2022 RMB'000
Current		
Charge for the year	95,774	66,521
Under provision in prior years	2,160	596
Deferred (note 30)	(1,943)	(21,722)
Total tax charge for the year	95,991	45,395

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10. INCOME TAX (Continued)

A reconciliation of the tax expense/(credit) applicable to profit before tax at the statutory tax rate for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2023		2022	
	RMB'000	%	RMB'000	%
Profit before tax	508,260		235,726	
Tax at the statutory tax rate	126,338	24.8	57,654	24.4
Adjustments in respect of current tax of previous years	2,160	0.4	596	0.3
Profit and loss attributable to an associate	(114)	–	(57)	–
Additional deductible allowance for research and development expenses	(37,045)	(7.3)	(32,201)	(13.7)
Expenses not deductible for tax	8,163	1.6	5,913	2.5
Deductible temporary differences and tax losses not recognised	45,467	8.9	38,107	16.2
Income not subject to tax	(1,056)	(0.2)	(1,126)	(0.5)
Tax losses utilised from previous periods	(3,407)	(0.7)	(4,296)	(1.8)
Deductible expense due to share option scheme	(2,150)	(0.4)	–	–
Effect on opening deferred tax of decrease/(increase) in rates	6,588	1.3	2,729	1.2
Additional deductible allowance for fixed asset	–	–	(233)	(0.1)
Tax saving from preferential tax rate due to HNTE Status	(48,953)	(9.6)	(21,691)	(9.2)
Tax charge at the Group's effective rate	95,991	18.8	45,395	19.3

The effective tax rate of the Group was 18.8% during the year ended 31 December 2023 (2022: 19.3%).

11. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Proposed final – RMB1.00 (2022: RMB0.40) per ordinary share	166,834	68,508

On 8 March 2024, the directors proposed to (1) declare the final dividend of RMB1.00 (inclusive of tax) per ordinary share, amounting to RMB166,833,930 for the year ended 31 December 2023, based on the total number of shares issued by the Company and deducting total shares which have been repurchased but not cancelled by the Company as of 8 March 2024; and (2) issue 4 new shares for every 10 existing shares of the Company to the shareholders by transferring reserve to share capital. The above plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

On 24 March 2023, the directors proposed to declare the final dividend of RMB0.40 (inclusive of tax) per ordinary share, amounting to RMB68,508,400 for the year ended 31 December 2022, which was paid in 2023 to shareholders of the Company.

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12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 170,531,137 (2022: 173,562,775) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2023 and 2022.

The Group has a share option scheme that has an anti-dilution effect on earnings per share, so the amounts of diluted earnings per share and basic earnings per share are the same.

The calculation of basic and diluted earnings per share is based on:

	2023 RMB'000	2022 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	416,121	180,470

	Numbers of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue used in the basic and diluted earnings per share calculation	170,531,137	173,562,775

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings* RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2023							
At 1 January 2023:							
Cost	346,247	695,972	27,401	84,410	520,223	110,034	1,784,287
Accumulated depreciation and impairment	(83,255)	(296,698)	(17,116)	(52,231)	(1,242)	(47,349)	(497,891)
Net carrying amount	262,992	399,274	10,285	32,179	518,981	62,685	1,286,396
At 1 January 2023, net of accumulated depreciation and impairment	262,992	399,274	10,285	32,179	518,981	62,685	1,286,396
Additions	8,606	16,774	465	4,048	195,117	1,619	226,629
Disposals	2	(841)	(191)	(219)	–	–	(1,249)
Depreciation provided during the year	(15,056)	(67,713)	(4,046)	(9,693)	–	(16,049)	(112,557)
Transfers	4,657	63,254	112	11,299	(80,270)	948	–
Exchange realignment	4,208	2,328	(5)	310	1,779	77	8,697
At 31 December 2023, net of accumulated depreciation and impairment	265,409	413,076	6,620	37,924	635,607	49,280	1,407,916
At 31 December 2023:							
Cost	365,656	769,402	26,170	97,967	635,607	112,868	2,007,670
Accumulated depreciation and impairment	(100,247)	(356,326)	(19,550)	(60,043)	–	(63,588)	(599,754)
Net carrying amount	265,409	413,076	6,620	37,924	635,607	49,280	1,407,916

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings* RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	359,382	646,336	22,973	81,548	369,565	139,825	1,619,629
Accumulated depreciation and impairment	(67,643)	(228,514)	(13,221)	(45,973)	–	(67,241)	(422,592)
Net carrying amount	291,739	417,822	9,752	35,575	369,565	72,584	1,197,037
At 1 January 2022, net of accumulated depreciation and impairment	291,739	417,822	9,752	35,575	369,565	72,584	1,197,037
Additions	3,376	9,613	–	4,687	218,517	7,067	243,260
Acquisition of a subsidiary	–	110	824	324	–	–	1,258
Disposals	–	(462)	(105)	(240)	–	–	(807)
Disposal of a subsidiary	(13,904)	(7,362)	(38)	(1,046)	(12,029)	–	(34,379)
Depreciation provided during the year	(17,002)	(63,795)	(3,885)	(9,284)	–	(18,145)	(112,111)
Impairment during the year	–	(5,456)	(13)	(153)	(1,242)	(72)	(6,936)
Transfers	–	48,458	3,919	2,266	(55,898)	1,255	–
Exchange realignment	(1,217)	346	(169)	50	68	(4)	(926)
At 31 December 2022, net of accumulated depreciation and impairment	262,992	399,274	10,285	32,179	518,981	62,685	1,286,396
At 31 December 2022:							
Cost	346,247	695,972	27,401	84,410	520,223	110,034	1,784,287
Accumulated depreciation and impairment	(83,255)	(296,698)	(17,116)	(52,231)	(1,242)	(47,349)	(497,891)
Net carrying amount	262,992	399,274	10,285	32,179	518,981	62,685	1,286,396

At 31 December 2023 and 31 December 2022, no property, plant and equipment were pledged.

The information about the impairment loss of property, plant and equipment during the year ended 31 December 2023 is disclosed in note 16 to the financial statements.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land and buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 15 to 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms between 2 and 10 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There is no lease contract that includes extension and termination options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	Buildings RMB'000	Total RMB'000
As at 1 January 2022	169,747	45,053	214,800
Additions	6,335	31,983	38,318
Acquisition of subsidiaries	–	2,470	2,470
Exchange realignment	–	465	465
Disposition of subsidiaries	(3,987)	–	(3,987)
Disposition	–	(847)	(847)
Depreciation charge	(8,979)	(19,799)	(28,778)
As at 31 December 2022 and 1 January 2023	163,116	59,325	222,441
Additions	–	17,634	17,634
Exchange realignment	–	1,230	1,230
Disposition	–	(3,272)	(3,272)
Depreciation charge	(8,927)	(21,976)	(30,903)
As at 31 December 2023	154,189	52,941	207,130

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14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	61,259	46,715
New leases	17,634	31,983
Accretion of interest recognised during the year	2,108	2,315
Acquisition of subsidiaries	–	2,126
Exchange realignment	1,013	755
Disposition	(3,272)	(847)
Payments	(24,549)	(21,788)
Carrying amount at 31 December	54,193	61,259
Analysed into:		
Current portion	20,310	21,359
Non-current portion	33,883	39,900

The maturity analysis of lease liabilities is disclosed in note 44 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	2,108	2,315
Depreciation charge of right-of-use assets	30,903	28,778
Expense relating to short-term leases (included in administrative expenses)	4,652	4,562
Total	37,663	35,655

15. OTHER INTANGIBLE ASSETS

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brands* RMB'000	Exclusive distribution rights RMB'000	Total RMB'000
31 December 2023							
Cost at 1 January 2023 net of accumulated amortisation	120	232,672	4,041	180,941	104,949	97,693	620,416
Additions	20	–	1,607	–	–	–	1,627
Amortisation provided during the year	(125)	(21,510)	(2,469)	(23,648)	(950)	(12,208)	(60,910)
Exchange realignment	5	7,570	548	(1)	5,621	–	13,743
At 31 December 2023	20	218,732	3,727	157,292	109,620	85,485	574,876
31 December 2023							
Cost	12,462	351,713	17,511	304,961	117,198	112,480	916,325
Accumulated amortisation	(12,442)	(132,981)	(13,784)	(147,669)	(7,578)	(26,995)	(341,449)
Net carrying amount	20	218,732	3,727	157,292	109,620	85,485	574,876

The information about the impairment loss of other intangible assets during the year ended 31 December 2023 is disclosed in note 16 to the financial statements.

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15. OTHER INTANGIBLE ASSETS (Continued)

	Patents RMB'000	Non-patent technology RMB'000	Software RMB'000	Customer relationship RMB'000	Brands* RMB'000	Exclusive distribution rights RMB'000	Total RMB'000
31 December 2022							
Cost at 1 January 2022 net of accumulated amortisation	510	278,922	6,358	182,921	109,835	34,851	613,397
Additions	–	–	1,606	–	–	–	1,606
Amortisation provided during the year	(289)	(24,085)	(3,332)	(28,980)	(950)	(12,208)	(69,844)
Acquisition of a subsidiary	–	–	–	27,000	–	75,050	102,050
Impairment during the year	–	(23,630)	(659)	–	(5,272)	–	(29,561)
Disposal of a subsidiary	(95)	–	–	–	–	–	(95)
Exchange realignment	(6)	1,465	68	–	1,336	–	2,863
At 31 December 2022	120	232,672	4,041	180,941	104,949	97,693	620,416
31 December 2022							
Cost	12,381	339,470	15,304	304,961	111,488	112,480	896,084
Accumulated amortisation and impairment	(12,261)	(106,798)	(11,263)	(124,020)	(6,539)	(14,787)	(275,668)
Net carrying amount	120	232,672	4,041	180,941	104,949	97,693	620,416

* The brands with indefinite useful lives, consisted of one brand of approximately RMB30,881,000 (2022: RMB30,374,000) that was acquired from the business combination of the hydrophilic intraocular lenses and PMMA products business from Aaren Scientific Inc. ("Aaren Business"), a legal entity registered in the USA, with an indefinite useful life in 2016, one brand of approximately RMB71,456,000 (2022: RMB66,342,000) that was acquired from the business combination of Contamac Group with an indefinite.

During the year ended 31 December 2022, the Group determined the impairment of intangible assets with indefinite useful lives using the income approach – relief-from-royalty method and recognised impairment losses of approximately RMB5,361,000 (2022: RMB5,272,000). The value in use was determined under this method, cash flow projections of which were based on financial budgets approved by senior management.

15. OTHER INTANGIBLE ASSETS (Continued)

During the year ended 31 December 2023, the Group determined the impairment of intangible assets with indefinite useful lives using the income approach – relief-from-royalty method. The value in use was determined under this method, cash flow projections of which were based on financial budgets approved by senior management. The value in use was determined under this method, cash flow projections of which were based on financial budgets approved by senior management. The discount rate used in the cash flow projection named Aaren Business was 13% (2022: 12.5%). The growth rate used to extrapolate the cash flows of Aaren Business beyond the five-year period was 2.2% (2022: 2.2%). The discount rate used in the cash flow projection named Contamac Group was 11% (2022: 12%). The growth rate used to extrapolate the cash flows of Contamac Group beyond the five-year period was 2% (2022: 2.2%).

Assumptions were used in the value-in-use calculation of cash-generating units for 31 December 2023. The following describes each key assumption on which the management has based its cash flow projections to undertake impairment testing of the other intangible assets:

- Discount rates – The discount rates used were before tax and reflect specific risks relating to the relevant units.
- Growth rates – The growth rates were based on industry growth forecasts.
- Changes in selling prices and direct costs – These were based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs were consistent with external information sources.

16. GOODWILL

	2023 RMB'000	2022 RMB'000
At the beginning of the year	411,199	406,901
Acquisition of a subsidiary	–	13,660
Impairment during the year	–	(9,574)
Exchange realignment	1,822	212
At the end of the year	413,021	411,199

Impairment testing of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

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16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Goodwill acquired through business combinations was allocated to the following cash-generating units for impairment testing:

Cash-generating unit named NIMO Group;
Cash-generating unit named Contamac Group;
Cash-generating unit named China Ocean Group[1];
Cash-generating unit named Hangzhou Aijinglun[2];
Cash-generating unit named JUVA MEDICAL Group[3]
Cash-generating unit named Bioxis[3]; and
Cash-generating unit named Xiamen Nanpeng Optical Co., Ltd. (Xiamen Nanpeng)[4]

1 China Ocean Group Limited and its subsidiaries ("China Ocean Group"), including Qingdao Huayuan Fine Biological Product Co., Ltd., Shanghai Pacific Biological Technology Co., Ltd. and Shanghai Pacific Pharmaceutical Co., Ltd.

2 During the year ended 31 December 2020, the Group acquired a total of 55.00% of equity shares of Hangzhou Aijinglun.

3 During the year ended 31 December 2021, the Group acquired a total 63.64% of equity shares of JUVA MEDICAL Group and 65.61% equity shares of Bioxis.

4 During the year ended 31 December 2022, the Group acquired a total 51.00% of equity shares of Xiamen Nanpeng.

Cash-generating unit named NIMO Group

The recoverable amount of the cash-generating unit named NIMO Group was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2022: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.3% (2022: 2.3%).

Cash-generating unit of Aaren Business

During the year ended 31 December 2022, in view of the termination of the distribution agreement between Aaren and the former domestic exclusive distributor in China and the proposed re-integration of the domestic sales channels of the Aaren-branded IOL products, the management of the Company believed that there were indications of impairment on the Aaren business, and an impairment test was conducted. According to the results of the impairment test, the total impairment loss on the goodwill, property, plant and equipment and other intangible assets of the Aaren business amounted to approximately RMB46,071,000 which consisted of the impairment loss on goodwill amounted to RMB9,574,000, impairment loss of property, plant and equipment amounted to RMB6,936,000 and impairment loss on other intangible assets amounted to RMB29,561,000.

16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Contamac Group

The recoverable amount of the cash-generating unit named Contamac Group was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 14% (2022: 13%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2% (2022: 2%).

Cash-generating unit named China Ocean Group

The recoverable amount of the cash-generating unit named China Ocean Group was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2022: 14%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.3% (2022: 2.3%).

Cash-generating unit named Hangzhou Aijinglun

The recoverable amount of the cash-generating unit named Hangzhou Aijinglun was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% (2022: 16%). The growth rate used to extrapolate the cash flows beyond the five-year period was 2.3% (2022: 2.3%).

Cash-generating unit named JUVA MEDICAL Group

The recoverable amount of the cash-generating unit named JUVA MEDICAL Group was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 22% (2022: 21%). The growth rate used to extrapolate the cash flows beyond the seven-year period was 2.3% (2022: 2.3%).

Cash-generating unit named Bioxis

The recoverable amount of the cash-generating unit named Bioxis was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 26% (2022: 23%). The growth rate used to extrapolate the cash flows beyond the seven-year period was 2% (2022: 2%).

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16. GOODWILL (Continued)

Impairment testing of goodwill (Continued)

Cash-generating unit named Xiamen Nanpeng

The recoverable amount of the cash-generating unit named Xiamen Nanpeng was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a seven-year period approved by senior management. The discount rate applied to the cash flow projections was 27% (2022: 27%). The growth rate used to extrapolate the cash flows beyond the seven-year period was 2.3% (2022: 2.3%).

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2023 RMB'000	2022 RMB'000
NIMO Group	266,026	266,026
Hangzhou Aijinglun	53,349	53,349
China Ocean Group	32,115	32,115
Contamac Group	25,456	23,634
Bioxis	19,730	19,730
Xiamen Nanpeng	13,660	13,660
JUVA MEDICAL	2,685	2,685
Total	413,021	411,199

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

- Discount rates – The discount rates used were before tax and reflect specific risks relating to the relevant units.

- Growth rates – The growth rates were based on industry growth forecasts.

- Changes in selling prices and direct costs – These were based on past practices and expectations of future changes in the market.

The values assigned to the key assumptions on discount rates, growth rates and changes in selling prices and direct costs were consistent with external information sources.

17. INVESTMENT IN A JOINT VENTURE

As of 31 December 2023 and 2022, the aggregate carrying amount of the Group's investment was nil in Changxing Tongrui Investment Partnership Enterprise (Limited Partnership) ("Changxing Tongrui") on which the Group has joint control with two third parties.

As at 31 December 2023 and 2022, there were no trade receivable and payable balances with the joint venture.

The share of the joint venture's profit for the year 2022 was RMB3,204,000 and the share of the joint venture's total comprehensive income for the year 2022 was RMB3,204,000.

18. INVESTMENT IN AN ASSOCIATE

	2023 RMB'000	2022 RMB'000
Share of net assets	3,471	2,783
Loan to an associate	–	245
Total	3,471	3,028

The loan to the associate was unsecured, interest free with no fixed term of repayment. In the opinion of the directors, these loans are unlikely to be repaid in the foreseeable future and are considered as part of the Group's net investments in the associate. There was no recent history of default and past due amounts for loans to the associate. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

The Group's trade receivable with the associate are disclosed in note 22 to the financial statements. As at 31 December 2023 and 2022, there was no trade payable balance with the associate.

The following table illustrates the financial information of the Group's associate that is not individually material, Lifeline Medical Devices Private Limited ("Lifeline"):

	2023 RMB'000	2022 RMB'000
Share of the associate's profit for the year	456	301
Share of the associate's total comprehensive income for the year	456	301
Aggregate carrying amount of the Group's investment in the associate	3,471	3,028

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19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 RMB'000	2022 RMB'000
Equity investments designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
Union Medical Healthcare Limited	5,659	38,885
Raily Aesthetic Medicine International Holdings Ltd.	4,350	7,012
Aesthetic Medical International Holdings Group Limited	1,222	2,246
Subtotal	11,231	48,143
Unlisted equity investments		
Shenwu No.1 Investment Product	239,136	268,156
Eirion Therapeutics, Inc.	169,985	167,150
Shanghai Semecell Technology Co., Ltd.	96,000	76,129
Jiangsu Meifengli Medical Technology Co., Ltd.	52,800	52,800
ArcScan, Inc.	17,395	39,218
Genzhishiguang Technology (Shanghai) Co., Ltd	10,000	5,000
Ornovi, Inc.	7,083	6,965
Shanghai Resthetic Biotechnology Co., Ltd.	–	4,851
Subtotal	592,399	620,269
Total	603,630	668,412

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

19. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

During the year ended 31 December 2023, the Group disposed of a portion of its investment in Union Medical Healthcare Limited. The fair value on the date of disposal was approximately RMB14,565,000 and the accumulated gain recognised in other comprehensive income of approximately RMB9,719,000 was transferred to retained earnings.

During the year ended 31 December 2023, the Group disposed of its investment in Jiangsu Meisikang Medical Technology Co., Ltd. The fair value on the date of disposal was approximately RMB9,800,000 and the accumulated gain recognised in other comprehensive income of approximately RMB1,801,000 was transferred to retained earnings.

During the year ended 31 December 2022, the Group disposed its investment in Shanghai Lunsheng Information Technology Co., Ltd. The fair value on the date of disposal was approximately RMB8,360,000 and the accumulated gain recognised in other comprehensive income of approximately RMB760,000 was transferred to retained earnings.

During the year ended 31 December 2022, the Group disposed of a portion of its investment in Union Medical Healthcare Limited. The fair value on the date of disposal was approximately RMB708,000 and the accumulated gain recognised in other comprehensive income of approximately RMB437,000 was transferred to retained earnings.

20. OTHER NON-CURRENT ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments for property, plant and equipment	92,185	63,830
Other non-current assets*	–	25,238
Total	92,185	89,068

* Long-term receivables from the companies controlled by the non-controlling interests of JUVA MEDICAL Group arising before acquisition. The controlling shareholder of the Group, Mr. Jiang Wei, is still proactively taking efforts to collect the receivables and promised to pay off the part which has not been collected back as of 31 December 2024.

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21. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	171,778	134,479
Work in progress	62,173	80,728
Finished goods	210,138	167,746
Merchandises	99,908	113,296
Subtotal	543,997	496,249
Less: Provision for inventories	17,823	11,010
Total	526,174	485,239

None of the Group's inventories was pledged during the years ended 31 December 2023 and 2022.

22. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Bills receivable	9,222	6,749
Trade receivables	364,880	420,390
Impairment	(37,019)	(38,864)
Net carrying amount	337,083	388,275

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 one to twelve months. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed 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. Trade receivables are non-interest-bearing.

22. TRADE AND BILLS RECEIVABLES (Continued)

Included in the Group's trade and bills receivables were amounts due from the Group's associate of approximately RMB5,926,000 (2022: RMB1,960,000), which were repayable on credit terms similar to those offered to the major customers of the Group. As at 31 December 2023 and 2022, there was not any trade and receivable due from the Group's joint venture.

An ageing analysis of trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2023 RMB'000	2022 RMB'000
Within 1 year	328,230	380,116
1 to 2 years	8,853	8,159
2 to 3 years	–	–
Over 3 years	–	–
Total	337,083	388,275

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

	2023 RMB'000	2022 RMB'000
At 1 January	38,864	26,733
(Reversal of impairment losses)/impairment losses recognised, net	(2,078)	14,795
Amount written off as uncollectible	–	(319)
Disposal of a subsidiary	–	(2,920)
Exchange realignment	233	575
At 31 December	37,019	38,864

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 for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type and customer type). 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.

The information about the credit risk exposure on the Group's trade receivables using a provision matrix is disclosed in note 44 to the financial statements.

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23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments	52,252	58,636
Input value added tax to be deducted	22,306	34,054
Deposits and other receivables	23,579	13,323
Compensation receivable derived from the relocation of aborted plant	2,000	2,000
Other current assets*	25,238	–
Impairment allowance	(3,250)	(3,162)
Total	122,125	104,851

* Long-term receivables from the companies controlled by the non-controlling interests of JUVA MEDICAL Group arising before acquisition.The controlling shareholder of the Group, Mr. Jiang Wei, is still proactively taking efforts to collect the receivables and promised to pay off the part which has not been collected back as of 31 December 2024. Due to the payment date falling within one year, the long-term receivables were reclassified to other current assets.

The movements in provision for impairment allowance of deposits and other receivables are as follows:

	2023 RMB'000	2022 RMB'000
At 1 January	3,162	2,309
Impairment losses recognised, net	105	721
Exchange realignment	(17)	132
At 31 December	3,250	3,162

Included in the above provision for impairment allowance of deposits and other receivables was no provision for individually fully impaired other receivables as at 31 December 2023 (2022: Nil).

Deposits and other receivables mainly represent rental deposits and 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 loss rate applied for as at 31 December 2023 and 2022 is disclosed in note 44 to the financial statements.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000
Other unlisted investments, at fair value	11,083	–

The above investments were classified as financial assets at fair value through profit or loss as they were held for trading.

As of 31 December 2023, the unlisted investments comprised two assets: convertible bonds issued by Eirion, valued at RMB7,082,000, and a private equity stake in Changzhou Qingma No. 3 Venture Capital Partnership (Limited Partnership), valued at RMB4,000,000.

25. ASSETS CLASSIFIED AS HELD FOR SALE

	2023 RMB'000	2022 RMB'000
Equity investments designated at fair value through other comprehensive income	13,000	9,159

As of 31 December 2023, the held-for-sale assets are investments in other equity instruments planned to be disposed of in the first quarter of 2024, specifically equity investments in Shanghai Ruanxin Biotechnology Co., Ltd. The agreement for the disposal of the equity investments was signed in December 2023, with the share transfer expected to be completed within three months.

As of 31 December 2022, the transaction of the held-for-sale assets Jiangsu Meisikang Medical Technology Co., Ltd was completed in January 2024.

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26. CASH AND BANK BALANCES AND PLEDGED DEPOSITS

	2023 RMB'000	2022 RMB'000
Cash and bank balances and pledged deposits	2,740,679	2,544,592
Time deposits with original maturity of more than three months when acquired	(2,170,681)	(1,982,518)
Subtotal	569,998	562,074
Less: Pledged time deposit:		
Guarantee deposits	680	2,456
Other pledged deposits	–	421
Cash and cash equivalents	569,318	559,197

At the end of the reporting period, nearly 90% (2022: 85%) of the cash and bank balances of the Group were denominated in RMB. The RMB is not freely convertible into other currencies, however, under Chinese Mainland's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between three months and one year, depending on the immediate cash requirements of the Group. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. TRADE PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables	55,108	54,533

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

	2023 RMB'000	2022 RMB'000
Within 3 months	51,602	36,752
3 months to 1 year	1,197	15,966
Over 1 year	2,309	1,815
Total	55,108	54,533

These trade payables were normally settled within 90 days, which represented credit terms similar to those offered by the joint venture to its major customers.

The trade payables were non-interest-bearing and were normally settled on terms of 30 to 90 days.

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28. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Current:		
Payroll and welfare payable	121,286	103,334
Payables related to:		
Government grants received	44,670	50,864
Deposits received	39,324	31,575
Purchases of property, plant and equipment	28,248	20,680
Acquisition of a subsidiary and contingent consideration	1,572	3,711
Others	17,853	31,805
Accrued expenses	52,833	94,465
Contract liabilities – short-term advances received from customers	80,023	32,648
Other taxes payable	24,007	27,428
Dividends payable to non-controlling shareholders of a subsidiary	–	1,200
Total	409,816	397,710
Non-current:		
Payables for acquisition of the subsidiaries and contingent consideration	4,500	4,500

Notes:

Except for the payables for acquisition of the subsidiaries and contingent consideration, the above balances were non-interest-bearing and repayable on demand.

EUR200,000 (equivalent to approximately RMB1,572,000) will be paid to the original shareholders of Bioxis provided that the EBITA of Bioxis for the financial year ended 31 December 2023 is positive.

RMB4,500,000 will be paid to the original shareholders of Hangzhou Aijinglun, provided that Hangzhou Aijinglun obtains the registration certificate from the relevant authorities for certain new products under development within five years from the date of acquisition.

(a) Details of contract liabilities are as follows:

	2023 RMB'000	2022 RMB'000
Short-term advances received from customers		
Sale of goods	80,023	32,648

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29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	31 December 2023			31 December 2022		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 14(b))	4.24-5.80	2024	20,310	4.24-5.80	2023	21,359
Bank loans						
unsecured (e)	3.10	2024	10,000	–	–	–
pledged(a)	–	–	–	3.51	2023	5,314
Current portion of						
long term other loans						
guaranteed(c)	2.25	2024	1,332	2.25	2023	1,486
long term other loans						
unsecured (b)	–	–	–	–	2023	219
Current portion of						
long term bank loans						
guaranteed(c)	0.73	2024	1,219	–	–	–
long term bank loans						
unsecured (d)	2.3-2.65	2024	183,764	2.85	2023	6,000
Total – current			216,625			34,378
Non-current						
Lease						
liabilities (note 14(b))	4.24-5.80	2024-2029	33,883	4.24-5.80	2024-2029	39,900
Bank loans						
unsecured (d)	2.3-2.65	2024-2026	153,373	2.85	2024	35,745
guaranteed (c)	0.73	2024-2026	1,907	0.73	2023-2026	5,354
Other loans						
unsecured (b)	–	–	–	–	2024	97
guaranteed (c)	2.25	2024-2026	2,161	2.25	2023-2026	2,784
Total – non-current			191,324			83,880
Total			407,949			118,258

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29. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	2023 RMB'000	2022 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	194,983	11,314
In the second year	44,659	39,270
In the third to fifth years, inclusive	110,621	1,829
Subtotal	350,263	52,413
Other borrowings repayable:		
Within one year or on demand	21,642	23,064
In the second year	17,002	18,957
In the third to fifth years, inclusive	14,884	19,061
Beyond five year	4,158	4,763
Subtotal	57,686	65,845
Total	407,949	118,258

Notes:

(a) The pledged bank loans obtained by NIMO in 2022, have been matured and fully repaid in 2023.

(b) The unsecured other loan represented an interest-free government loan obtained by ODC Industries, which has been matured and fully repaid in 2023.

(c) The guaranteed bank and other loans represent the loans obtained by Bioxis guaranteed by the government.

(d) The unsecured bank loans represent the loans obtained by the Company, Shanghai Qisheng and Haohai Development with interest rates of 2.3%-2.65%.

(e) The short term unsecured bank loans represent the loans obtained by Shanghai Qisheng in 2023.

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

2023

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2023	6,405	136,405	9,419	11,279	163,508
Deferred tax charged/(credited) to profit or loss	(122)	(8,672)	–	–	(8,794)
Deferred tax charged to other comprehensive income	–	–	–	3,314	3,314
Exchange realignment	461	3,060	116	–	3,637
Gross deferred tax liabilities at 31 December 2023	6,744	130,793	9,535	14,593	161,665

2022

	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Withholding tax RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Total RMB'000
At 1 January 2022	6,142	133,634	8,743	9,391	157,910
Deferred tax arising from acquisition of a subsidiary	–	25,748	–	–	25,748
Disposal of a subsidiary	–	(1,437)	–	–	(1,437)
Deferred tax charged/(credited) to profit or loss	393	(21,982)	–	–	(21,589)
Deferred tax charged to other comprehensive income	–	–	–	1,888	1,888
Exchange realignment	(130)	442	676	–	988
Gross deferred tax liabilities at 31 December 2022	6,405	136,405	9,419	11,279	163,508

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30. DEFERRED TAX (Continued)

Deferred tax assets

2023

	Lease liabilities RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Accruals RMB'000	Impairment of receivables and provision for inventories RMB'000	Deferred income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible losses RMB'000	Total RMB'000
At 1 January 2023	153	6,753	10,038	11,165	825	10,345	20,044	59,323
Deferred tax credited/(charged) to profit or loss	(150)	–	(3,256)	(74)	(70)	1,265	(4,566)	(6,851)
Deferred tax charged to other comprehensive income	–	(76)	–	–	–	–	–	(76)
Exchange differences	–	–	2	56	–	–	670	728
Gross deferred tax assets at 31 December 2023	3	6,677	6,784	11,147	755	11,610	16,148	53,124

2022

	Lease liabilities RMB'000	Fair value adjustment of equity investment at fair value through other comprehensive income RMB'000	Accruals RMB'000	Impairment of receivables and provision for inventories RMB'000	Deferred income RMB'000	Unrealised profit from intragroup transactions RMB'000	Deductible losses RMB'000	Total RMB'000
At 1 January 2022	325	–	10,214	10,288	1,740	9,180	17,609	49,356
Deferred tax arising from acquisition of a subsidiary	–	–	2,069	–	–	–	–	2,069
Deferred tax credited/(charged) to profit or loss	(172)	–	(2,254)	890	(915)	1,165	1,419	133
Deferred tax charged to other comprehensive income	–	6,753	–	–	–	–	–	6,753
Exchange differences	–	–	9	(13)	–	–	1,016	1,012
Gross deferred tax assets at 31 December 2022	153	6,753	10,038	11,165	825	10,345	20,044	59,323

30. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	53,124	59,323
Net deferred tax liabilities in respect of continuing operations	161,665	163,508

The Group has tax losses of approximately RMB332,125,000 (2022: RMB193,281,000) arising in Chinese Mainland that will expire in one to ten years for offsetting against future taxable profits. The Group has tax losses arising in Hong Kong, UK and USA of approximately RMB22,655,000 (2022: RMB7,146,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in the subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2023, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary, Contamac. In the opinion of the Directors, it is not probable that this subsidiary will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in Contamac in the U.K. for which deferred tax liabilities have not been recognised amounted to approximately RMB137,977,000 at 31 December 2023 (2022: RMB103,728,000).

31. DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
Government grants		
At 1 January	5,500	9,402
Additions	15,009	3,750
Released during the year	(6,884)	(7,652)
At 31 December	13,625	5,500

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32. PROVISION

	Warranties RMB'000	Litigation RMB'000	Total RMB'000
At 1 January 2023	793	–	793
Addition	284	62	346
At 31 December 2023	1,077	62	1,139

	Warranties RMB'000	Litigation RMB'000	Total RMB'000
At 1 January 2022	585	1,180	1,765
Addition	208	–	208
Exchange realignment	–	34	34
Amounts utilised during the year	–	(1,214)	(1,214)
At 31 December 2022	793	–	793

The provision was recognised in respect of anticipated liability claims in respect of products sold by EndyMed in the period from one year to three years, based on the Group's past experience with respect to the repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Provision of RMB62,000 at 31 December 2023 was recognised for the ongoing litigation of Bioxis. Consequently, a remaining provision of RMB62,000 was recorded as of 31 December 2023 to address any potential financial implications arising from these legal matters.

33. OTHER NON-CURRENT LIABILITIES

	2023 RMB'000	2022 RMB'000
Share redemption option granted to non-controlling shareholders of a subsidiary	–	220,560

The share redemption option granted to non-controlling shareholders of JUVA MEDICAL Group acquired by the Group during the year of 2022, amounting to RMB220,560,000. In 2023, the Company purchased all shares held by the non-controlling shareholders, resulting in a closing balance of RMB nil for the share redemption option.

34. SHARE CAPITAL

	2023 RMB'000	2022 RMB'000
Issued and fully paid:171,477,258 (2022: 174,130,100) ordinary shares of RMB1.00 each	171,477	174,130

A summary of the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At 31 December 2021 and 1 January 2022	175,822,100	175,822
Cancellation of repurchased H shares (note 1)	(1,692,100)	(1,692)
At 31 December 2022 and 1 January 2023	174,130,000	174,130
Issue of A shares (note 3)	782,158	782
Cancellation of repurchased H shares (note 2)	(3,434,900)	(3,435)
At 31 December 2023	171,477,258	171,477

Note 1:

During the year ended 31 December 2022, the Company repurchased 4,551,100 H shares as treasury shares, which accounted for approximately 2.5885% of the Company's total share capital, at a total consideration of approximately HK$174,546,000 (equivalent to approximately RMB147,672,000). 1,692,100 H shares were cancelled on 7 July 2022. The remaining 2,859,000 H shares, at a total consideration of approximately HK$84,393,000 (equivalent to approximately RMB74,042,000) were accounted as treasury shares as of 31 December 2022.

Note 2:

On 14 February 2023, the aforementioned 2,859,000 H Shares were cancelled. In addition, during the year ended 31 December 2023, the Company repurchased 3,872,400 H shares as treasury shares, which accounted for approximately 2.2239% of the Company's total share capital, at a total consideration of approximately HK$167,506,000 (equivalent to approximately RMB152,816,000). 575,900 H shares were cancelled on 16 June 2023. The remaining 3,296,500 H shares, at a total consideration of approximately HK$143,204,000 (equivalent to RMB131,294,000) were accounted as treasury shares as of 31 December 2023.

During the year ended 31 December 2023, the Company also repurchased 1,089,486 A shares as treasury shares, which accounted for approximately 0.6257% of the Company's total share capital, at a total consideration of approximately RMB117,161,000. These repurchased A shares were not cancelled and accounted as treasury shares as of 31 December 2023.

Note 3:

The subscription rights attaching to 782,158 share options were exercised at the subscription price of RMB94.20 per share (note 35), resulting in the issue of 782,158 shares for a total cash consideration, before expenses, of RMB73,682,000.

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35. SHARE OPTION SCHEME

(a) 2021 A-share restricted stock share option plan

The Company operates an A-share restricted stock share option plan (the “Plan”) for the purpose of providing incentives and rewards to eligible core employees of the Group.

The Company held the meetings of the Board of Directors and Board of Supervisors on 29 December 2021 and 11 March 2022 separately, which passed the motion and the adjustment on the matters related to the first grant of the 2021 A-share Restricted Stock share option Plan (the “First Grant”). After the amendment, the number of employees eligible for the First Grant was adjusted from 206 to 204, the number of restricted shares granted for the First Grant was adjusted from 1,450,000 shares to 1,440,000 shares, the number of reserved shares was adjusted from 350,000 shares to 360,000 shares, and the total number of restricted stock grants under the Scheme remained unchanged at 1,800,000 shares. The First Grant date was 11 March 2022. 1,440,000 restricted shares were granted for the first time to 204 incentive recipients at a grant price of RMB95.00 per share. The Scheme does not give holders the right to receive dividends or vote at general meetings.

The Company distributed a cash dividend of RMB0.70 (including tax) per share on 2 August 2022, and the grant price of the restricted stock at the First Grant and the reserved part of the restricted stock is adjusted from RMB95.00 per share to RMB94.30 per share because the aforementioned annual distribution of equity has been implemented.

The Company granted 360,000 reserved restricted shares to 93 incentive recipients at a grant price of RMB94.30 per share on 16 November 2022 (the “Second Grant”).

The Company distributed a cash dividend of RMB0.40 (including tax) per share on 12 July 2023, and the grant price of the restricted stock at the First Grant and the reserved part of the restricted stock is further adjusted from RMB94.30 per share to RMB93.90 per share because the aforementioned annual distribution of equity has been implemented.

35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

The restricted stock granted for the first time and the second time under the Scheme will be acquired and registered in instalments according to the following vesting ratio after the incentive recipient satisfies the corresponding vesting conditions:

Vesting arrangements	Vesting period	The ratio of vested interests of the total number of benefits granted
The first vesting period for the First/Second grant of restricted stock	From the first trading day after 12 months from the date of the First/Second grant to the last trading day within 24 months from the date of the first/second grant	50%
The second vesting period for the First/Second grant of restricted stock	From the first trading day after 24 months from the date of the First/Second grant to the last trading day within 36 months from the date of the first/second grant	50%

After satisfying the vesting conditions, employees have the right to purchase shares according to the exercisable right price, and if the vesting conditions of the Scheme are met during the vesting period, the incentive recipients can apply for share vesting and the share can be listed and circulated.

The following share options were outstanding under the Scheme during 2023:

	2023 Weighted average exercise price RMB per share	2023 Number of options '000	2022 Weighted average exercise price RMB per share	2022 Number of options '000
At 1 January 2023	94.30	1,800	–	–
Granted during the year	–	–	94.30	1,800
Exercised during the year	94.20	(782)	–	–
Expired during the year	93.90	(141)	–	–
At 31 December 2023	93.90	877	94.30	1,800

The weighted average share price at the date of exercise for share options exercised during the year was RMB94.20 per share (2022: No share options were exercised).

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35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

The exercise price and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2023

Number of options '000	Exercise price* RMB per share	Exercise period
703	93.90	2024/3/11-2025/3/7
174	93.90	2024/11/18-2025/11/14
877		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The exercise price of the First Grant was RMB93.90 per share based on dividends.

2022

Number of options '000	Exercise price* RMB per share	Exercise period
720	94.30	2023/3/13-2024/3/8
720	94.30	2024/3/11-2025/3/7
180	94.30	2023/11/16-2024/11/15
180	94.30	2024/11/18-2025/11/14
1,800		

35. SHARE OPTION SCHEME (Continued)

(a) 2021 A-share restricted stock share option plan (Continued)

The fair value of the share options granted during 2022 was RMB39,974,000, of which the Group recognised a share option expense of RMB14,676,000 during the year ended 31 December 2023 (2022: RMB20,982,000). The fair value of the share options are as follows:

Grant Period	Vesting arrangements	The fair value of the share option RMB per share
First Grant	The first vesting period	20.33
First Grant	The second vesting period	26.96
Second Grant	The first vesting period	13.36
Second Grant	The second vesting period	19.55

The fair value of equity-settled share options granted during 2022 was estimated as at the date of grant using a Black-Scholes Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022 First Grant	2022 Second Grant
Dividend yield (%)	0.64%	0.64%
Expected volatility (%)	42.13%/43.59%	42.08%/43.77%
Historical volatility (%)	15.30%/18.36%	20.35%/18.38%
Risk-free interest rate (%)	2.18%/2.30%	2.29%/2.46%
Expected life of options (year)	1.5/2.5	1.5/2.5
Weighted average share price (RMB per share)	95.49	82.70

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 876,500 share options outstanding under the Scheme. The exercise of the outstanding share options would result in the issue of 876,500 additional ordinary shares of the Company and additional share capital of RMB876,500 and additional equity premium account of RMB81,427,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 876,500 share options outstanding under the Scheme, which represented approximately 0.52% of the Company's A-shares in issue at that date.

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35. SHARE OPTION SCHEME (Continued)

(b) JUVA MEDICAL Group share option plan

In accordance with the relevant resolution of the shareholders' meeting of JUVA MEDICAL Group, some employees of JUVA MEDICAL Group were allowed to participate in an employee share option plan. Under the arrangement, the relevant employees can subscribe for an interest in a specially established limited partnership. The limited partnership holds shares in JUVA MEDICAL Group.

JUVA MEDICAL Group signed equity incentive agreements with 25 managers in February and August in 2022 separately, granting a total of RMB8,965,000 (7.09% of the number of JUVA MEDICAL Group's shares) through the partnership, with an exercise price of RMB1 per capital contribution share, which will be exercised in three vesting periods from the signing date in 2022 and each vesting period has an duration of one year. The total exercisable ratio in 2022 was 2.34%, the actual exercised ratio was 2.31%, the total exercisable ratio in 2023 was 2.34%, the actual exercised ratio was 2.32% and the exercisable ratio in 2024 was 2.41%. Due to the fact that the Group didn't meet the performance, the Plan was not exercised.

The fair value of the shares at the grant date paid by the Company for the plan is recognised in profit or loss on a straight-line basis during the service period agreed in the relevant agreement.

The fair value of the share options granted during the year 2022 was RMB13,865,000 (RMB2.55 each). The total actual exercised expense was RMB9,046,000. And during 2023, the share option was exercised completely. The relevant equity of the Group has been acquired in July 2023.

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 11 to 12 of the financial statements.

Pursuant to the relevant laws and regulations in Chinese Mainland, a portion of the profits of the Company was transferred to statutory reserve funds which are restricted as to use.

The amount of the Company's reserves available for distribution as at 31 December 2023, calculated in accordance with PRC rules and regulation, was RMB1,187,443,000.

37. PARTLY-OWNED SUBSIDIARIES WITH NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2023	2022
Percentage of equity interest held by non-controlling interests:		
NIMO	20%	40%
Contamac Group	21%	21%
Likangrui	30%	–

	2023 RMB'000	2022 RMB'000
Accumulated balances of non-controlling interests:		
NIMO	50,190	98,894
Contamac Group	98,063	82,747
Likangrui	32,850	–

	2023 RMB'000	2022 RMB'000
Profit allocated to non-controlling interests:		
NIMO	6,225	2,932
Contamac Group	9,104	9,288
Likangrui	(11,275)	–

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38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financial activities

2023

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2023	56,999	61,259
Changes from financing cash flows	297,596	(24,549)
New leases	–	17,634
Interest expense	–	2,108
Disposition	–	(3,272)
Foreign exchange movement	(839)	1,013
At 31 December 2023	353,756	54,193

2022

	Bank and other loans RMB'000	Lease liabilities RMB'000
At 1 January 2022	35,199	46,715
Changes from financing cash flows	17,027	(21,788)
New leases	–	31,983
Interest expense	–	2,315
Increase arising from acquisition of a subsidiary	5,000	2,126
Disposition	–	(847)
Foreign exchange movement	(227)	755
At 31 December 2022	56,999	61,259

38. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	4,652	4,562
Within financing activities	24,549	21,788
Total	29,201	26,350

39. COMMITMENTS

The Group had the following contractual commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Buildings		–
Plant and machinery	541,152	589,308
Total	541,152	589,308

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40. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2023 RMB'000	2022 RMB'000
Purchases		
Haohai Technology (Changxing) Co., Ltd.	6,959	3,790
Sales		
Lifeline	5,167	3,152

Notes:

(i) During the year, the Group purchased the production accessories of approximately RMB6,959,000 (2022: approximately RMB3,790,000) from Haohai Technology (Changxing) Co., Ltd., a company controlled by the Controlling Shareholders. The Directors consider that the purchases of raw materials were made according to the published prices and conditions like those offered to the major customers of the supplier, except that interest was not charged on overdue balances.

(ii) During the year, the Group sold semi buttons of GBP571,000 (approximately RMB5,167,000) (2022: approximately RMB3,152,000) to the associate, Lifeline.

(b) Other transactions with related parties:

During the year, the Company rented the rooms in Shanghai with a total building area of 329.77 square metres at an annual rental fee of RMB350,000 (2022: RMB350,000) and the other rooms in Shanghai, China with the same total building area at an annual rental fee of RMB350,000 (2022: RMB350,000) from Shanghai Haohai Chemical Company Limited and Ms. You Jie, respectively.

(c) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Short term employee benefits	11,147	11,077
Pension scheme contributions	543	573
Total compensation paid to key management personnel	11,690	11,650

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

The related party transactions in respect of purchase from Haohai Technology (Changxing) Co., Ltd. above also constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules.

41. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss-Debt investments RMB'000	Financial assets at fair value through other comprehensive income-Equity investments RMB'000	Financial assets at fair value through profit or loss-designed as such RMB '000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	603,630	–	603,630
Trade and bills receivables	327,861	9,222	–	–	337,083
Financial assets at fair value through profit or loss	–	–	–	11,083	11,083
Financial assets included in prepayments, other receivables and other assets	47,567	–	–	–	47,567
Pledged deposits	680	–	–	–	680
Cash and bank balances	2,739,999	–	–	–	2,739,999
Total	3,116,107	9,222	603,630	11,083	3,740,042

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value RMB'000	Total RMB'000
Trade payables	55,108	–	55,108
Financial liabilities included in other payables and accruals	86,997	4,500	91,497
Interest-bearing bank and other borrowings	407,949	–	407,949
Total	550,054	4,500	554,554

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41. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2022

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through profit or loss-Debt investments RMB'000	Financial assets at fair value through other comprehensive income-Equity investments RMB'000	Total RMB'000
Equity investments designated at fair value through other comprehensive income	–	–	668,412	668,412
Trade and bills receivables	381,526	6,749	–	388,275
Financial assets included in prepayments, other receivables and other assets	12,161	–	–	12,161
Pledged deposits	2,877	–	–	2,877
Cash and bank balances	2,541,715	–	–	2,541,715
Total	2,938,279	6,749	668,412	3,613,440

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value RMB'000	Total RMB'000
Trade payables	54,533	–	54,533
Financial liabilities included in other payables and accruals	88,972	4,500	93,472
Other non-current liabilities	–	220,560	220,560
Interest-bearing bank and other borrowings	118,258	–	118,258
Total	261,763	225,060	486,823

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2023 RMB'000	2022 RMB'000	2023 RMB'000	2022 RMB'000
Financial liabilities:				
Interest-bearing bank and other borrowings (other than lease liabilities)	157,441	43,980	147,555	41,874
Interest-bearing bank and other financial liabilities included in other payables and accruals – contingent consideration	4,500	4,500	4,500	4,500

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade and bills payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The corporate finance team headed by the chief financial officer (the "CFO") is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At the end of the reporting period, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the CFO.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments.

Liabilities for which fair values are disclosed:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (other than lease liabilities)	–	147,555	–	147,555

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank and other borrowings (other than lease liabilities)	–	41,874	–	41,874

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	–	11,083	11,083
Trade and bills receivables	–	9,222	–	9,222
Equity investments designated at fair value through other comprehensive income	11,231	239,136	353,263	603,630
Total	11,231	248,358	364,346	623,935

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	–	6,749	–	6,749
Equity investments designated at fair value through other comprehensive income	48,143	268,156	352,113	668,412
Total	48,143	274,905	352,113	675,161

NOTES TO FINANCIAL STATEMENTS

31 December 2023

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Liabilities measured at fair value:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals-contingent consideration	–	–	4,500	4,500
Total	–	–	4,500	4,500

As at 31 December 2022

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Other non-current liabilities	–	–	220,560	220,560
Financial liabilities included in other payables and accruals-contingent consideration	–	–	4,500	4,500
Total	–	–	225,060	225,060

For Level 3 financial assets, the Group adopts the valuation techniques to determine the fair value. Valuation techniques include the market comparison approach etc. The fair value measurement of these financial instruments may involve unobservable inputs such as price to research and development costs ratio, liquidity discount, etc. Fair value change resulting from changes in the unobservable inputs was not significant. The Group periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial assets in Level 3.

42. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Unobservable inputs and sensitivity analysis for Level 3 assets

The financial assets measured at fair value held by the Group which were classified in Level 3 primarily correspond to certain unlisted equity securities not quoted in an active market.

For certain unlisted equity securities, the Group adopts the valuation techniques to determine the fair value. Valuation techniques include the market comparison approach, etc., which requires the Group to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as price to research and development costs ratio, for each comparable company identified. An increase (decrease) in price to research and development costs ratio would result in a higher (lower) fair value. An increase (decrease) in liquidity discount would result in a lower (higher) fair value.

The other non-current liabilities represented the share redemption rights granted by the parent of JUVA Group. The final price for the equity acquisition was determined after negotiation based on an agreed formula and conditions. In 2023, the Company purchased all shares held by the non-controlling shareholders, resulting in a closing balance of RMB nil for the share redemption option (31 December 2022: RMB220,560,000).

The Group periodically reviews all significant unobservable inputs and valuation adjustments used to measure the fair values of financial instruments in Level 3.

43. TRANSFERS OF FINANCIAL ASSETS

Transferred financial assets that are derecognised in their entirety

At 31 December 2023, the Group endorsed certain bills receivable accepted by banks in Chinese Mainland (the “Derecognised Bills”) to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB7,132,000 (2022: RMB5,668,000). The Derecognised Bills had a maturity of one to three months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the “Continuing Involvement”). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group’s Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group’s Continuing Involvement in the Derecognised Bills are not significant.

During the years ended 31 December 2023 and 2022, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the years or cumulatively. The endorsement has been made evenly throughout the years.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Group's foreign currency risk is not significant. Approximately 84% (2022: 82%) of the Group's sales were denominated in local currencies, which were the same as the units' functional currencies, while approximately 78% (2022: 78%) of the Group's costs were denominated in local currencies, which were the same as the units' functional currencies. The Group would reserve some foreign currencies to meet the requirement of payments, which resulted in an insignificant foreign currency risk for the Group. The Group's interest rate risk is not significant, which is since the non-current portion of interest-bearing bank and other borrowings is subject to a fixed interest rate. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

At the end of the reporting period, the Group had certain concentrations of credit risk as 7.15% (2022: 5.75%) and 17.14% (2022: 16.68%) of the Group's trade receivables were due from the Group's largest customer and five largest customers, respectively.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maximum exposure and year-end staging as at 31 December 2023

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2023 and 31 December 2022. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-months ECLs	Lifetime ECLs	
		Simplified	
	Stage 1	approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	364,880	364,880
Financial assets included in prepayments, other receivables and other assets	20,329	–	20,329
Total	20,329	364,880	385,209

As at 31 December 2022

	12-months ECLs	Lifetime ECLs	
		Simplified	
	Stage 1	approach	Total
	RMB'000	RMB'000	RMB'000
Trade receivables	–	420,390	420,390
Financial assets included in prepayments, other receivables and other assets	10,161	–	10,161
Total	10,161	420,390	430,551

NOTES TO FINANCIAL STATEMENTS

31 December 2023

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix at 31 December 2023 is set out below:

As at 31 December 2023

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	4%	55%	100%	100%
Gross carrying amount (RMB'000)	331,913	18,761	5,153	9,053
Expected credit losses (RMB'000)	12,493	10,320	5,153	9,053

As at 31 December 2022

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	4%	59%	100%	100%
Gross carrying amount (RMB'000)	390,959	19,913	2,793	6,725
Expected credit losses (RMB'000)	17,592	11,754	2,793	6,725

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

For the financial assets included in prepayments, other receivables and other assets to which the Group applies the general approach for impairment, information based on the provision matrix is set out below:

As at 31 December 2023

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	4%	12%	35%	75%
Gross carrying amount (RMB'000)	18,299	1,102	1,694	2,484
Loss allowance provision (RMB'000)	668	128	587	1,867

As at 31 December 2022

	Ageing			
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years
Expected credit loss rate	6%	9%	50%	100%
Gross carrying amount (RMB'000)	6,028	4,082	1,539	1,674
Loss allowance provision (RMB'000)	340	382	766	1,674

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

31 December 2023

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	40,746	14,362	–	–	–	55,108
Financial liabilities included in other payables and accruals	85,425	1,572	–	4,500	–	91,497
Lease liabilities	–	6,368	19,106	33,898	4,952	64,324
Interest-bearing bank and other borrowings (other than lease liabilities)	–	–	196,625	161,277	–	357,902
Total	126,171	22,302	215,731	199,675	4,952	568,831

31 December 2022

	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade and bills payables	47,987	6,546	–	–	–	54,533
Financial liabilities included in other payables and accruals	84,700	3,711	–	4,500	–	92,911
Lease liabilities	–	6,980	28,646	30,379	5,215	71,220
Other non-current liability	–	–	–	242,640	–	242,640
Interest-bearing bank and other borrowings (other than lease liabilities)	–	6,068	–	46,181	–	52,249
Total	132,687	23,305	28,646	323,700	5,215	513,553

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

The Group monitors capital using a debt to assets ratio, which is debt divided by the total assets. Debt includes total current liabilities and total non-current liabilities.

During the year, the Group's strategy was to maintain the debt to assets ratio at a healthy level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable debt to assets ratio to support its business. The debt to assets ratios at the end of the reporting periods are as follows:

	2023 RMB'000	2022 RMB'000
Total current liabilities	715,951	511,275
Total non-current liabilities	372,253	478,741
Debt	1,088,204	990,016
Total assets	7,105,497	6,892,399
Debt to assets ratio	15.3%	14.4%

45. EVENTS AFTER THE REPORTING PERIOD

Repurchase of A shares

From January to February 2024, the Company repurchased a total of 257,342 A shares at a total consideration of approximately RMB22,940,000 (including transaction fee).

Except for the transactions detailed elsewhere in these financial statements and the events set out in this note above, there was no material subsequent event undertaken by the Group after 31 December 2023.

NOTES TO FINANCIAL STATEMENTS

31 December 2023

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	757,181	635,710
Right-of-use assets	118,564	132,181
Other intangible assets	1	217
Investments in subsidiaries	1,866,104	1,586,955
Investment in a joint venture	–	–
Equity investments designated at fair value through other comprehensive income	381,369	371,110
Deferred tax assets	3,772	6,939
Other non-current assets	75,173	55,355
Total non-current assets	3,202,164	2,788,467
CURRENT ASSETS		
Due from subsidiaries	659,483	1,671,881
Inventories	72,289	52,492
Trade and bills receivables	74,276	74,759
Prepayments, other receivables and other assets	22,364	(168,584)
Dividends receivable	240,000	130,000
Assets classified as held for sale	13,000	9,159
Pledged bank deposits	1	1,444
Financial assets at fair value through profit or loss	4,000	–
Cash and bank balances	2,055,525	975,125
Total current assets	3,140,938	2,746,276
CURRENT LIABILITIES		
Due to subsidiaries	1,586,184	1,101,413
Trade payables	9,184	5,103
Other payables and accruals	138,721	74,745
Interest-bearing bank and other borrowings	98,504	12,694
Total current liabilities	1,836,833	1,193,955
NET CURRENT ASSETS	1,304,105	1,552,321
TOTAL ASSETS LESS CURRENT LIABILITIES	4,506,269	4,340,788
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	84,049	43,662
Deferred tax liabilities	14,618	11,308
Deferred income	4,112	2,100
Total non-current liabilities	102,779	57,070
NET ASSETS	4,403,490	4,283,718
EQUITY		
Share capital	171,477	174,130
Treasury shares	(248,455)	(74,042)
Reserves	4,480,468	4,183,630
TOTAL EQUITY	4,403,490	4,283,718

46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2022	3,177,080	51,856	88,923	857,070	4,174,929
Profit for the year	–	–	–	168,899	168,899
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	12,823	–	–	12,823
Total comprehensive income for the year	–	12,823	–	168,899	181,722
Retirement of H shares	(71,938)	–	–	–	(71,938)
Dividends declared	–	–	–	(121,891)	(121,891)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	(760)	–	760	–
Share-based payments credited to the owner's equity	20,808	–	–	–	20,808
As at 31 December 2022 and 1 January 2023	3,125,950	63,919	88,923	904,838	4,183,630
Profit for the year	–	–	–	349,319	349,319
Available-for-sales investment revaluation reserve	–	20,587	–	–	20,587
Total comprehensive income for the year	–	20,587	–	349,319	369,906
Retirement of H shares	(92,129)	–	–	–	(92,129)
Issue of shares	72,900	–	–	–	72,900
Dividends declared	–	–	–	(68,515)	(68,515)
Transfer of fair value reserve upon the disposal of equity investments at fair value through other comprehensive income	–	(1,801)	–	1,801	–
Share-based payments credited to the owner's equity	14,676	–	–	–	14,676
As at 31 December 2023	3,121,397	82,705	88,923	1,187,443	4,480,468

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 8 March 2024.

DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions have the following meanings.

"A Share(s)"	ordinary shares in the share capital of the Company with a par value of RMB1.00 each and listed on the Sci-Tech Innovation Board of the SSE and traded in RMB, including among others, ordinary shares issued under the A Share Offering
"A Share Offering"	the Company's initial public offering of 17.8 million A Shares and listing on the Sci-Tech Innovation Board of the SSE
"A Shareholder(s)"	holder(s) of A Shares
"Articles of Association"	the Articles of Association of the Company, as amended, revised or supplemented from time to time
"Board"	the board of Directors of the Company
"Company" or "Haohai Biological"	Shanghai Haohai Biological Technology Co., Ltd.* (上海昊海生物科技股份有限公司), a joint stock company incorporated in the PRC with limited liability and its H Shares and A shares are listed on the Hong Kong Stock Exchange (Stock Code: 6826) and the Sci-Tech Innovation Board of the SSE (Stock Code: 688366), respectively
"Company Law"	the Company Law of the People's Republic of China, as amended from time to time
"Contamac Group"	Contamac Holdings Limited and its subsidiaries
"Contamac"	Contamac Holdings limited, established in UK on 13 October 2009. As at the date of this report, the Company indirectly holds 79% of its equity interest
"CSRC"	China Securities Regulatory Commission
"Director(s)"	directors of the Company
"First Grant"	the grant of 1,440,000 Restricted Shares, representing 80% of the total number of Restricted Shares under the Incentive Scheme on 11 March 2022
"Grant Price"	the price of each Restricted Share to be granted to the participants of the Incentive Scheme
"Group", "our Group", "we", "our" or "us"	our Company and its subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)

DEFINITIONS

"Hangzhou Aijinglun"	Hangzhou Aijinglun Technology Co., Ltd., (杭州愛晶倫科技有限公司), as at the date of this report, the Company holds 74.7993% of its equity interest
"Haohai Holdings"	Haohai Healthcare Holdings Co., Ltd., a wholly-owned subsidiary of the Company, established in Hong Kong, the PRC on 17 July 2015
"Haohai Development"	Shanghai Haohai Medical Technology Development Co., Ltd. (上海昊海醫藥科技發展有限公司), a wholly-owned subsidiary of the Company
"Hebei XSK"	Hebei Xinshikang Contact Lens Co., Ltd. (河北鑫視康隱形眼鏡有限公司), the Company indirectly held 60% of its equity interest during the period from April 2021 to July 2022
"Henan Simedice"	Henan Simedice Biotechnologies Co. Ltd.(河南賽美視生物科技有限公司), as at the date of this annual report, the Company indirectly holds 60% of its equity interest
"Henan Universe"	Henan Universe Intraocular Lens Research and Manufacture Company, Ltd (河南宇宙人工晶狀體研製有限公司), a wholly-owned subsidiary of the Company
"Hengtai Vision"	Shanghai Hengtai Vision Technology Co., Ltd. (上海亨泰視覺科技有限公司), as at the date of this report, the Company indirectly holds 55% of its equity interest
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"H Share(s)"	the overseas-listed foreign share(s) in the share capital of the Company with a par value of RMB1.00 each, which are listed on the Main Board of the Hong Kong Stock Exchange and traded in HKD
"H Shareholder(s)"	holder(s) of H Shares
"Incentive Scheme" or "2021 Restricted A Share Incentive Scheme"	the Company's 2021 restricted A Share incentive scheme approved and adopted by its Shareholders at the 2022 extraordinary general meeting, the 2022 first A Shareholders' class meeting and the 2022 first H Shareholders' class meeting held on 7 March 2022
"Independent Non-executive Director(s)"	the independent non-executive Director(s) of the Company

DEFINITIONS

"Juva Medical"	OHMK (TianJin) Medical Technology Co. Ltd. (歐華美科(天津)醫學科技有限公司), as at the date of this annual report, the Company holds 100% of its equity interest
"Nanpeng Optics"	Xiamen Nanpeng Optical Company Limited (廈門南鵬光學有限公司), as at the date of this annual report, the Company indirectly holds 51% of its equity interest
"NIMO"	Shenzhen New Industries Material of Ophthalmology Co., Ltd. (深圳市新產業眼科新技術有限公司), as at the date of this annual report, the Company holds 80% of its equity interest
"NMPA"	The National Medical Products Administration of the PRC
"PRC", "China" or "People's Republic of China"	the People's Republic of China which, for the purpose of this report only, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
"Qingdao Huayuan"	Qingdao Huayuan Fine Biological Product Co., Ltd. (青島華元精細生物製品有限公司), a wholly-owned subsidiary of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the 12-month period from 1 January 2023 to 31 December 2023
"Reserved Grant"	the grant of 360,000 Restricted Shares, representing 20% of the total number of Restricted Shares under the Incentive Scheme on 16 November 2022
"Restricted Share(s)"	A Share(s) to be granted to the Participants by the Company on such conditions and at the Grant Price stipulated under the Incentive Scheme, which are subject to the attribution conditions stipulated under the Incentive Scheme and can only be attributed and transferred after satisfactory with the attribution conditions
"Shanghai Jianhua"	Shanghai Jianhua Fine Biological Products Company Limited (上海建華精細生物製品有限公司), a wholly-owned subsidiary of the Company
"Shanghai Likangrui"	Shanghai Likangrui Biological Engineering Company Limited (上海利康瑞生物工程有限公司), as at the date of this report, the Company holds 70% of its equity interest
"Shanghai Qisheng"	Shanghai Qisheng Biologics Company Limited (上海其勝生物製劑有限公司), a wholly-owned subsidiary of the Company
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

"Share(s)"	A Share(s) and/or H Share(s)
"Shareholder(s)"	A Shareholder(s) and/or H Shareholder(s)
"SSE"	the Shanghai Stock Exchange
"STAR Market Listing Rules"	the Rules Governing the Listing of Securities on the Sci-Tech Innovation Board of the Shanghai Stock Exchange, as amended from time to time
"Supervisor(s)"	the member(s) of the Supervisory Committee
"Supervisory Committee"	the supervisory committee of the Company
"%"	per cent

GLOSSARY OF TECHNICAL TERMS

The glossary of technical terms contains explanations and definitions of certain terms used in this annual report in connection with us and our business. The terms and their meaning may not correspond to meanings or usage of these terms as used by others.

"anti-adhesion"	prevention of fibrous bands formed between tissues and adjacent tissues or organs resulted from injuries during a surgery
"chitosan" (幾丁糖)	a class of polysaccharide without acetyl group or with partial acetyl group, dissolvable in acidic conditions
"clinical trial"	a research study for validating or finding the therapeutic effects and side-effects of test drugs in order to determine the therapeutic value and safety of such drugs
"EGF"	epidermal growth factor, is a polypeptide growth factor that stimulates epidermal and epithelial growth. It can promote growth of a wide of variety of cells *in vivo* and *in vitro*
"hemostasis"	the arrest of bleeding
"intraocular lens" or "IOL"	an artificial lens implanted in the eyes used to replace natural Lens and to treat cataracts or myopia
"medical chitosan" (醫用幾丁糖)	normally carboxyl-methylated chitosan which can be dissolved in water, regulated by National Medical Products Administration as a Class III medical device
"medical collagen sponge"	spongy material manufactured from bovine tendon by biological purification. It is used to fill operational cavity, wound hemostasis and wound healing
"medical sodium hyaluronate gel" (醫用透明質酸鈉凝膠)	sodium hyaluronate gel solution used for the ophthalmic surgery or anti-adhesive surgery, regulated by National Medical Products Administration as a Class III medical device
"ophthalmic viscoelastic device" or "OVD"	viscoelastic sodium hyaluronate solution used in ophthalmic surgery. It can play the role of cushion to deepen the anterior amber, which makes the operation convenient. It can also protect intraocular tissue and endothelial cell with improved success rate and reduced surgical complications. It is widely used in microsurgeries such as artificial contact lens implantation, penetrating keratoplasty surgery as well as ocular trauma
"Orthokeratology Lens"	a rigid gas permeable contact lenses for myopia control and vision correction function
"Phakic Refractive Lens" or "PRL"	a precise optical component that is surgically implanted into the eyes to achieve refractive correction
"sodium hyaluronate injection" (玻璃酸鈉注射液)	sodium hyaluronate gel solution used for the intra-articular injection, regulated by National Medical Products Administration as a prescription drug
"tissue filling"	a process to inject biomaterials under the skin and fill in the area