Asymchem Laboratories (Tianjin) Co., Ltd.

凱萊英醫藥集團（天津）股份有限公司

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

www.asymchem.com

Stock Code: 6821

2023

ANNUAL REPORT

ASYMCHEM

CONTENTS

CORPORATE INFORMATION

I. BOARD

i. Executive Directors

Dr. Hao Hong
Ms. Yang Rui
Mr. Zhang Da
Mr. Hong Liang

ii. Non-executive Directors

Dr. Ye Song
Ms. Zhang Ting

iii. Independent Non-executive Directors

Ms. Zhang Kun *(resigned on 16 January 2023 with effect from 18 October 2023)*
Dr. Sun Xuejiao *(appointed on 18 October 2023)*
Mr. Wang Qingsong *(resigned on 5 February 2024 with effect from 29 February 2024)*
Mr. Hou Xinyi *(appointed on 29 February 2024)*
Mr. Lee, Kar Chung Felix

II. REGISTERED OFFICE AND HEAD OFFICE

No. 6 Dongting 3rd Street
Economic – Technological
Development Area
Tianjin
PRC

III. PRINCIPAL PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

40th Floor, Dah Sing Financial Centre
248 Queen's Road East
Wanchai
Hong Kong

IV. H SHARE REGISTRAR

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

V. JOINT COMPANY SECRETARIES

Mr. Xu Xiangke
Mr. Cheng Ching Kit *(associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom)*

VI. AUTHORIZED REPRESENTATIVES

Mr. Zhang Da
Mr. Xu Xiangke

VII. AUDIT COMMITTEE

Ms. Zhang Kun *(Chairperson) (resigned on 16 January 2023 with effect from 18 October 2023)*
Dr. Sun Xuejiao *(Chairperson) (appointed on 18 October 2023)*
Ms. Zhang Ting
Mr. Wang Qingsong *(resigned on 5 February 2024 with effect from 29 February 2024)*
Mr. Hou Xinyi *(appointed on 29 February 2024)*

VIII. STRATEGY COMMITTEE

Dr. Hao Hong *(Chairperson)*
Ms. Yang Rui
Mr. Lee, Kar Chung Felix

IX. NOMINATION COMMITTEE

Mr. Lee, Kar Chung Felix *(Chairperson)*
Mr. Hong Liang
Mr. Wang Qingsong *(resigned on 5 February 2024 with effect from 29 February 2024)*
Mr. Hou Xinyi *(appointed on 29 February 2024)*

X. REMUNERATION AND EXAMINATION COMMITTEE

Mr. Wang Qingsong *(Chairperson) (resigned on 5 February 2024 with effect from 29 February 2024)*
Mr. Hou Xinyi *(Chairperson) (appointed on 29 February 2024)*
Mr. Zhang Da
Ms. Zhang Kun *(resigned on 16 January 2023 with effect from 18 October 2023)*
Dr. Sun Xuejiao *(appointed on 18 October 2023)*

XI. STOCK CODES

Hong Kong Stock Exchange (H Shares): 6821
Shenzhen Stock Exchange (A Shares): 002821

XII. AUDITOR

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

XIII. LEGAL ADVISERS TO THE COMPANY

Hong Kong laws

Cooley HK
35/F Two Exchange Square
8 Connaught Place
Central
Hong Kong

PRC laws

DeHeng Law Offices
12/F, Tower B, Focus Place
19 Finance Street
Xicheng District
Beijing
PRC

XIV. PRINCIPAL BANKERS

Bank of China Dunhua Branch
No. 1218, Hanzhang Street
Dunhua
Jilin Province
PRC

SPD Bank Puxin Branch
No. 920, Tanggu Chunfeng Road
Binhai New District
Tianjin
PRC

SPD Bank Puhui Branch
No. 116, West Cuiheng Square
No. 39 Third Street
Economic – Technological
Development Area
Tianjin
PRC

XV. COMPANY'S WEBSITE

www.asymchem.com

CHAIRPERSON'S STATEMENT

Dr. Hao Hong
Chairperson

Dear Shareholders and Stakeholders,

Thank you for your continuous support to Asymchem. On behalf of the Board, I am pleased to present to you our 2023 achievements and our exciting business outlook for future success. In 2023, it was a year full of challenges. The global innovation drug research and development faced a period of adjustment, overseas financing slow recovery, and industry uncertainty due to the volatile global capital markets. These factors converged within the same year, exerting immense pressure upon the entire CXO industry. Throughout the year, the team at Asymchem stood firm in the face of these challenges, steadfastly advancing the Company's established strategic deployment, achieving remarkable success, and bolstering our capabilities.

A CHALLENGE BUT HARVEST YEAR VALIDATES OUR CAPABILITIES IN ALL ASPECTS FOR THE 25TH ANNIVERSARY OF ESTABLISHMENT

Solidifying our leading position in small molecule CDMO business as the backbone of sustained revenue growth

With over two decades of insight and expertise, Asymchem has firmly established itself in the global small molecule CDMO industry. The significant commercial breakthroughs of large orders within the industry have marked key milestones in our small molecule business journey, with 2023 heralding a new era with an achievement of 23.67% year-on-year overall revenue growth, excluding the impact of large orders. Our collaborations with multinational pharmaceutical companies continue to flourish, driving a remarkable 75.56% year-on-year revenue increase while excluding these large orders. The gradual resumption of international business travel enables more clients to witness our capabilities firsthand, while an increasing number of advanced projects, including active pharmaceutical ingredient ("**API**") verification initiatives, are successfully being implemented. We have effectively addressed external apprehensions regarding the partnerships between multinational pharmaceutical firms and Asymchem through tangible outcomes. Moreover, our collective efforts to enhance the efficiency of small molecule research and development production, along with ongoing cost reductions, position us competitively for the future. Serving as the foundational business of Asymchem, the outlook for small molecule CDMO remains promising, with ample opportunities for future sustainable growth.

Continued to prioritize the advancement and evolution of R&D platforms to uphold our leading technology position

Technological innovation is essential for maintaining competitiveness in the market. Asymchem's two core flagship technologies among the eight R&D technologies centers, namely flow and continuous technology and synthesis biology technology, performed exceptionally well in our CDMO business. With significant investment in research and development over the years, these two technologies have evolved into comprehensive platforms capable of providing external technology output. This has enabled more partners and customers to leverage our disruptive technological achievements, addressing their own pain points, significantly enhancing efficiency, yield, safety, and substantially reducing costs.

Commencement of flow and continuous technology's provision of external technology output services

Market expansion and order fulfillment progressed hand in hand, validating the unmet urgent need for flow and continuous reaction not only in the field of innovative drugs but also in a broader spectrum of chemical production. In response to market feedback, we increased internal research and development investment, surmounted multiple high-risk and high-difficulty process technology barriers, and achieved mid-term amplification verification of multiple oxidation, nitration, and hydrogenation projects. We successfully implemented fully continuous process packages for several projects of varying tonnages, swiftly elevating Asymchem's market influence in Chinese domestic flow and continuous technology.

Witnessed continuous advancement in our synthetic biology technology capabilities

We comprehensively improved our capabilities of AI-assisted enzyme evolution and established a microbial cell factory technology platform. Through the integration of biological fermentation technology with chemical modification, we achieved meaningful results in technology accumulation for manufacturing blockbuster drugs. Leveraging efficient strain libraries and high-throughput cell screening technologies, we rapidly established an efficient microbial expression system, achieving a milestone with fermentation yield at the industry's forefront. We continued to propel the construction of oligonucleotide biosynthesis technology platforms and polypeptide biosynthesis technology platforms, effectively conducting efficient synthesis testing of multiple products and synchronous capacity expansion. Furthermore, through the rapid fusion application of new technologies, we successfully implemented commercial production projects involving continuous enzyme catalysis at various tonnage levels.

Embraced promising emerging business with compatible capabilities

Affected by the challenges of financing for innovative biotechnology companies due to fluctuations in the domestic capital market, our emerging businesses, which primarily rely on domestic revenue, have experienced a slowdown in rapid growth over the past year. However, in the face of these challenges, Asymchem excels at adaptation. Throughout our development history, every few years, Asymchem has demonstrated its ability to seize large-scale orders by leveraging keen business acumen, precise industrial leading technical capabilities, and irreplaceable sufficient production capacity. In the past year, we have continued to strengthen our foundation by increasing investment in research and development and striving to enhance our delivery capabilities. We fear no challenges and actively expand our production capacity across China, including the commercialization capacity for polypeptides, ADC production capacity in, and the existing commercial production capacity for oligonucleotides, ensuring ample production capacity for our emerging businesses. We are also making continuous efforts to explore overseas markets and build our global footprint, and more international customers have shown strong interest in our business sectors. With the gradual recovery of the domestic market in the future and comprehensive expansion into overseas markets, we believe that our emerging businesses will soon enter a new phase of rapid development.

Healthy financial standing offering flexibility to pursue long-term strategies for global footprint

We have maintained a strong financial position with a substantial cash reserve that allows for flexibility in further development and expansion into overseas markets. Our free cash flow turned positive in the first half of 2023 compared to the same period in 2022. Following the Company's successful global offering and dual listing on the Main Board of the Hong Kong Stock Exchange, we now hold over RMB7 billion in cash and cash equivalents. The robust financial position and consistently effective capital allocation provide us the flexibility to pursue development strategies such as overseas expansion through mergers and acquisitions, self-established production sites, dual-market employees share schemes, and share buybacks.

EMBARK ON THE NEW JOURNEY OF ASYMCHEM

Reflecting upon the 25th anniversary since our inception, we have witnessed remarkable growth. Our team has expanded significantly from 14 staff members to 9,788. Starting with a registered capital of RMB200,000, we have now grown to an asset scale exceeding RMB19 billion. Our annual revenue has shown impressive growth, surpassing RMB100 million in 2005, exceeding RMB1 billion in 2015, and breaking through the RMB10 billion milestone in 2022. We have evolved from a modest 700-square-meter laboratory to a dual-listed Company with more than 20 subsidiaries spanning across the United States, China, the United Kingdom, Japan, and other countries. These subsidiaries are involved in various aspects such as research and development of technology and process, analysis, production, and sales, creating an integrated approach. Each step taken over the past 25 years has been marked by significant achievements, leaving behind a trail of solid accomplishments.

From the 20th to the 25th anniversary, we have undergone substantial changes over the past five years. The revenue has surged from RMB2.45 billion in 2019 to RMB7.78 billion in 2023, while the profit attributable to shareholders has risen from RMB551.59 million in 2019 to RMB2,268.81 million in 2023. Furthermore, the proportion of revenue from businesses other than small molecules CDMO has increased from 3.5% in 2019 to 15.12% in 2023. Additionally, the number of employees has grown from 3,840 at the end of 2019 to the current 9,788. Despite these transformations, Asymchem's core values of "**seriousness, rigor, and strictness**" ("**嚴肅、嚴謹、嚴苛**") have remained unwavering. The management philosophy of "**accumulating strength for future success, staying vigilant, and be cautious**" ("**厚積薄發、居安思危、如履薄冰**") continues to guide the Company. Equally unchanged is the spirit of perseverance and strong execution among Asymchem's staff, serving as the enduring driving forces behind the company's development over two decades.

In 2024, "**global footprint and overseas expansion**" stands as the defining keyword for Asymchem, marking a year filled with hope. We firmly believe that the healthcare sector is an ever-promising sunrise industry. Our focus lies in harnessing our potential, undertaking practical endeavors, and prioritizing the interests at hand.

On behalf of all the employees at Asymchem, I would like to express sincere gratitude to each and every one of you – our esteemed customers, partners, shareholders, and stakeholders – for your unwavering support and trust. Looking ahead, we maintain our confidence and unwavering dedication to our mission and strategy, aiming to create value for our shareholders and strive to be the first choice of dependable and preferred partners within the global healthcare industry.

Yours faithfully,

Dr. Hao HONG
Chairperson of the Board, Executive Director and Chief Executive Officer
28 March 2024

FINANCIAL HIGHLIGHTS

Revenue for the year ended 31 December 2023 (the "**Reporting Period**") was approximately RMB7,781,436 thousand, representing a decrease of 23.94% from approximately RMB10,230,186 thousand for the year ended 31 December 2022 (the "**Corresponding Period**").

Gross profit for the Reporting Period was approximately RMB3,959,636 thousand, representing a decrease of 18.06% from approximately RMB4,832,588 thousand for the Corresponding Period.

Net profit attributable to shareholders of the parent for the Reporting Period amounted to approximately RMB2,268,811 thousand, representing a decrease of 31.28% from approximately RMB3,301,635 thousand for the Corresponding Period.

Non-IFRS adjusted net profit attributable to shareholders of the parent for the Reporting Period amounted to approximately RMB2,302,089 thousand, representing a decrease of 23.23% from approximately RMB2,998,806 thousand for the Corresponding Period.

The Board proposed the 2023 profit distribution plan of the Company (the "**2023 Profit Distribution Plan**") as follows: a dividend of RMB1.80 (tax inclusive) per ordinary share for the year ended 31 December 2023, the total amount of the proposed final dividend is approximately RMB664,080,355.80 (tax inclusive). The proposed 2023 Profit Distribution Plan is subject to the approval of the Shareholders at the AGM.

	For the year ended 31 December				
	2019	2020	2021	2022	**2023**
	RMB'000 (except percentage)				
Results of Operations:					
Revenue	2,445,849	3,136,724	4,632,121	10,230,186	**7,781,436**
Gross profit	1,100,563	1,453,224	2,049,725	4,832,588	**3,959,636**
Profit for the year	551,589	719,703	1,069,256	3,294,631	**2,250,820**
Net profit attributable to shareholders of the parent	551,589	719,742	1,069,274	3,301,635	**2,268,811**
Profitability:					
Gross profit margin	45.00%	46.33%	44.25%	47.24%	**50.89%**
Net profit margin attributable to shareholders of the parent	22.55%	22.95%	23.08%	32.27%	**29.16%**
Earnings per share (RMB):					
– Basic	2.41	3.09	3.15	9.02	**6.26**
– Diluted	2.38	3.07	3.13	9.00	**6.26**

	As at 31 December				
	2019	2020	2021	2022	**2023**
	RMB'000 (except percentage)				
Total assets	3,788,053	7,182,650	15,156,297	18,239,273	**19,767,159**
Total liabilities	745,004	1,192,900	2,546,285	2,544,270	**2,257,180**
Total equity	3,043,049	5,989,750	12,610,012	15,695,003	**17,509,979**
Equity attributable to owners of the parent	3,043,049	5,989,789	12,610,012	15,647,428	**17,479,717**
Cash and bank balances	435,252	2,124,615	6,234,457	5,289,594	**7,109,987**
Gearing ratio (Note 2)	19.67%	16.61%	16.80%	13.95%	**11.42%**

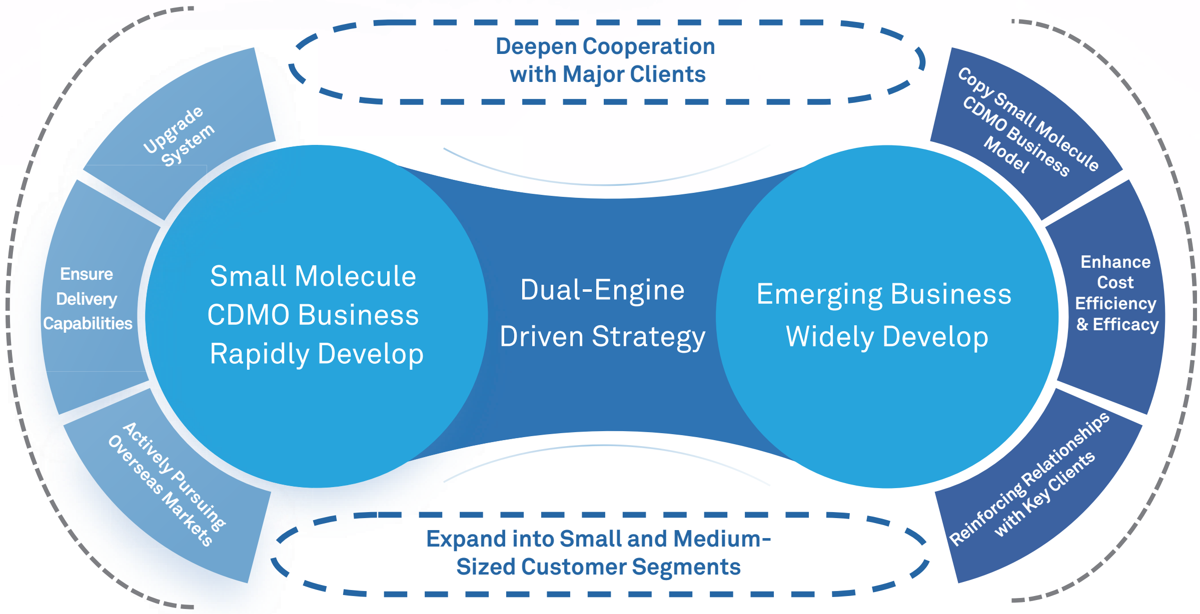
Note 1: Please refer to "Management Discussion and Analysis – II. Financial Overview – (XXII) Adjusted Non-IFRS Measures."
Note 2: Gearing ratio is calculated by dividing total liabilities by total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

(I) Overall Performance

Asymchem is a globally renowned, technology driven comprehensive CDMO service provider. By offering end-to-end CMC services and efficient, high-quality R&D and manufacturing solutions to both domestic and international pharmaceutical and biotech companies, we expedite the clinical research and commercialization of cutting-edge drugs. With years of industrial experience, coupled with deep industry insights and a stellar reputation among clients, we have solidified our position as the top tier within the global innovative drug industry chain. As a preferred partner for the pharmaceutical companies worldwide, we continue to expand our expertise in small molecule drug CDMO while diversifying our offerings to establish a professional, all-encompassing service platform.



Business Performance

Throughout 2023, the Company comprehensively advanced and implemented the dual-engine driven strategy on business growth by remaining committed to its business principle of "deepening cooperation with major clients, expanding into small and medium-sized customer segments, advancing market presence in Europe and Japan, and enhancing cost efficiency and efficacy." This involved upgrading the management and operational systems to ensure order delivery capabilities, reinforcing relationships with key clients, and actively pursuing growth opportunities in international and domestic markets. By leveraging iterative technological advancements, we successfully promoted the advantages of small molecule drug CDMO services, expanded into chemical macromolecule CDMO, drug product services, green technology exporting, synthetic biology technology, clinical research services, and biological macromolecule CDMO. As of the date of this annual report, the Company has secured a total order backlog of US$874 million, in addition to the recognized revenue orders during the Reporting Period.

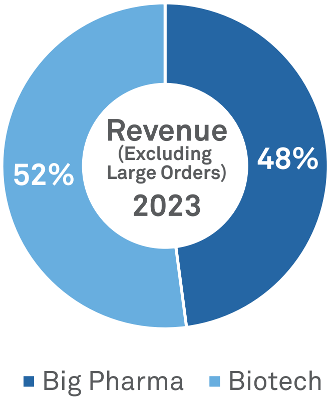
In the Reporting Period, the Company achieved a total revenue of RMB7,781.44 million. Excluding large orders, the remaining revenue amounted to RMB5,360.91 million, manifesting a substantial year-on-year growth of 23.67%. The annual gross profit margin in 2023 was 50.89%, an increase of 3.65% from the same period last year. Specifically, the small molecule CDMO business generated a revenue of RMB6,605.14 million, and excluding large orders, the remaining revenue reached RMB4,184.62 million, reflecting a year-on-year increase of 25.47%. Additionally, the emerging business segment contributed a revenue of RMB1,170.20 million, experiencing a year-on-year growth of 17.79%. The positive trends observed within the Company reflect its continued operational strength and progress, as well as the growing visibility of internal organic revenue growth and a solid global customer base. Over the past three years, Asymchem has successfully secured and managed large orders, which have played a significant role in elevating our revenue size and global reputation. Moving forward, we are committed to further scaling the Company to new heights, even after the cessation of large orders.

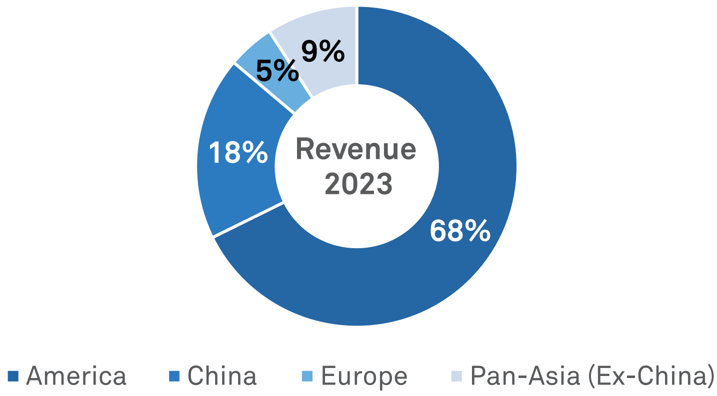
Market Expansion and Diversified Customer Base

The multinational pharmaceutical companies' annual revenue was RMB4,988.48 million, a decrease of 32.20% compared to last year, primarily attribute to the accomplishment of large order at the end of the third quarter in 2023. Excluding large orders, the revenue reached RMB2,567.96 million, demonstrating a significant acceleration of 75.56% compared to the year ended 31 December 2022.

In 2023, the funding trend of global biotechnology companies experienced fluctuation. We achieved an annual revenue of RMB2,792.96 million from the small to medium size companies, marking a 2.76% decrease compared to the year ended 31 December 2022. Our overseas revenue from small to medium companies in 2023 increased by 3.32% year-on-year and we are continuing to expand out customer base through enhanced market penetration efforts. Currently, we have a total of over 1,100 active clients globally.

Market expansion remains one of the central focuses of the Company's endeavors, and accelerated progress has been achieved in the market sector. The overseas business generated an annual revenue of RMB6,344.16 million, down by 26.83% compared to the same period last year. The drop of overseas business was attributed to the conclusion of large orders. Excluding large orders, the overseas revenue was RMB3,923.64 million, manifesting a rapid growth of 41.41% compared to the same period last year.





Throughout the Reporting Period, excluding large orders, the revenue derived from the U.S. customers totaled RMB2,846.75 million showed a substantial year-on-year growth of 47.84% compared to the same period of last year. Revenue from Pan-Asia (ex-China) customers experienced a year-on-year increase of 15.31% for a subtotal of RMB711.58 million. The European market experienced a breakthrough in revenue, with a growth of 57.50% compared to 2022.

(II) Small Molecule CDMO Business

The global small molecule CDMO business features a broad market with low industry concentration and a sustained increase in industry penetration. The growing incidence of chronic diseases and aging population trend propels the demand for innovative small molecule drugs. The pharmaceutical industry's focus on developing novel, more efficacious, and targeted therapies has resulted in increased product pipelines and the need for innovative drug delivery methods. Simultaneously, per the Frost & Sullivan Analysis, while small and mid-sized pharmaceutical companies are responsible for over 70% of drug in the R&D pipeline, they often require the external expertise to bring their clinical pipeline to market. The trend of global small molecule CDMO demand shifting to emerging markets, particularly to China, accelerated during the global public health issue and is likely to continue in coming years.

Based on the industrial insights, the Company has been able to take the leading position of "D" (Development) in the industry and built an evolving R&D platform and a first-class operation system, which enables the Company to continue to improve its competitiveness and seize market opportunities, thereby continuously increasing its revenue scale and global market share. As of 31 December 2023, the small molecule business achieved 426 projects with an increase of 6.77% compared to the year ended 2022. In 2023, the annual revenue amounted to RMB6,605.14 million with a gross profit margin of 55.57% as the gross profit increased by 6.82% compared to the same period last year. Excluding large orders, the gross profit margin at a constant exchange rate for small molecules CDMO was 45.44%. Meanwhile, the annual revenue of small molecules CDMO excluding large orders amounted to RMB4,184.62 million, reflecting a significant increase of 25.47% in revenue compared to last year.

Positioning Firmly in Commercialization Projects as the Backbone to Continues Revenue Growth

With solid industrial experience, Asymchem has cemented its position in the small molecule business. The groundbreaking commercial mega-orders within the industry serve as a pivotal milestone in our small molecule business journey, and 2023 represents the beginning of a new chapter. Our collaborations with multinational pharmaceutical companies continue to strengthen, and excluding the impact of these large orders, annual revenue rose by an impressive 75.56% year-on-year. The gradual resumption of international business travel enables more clients to witness our exceptional capabilities firsthand, while we successfully execute an increasing number of advanced projects, including API verification initiatives. We have addressed external concerns regarding our partnerships with multinational pharmaceutical companies through quantifiable results. Furthermore, collective efforts towards enhancing research and development production efficiency for small molecules, coupled with ongoing cost reductions, position us competitively for the future. Serving as the foundational business of Asymchem, the prospects for small molecule CDMO remain promising, with ample room for further growth.

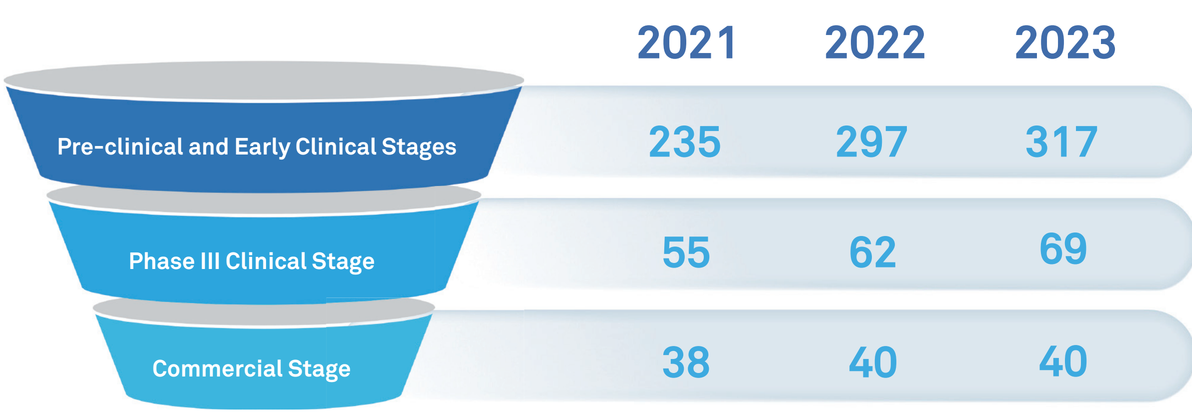
As of 31 December 2023, the Company successfully progressed 40 small molecule commercialization projects resulting in recognized revenue of RMB5,107.49 million and the gross profit margin reached 60.03%, with the gross profit margin of 57.95% at the constant exchange rate. With the large orders approaching their completion in the third quarter of 2023, the Company strategically positioned itself by increasing the number of small molecule commercialization projects. This ongoing good performance largely attributed to the higher gross profit margin of large orders delivered in the later stage, exchange rate factors, and the Company's effective measures to improve efficiency and control costs, thereby mitigating the impact of declining capacity utilization.

The Company's R&D, production, analysis, supply chain management, quality and other departments and teams achieved seamless cooperation and worked in coordination to fully satisfy the needs of customers for pharmaceutical supply, further enhancing the level of fine management and the advantages of the platform system. The Company continuously developed key processes and technologies for green pharmaceuticals and increased the use of innovative technologies and new intelligent equipment to continuously enhance the competitive advantage in the commercialization of small molecule CDMOs.

The Company has continued to execute its existing industry-leading small molecule commercialization projects while simultaneously accelerating the onboarding of new projects. With a strong track record in project delivery, the Company is well positioned to foster deeper collaboration with numerous international and domestic clients in the field of commercialization projects.

Promote Reserves of Clinical Projects to Strengthen the Broader Project Funnels Ensuring Long-term Growth

As of 31 December 2023, the Company had a total of 386 clinical stage projects of small molecule CDMO business, which is 7 more projects compared to last year, including 69 clinical phase III, 317 pre-clinical and early clinical stage projects. The recognized revenue from clinical projects reached RMB1,497.66 million. Excluding the specific anti-virus project, the revenue remained flat year-on-year. The gross profit rate of the clinical stage was 40.37%, reflecting a 0.77% slight decline compared to last year. At a constant exchange rate, the gross profit margin of clinical projects reached 37.38%. In order to secure mandates for commercial stage projects later and build customer relationships, clinical stage CDMO has been an important part of our Company's growth strategy, providing services in process development and optimization, analytical services, and scale-up manufacturing. Our Company has put more effort in its early-stage project development, laying the foundation for long-term growth.



Spot on the Potential Therapeutics to Reinforce the Growth Visibility

The Company strategically reserves potential bulk projects, and clinical phase III projects served by the Company involved several popular targets and promising novel targets, including but not limited to GLP-1, KRAS, JAK, TYK2, etc., securing project reserves for the continued commercialization orders of bulk drugs. We are actively involved in the development of leading GLP-1 programs, and we recognize the emerging and recently approved obesity treatment pipelines and associated advances in drug delivery technologies and rising fundings, may provide clinical trial landscape of growing market scale of anti-obesity drug candidates. According to the total small molecule clinical stage orders in hand, it is expected that the number of projects reaching the process performance qualification ("**PPQ**") stage in 2024 will reach 28, representing a 40% increase compared to 2023. This has established a sufficient reserve of commercial orders, providing strong support for long-term and steady performance growth.

Adhere to the Guideline of Strengthening Key Clients and Expanding Customer Diversity in Various Regional Markets

We have upheld a customer-centric business philosophy and have a diverse, high-quality, and loyal customer base. Rather than just an outsourced service provider, we are regarded as a reliable partner by our customers. Our primary focus lies in serving pharmaceutical and biotechnology companies with headquarters located in the United States, Europe, China, Japan, and Korea, etc. Notably, our clientele includes a large group of renowned multinational pharmaceutical companies. As of the year ended 31 December 2023, we have established partnerships with 16 out of the world's Top 20 multinational pharmaceutical companies, and have been providing continuous service to 8 of these companies for over 10 consecutive years.

For the regional market expansion, the Japan market has entered the harvest season in 2023, with the in-depth cooperation with existing customers being continuously improved and new customers being developed in an orderly manner. With the service projects gradually entering the late and commercialization stage, the revenue has grown rapidly.

Moving forward into 2024 and beyond, our approach involves: i) Deepening our services vertically to encompass new projects for existing multinational pharmaceutical companies while continuing ongoing commercial projects; ii) Proactively re-establishing communication and collaboration with dormant clients who may have shifted their focus toward pipeline concentration rather than small molecule business, particularly those interested in licensing new novel target pipelines in small molecules; iii) Expanding and diversifying our customer pool of multinational pharmaceutical companies, with a notable breakthrough achieved in the Japanese market after years of penetration; and iv) Capitalizing on our extensive experience in serving multinational pharmaceutical companies, we also collaborate with leading biotechnology firms and a wide range of small and medium-sized global pharmaceutical companies.

(III) Emerging Business

As a new rising significant segment of our dual-engine business strategy through emerging business services, by leveraging our competitive advantages in the small molecule CDMO business segment, we expedited the development of our talent team and capabilities in this field. This led to the rapid growth of the emerging business segment, including chemical macromolecule, clinical research services, drug products, biological macromolecules CDMO, and exporting new green technologies including i.e. continuous flow technology, synthetic biology technology, among other strategic emerging business lines. Throughout the Reporting Period, these emerging business lines generated a revenue of RMB1,170.20 million, reflecting an increase of 17.79% compared to the year ended 31 December 2022. The gross profit margin was 24.65% with a year-on-year decrease of 8.87% during the turmoil funding period for the global biotechnology companies.

Chemical macromolecule CDMO business

- Our Chemical macromolecule CDMO business encompasses peptides, oligonucleotides, drug conjugates, polysaccharides/ polymers, and excipients/adjuvants and provides a comprehensive CMC solution from pre-clinical stages to NDA filing and commercial production;
- With the new opportunities in GLP-1, we are actively involved in forward-looking supporting research and development processes and projects. The related peptide production line is expected to be launched in 2024.

Drug product

- Our drug products business offers a one-stop drug products service, covering crystal screening, pre-formulation studies, drug products process development, analytical method development and validation, IND, and NDA registration batches, clinical to commercial GMP production services, stability studies, and more;
- Our formulation development and production services encompass various dosage forms, including conventional tablets and capsules, sustained-release tablets, granules, sterile solutions, sterile freeze-dried powders, eye drops, and complex formulations, etc.
- We achieved a breakthrough within this year with the first oral liquid project in terms of formulation development and process confirmation for batch production.
- The drug product clinical supply chain has officially commenced operation, and as we expand our service coverage geographically, we are gradually penetrating overseas clients.

CSBT - Synthetic biology technology

- We have established a comprehensive integrated biocatalysis platform for enzyme screening, development, evolution, immobilization, enzyme fermentation production and pilot scale-up, biocatalysis of biological enzymes, and green synthesis for the efficient synthesis of small molecule drugs.
- We possess a library of nearly 2,700 enzymes, with Company's holding 40% independent intellectual property. We have developed 17 enzyme assay kits for customers to rapidly screen target enzymes.
- Leveraging the four core technologies of artificial intelligence (AI), cell-free biosynthesis (CFBS), high-throughput screening, and continuous flow technology, our enzyme technology platform currently possesses mature and leading industry technical capabilities.
- We have innovatively developed an AI protein design platform, completed the construction of a BSL-2 laboratory, and possessed advanced GMP production workshops with the capacity for high-quality production ranging from milligrams to tons. We offer customers a one-stop service, including rapid and high-quality biopharmaceutical production, including IND/BLA.

ASYMCHEM

Export New Technology

- CFCT and CSBT, two flagship technologies, have developed into mature technical platforms, and over 33% of internal clinical and commercial projects use such green technologies, generally increasing yield by over 33%.
- Relying on the global application and output of the company's core green technologies, we empower partners in different fields, address customer pain points, significantly improve efficiency and safety, and reduce costs, rapidly increasing the company's economic benefits and promoting industrial upgrading.
- We have achieved a milestone breakthrough, entering the billion-dollar revenue club from scratch.

Clinical research service

- We provide comprehensive services in clinical trial operations, on-site management of clinical trials, data management and statistical analysis, digital services for clinical trials, and registration filing. Leveraging technology and academic leadership, we empower CARO's innovative model, creating a closed-loop integrated service for Asymchem's new drug development, a key factor in customers obtaining regulatory approval for their drugs. By seamlessly coordinating CMC, non-clinical, and clinical medical resources, we not only improve research and development efficiency for customers but also reduce overall research and development costs and time;
- Our team has accumulated rich technical expertise and project management experience, having worked for many years in multinational pharmaceutical companies, clinical CROs, and large state-owned enterprises.

Biological macromolecules CDMO

- Our Biological macromolecules CDMO business has distinguished itself by providing a wide range of CDMO services, including DNA recombinant products (including monoclonal antibodies), antibody-drug conjugates, plasmids, mRNA, and more;
- In response to the rapidly growing demand from domestic and international customers, we have established an antibody and ADC drug process development and production center in Shanghai, which is already operational, and set up a plasmid and mRNA business research and pilot production base in Suzhou. Leveraging the CMMD platform, we are committed to developing and providing a one-stop solution for biological macromolecules CDMO.

Chemical Macromolecule CDMO Business

We provide comprehensive chemical macromolecule CDMO solutions for polypeptides, oligonucleotides, polymers, and other macromolecules. During the Reporting Period, with a revenue increase of 6.77% year-on-year, a total of approximately 74 new customers were developed, 80 new projects were undertaken, and a total of 33 projects were advanced to stages later than phase II clinical stage.

Peptide

With our deeply integrated unnatural amino acid technology and well-developed technology platforms, our specialized chemical macromolecule department ("**CMMD**") can provide integrated development and manufacturing services of traditional polypeptides, peptide-drug conjugates, and polymer-drug conjugates all the way from pre-clinical stage to commercial-scale manufacturing. We develop and optimize the production process for polypeptides or peptide-conjugate at a wide range of scales utilizing liquid-phase peptide synthesis, solid-phase peptide synthesis, biosynthesis, or a combination of them. We have extensive experience in manufacturing GLP-1, cyclic peptide, arginine rich peptide, stapled peptide, PDC, RDC and chemically modified peptides (including synthesis of PEGylation, methylation, and lipidation). Our analytical team also develops and provides appropriate specific analytical methods for structure characterization, validation, stability, and final product testing of these products according to relevant international guidelines and requirements. In addition, our experts can also assist in the documentation preparation for IND and NDA filing.

The Company promoted the development of peptide business as one of the top priorities with 12 new projects undertaken in 2023 with steady preparation of the first GLP-1 NDA in progress. As of the end of the Reporting Period, the construction of the solid-phase synthesis peptide production line was on track for 10,250L, with capacity of 14,250L to come online in the first half of 2024, with the facility to accommodate an additional capacity when new demand comes. For the GLP-1 peptide opportunity, the Company is focusing on i) driving the production validation for a leading domestic GLP-1 program; ii) getting ready for the potential growing global pipeline of GLP-1 class candidates; iii) developing new technology that could target higher yield. We believe the window of opportunity is still open amid the global short supply.

Oligonucleotide

The development of oligonucleotide CDMO business is one of our key business lines in Emerging Services Segment. During the Reporting Period, the Company undertook over 35 new projects with 1 validation production project accomplished.

Oligonucleotide-based therapies show promise to treat a broad spectrum of diseases and genetic conditions. Our oligonucleotide technology platform provides our customers with a full spectrum of services for drug substance from process development through cGMP compliant manufacturing, and drug product from pre-formulation development through fill-finish. Equipped with advanced technologies such as oligonucleotide solid-phase synthesizers and purification equipment spanning gram-scale to kilogram-scale, the Company demonstrates production capacity from clinical to commercial stages.

In the first half of 2023, our efforts to boost the oligonucleotide CDMO business included the operational launch of an exclusive production workshop for chemical macromolecules. This facility features ten pilot-to-commercialization production lines dedicated to oligonucleotides, surpassing an annual capacity of 500 kilograms. We have an experienced analysis team to support services like oligonucleotide structure characterization, method development and validation, product release testing, and stability studies. The team's progress lays a strong foundation for future project advancements.

Others

Concurrently, the Company continued its promotion of toxin-linker, pharmaceutical polymer, polymer-drug coupling, and cationic lipid businesses, initiating 33 new projects during the Reporting Period with 10 validation production projects underway and expanding commercial lipid GMP stocks.

Drug Product

The drug product business line continues its growth momentum in 2023, successfully completing 148 projects during the Reporting Period with 156 ongoing projects. During the Reporting Period, efforts to expand the customer base were intensified, with new customer contract orders contributing 44% of the total. The overseas market sustained growth, evidenced by a 50% year-on-year increase in contract orders. As a result, the drug product business line sustained a solid growth and achieved a revenue increase of 15.86% year-on-year during the Reporting Period. The overseas drug product business was showing a consistent upward trend, with a year-on-year revenue growth rate of 20.81%.

In 2023, the drug product business line smoothly passed on-site inspections 5 times by drug regulatory agencies and underwent audits by nearly 50 domestic and international customers, demonstrating the ability to provide services from clinical to commercial production. The launch of Clinical Supply Chain Center further enhanced end-to-end clinical supply chain services including comparator drug procurement, packaging, and blinding, global clinical trial drug product storage, distribution, return, and disposal services. As the results of extending service reach, expanding service geographical coverage, and gradually penetrating the physical radius needs of overseas customers, more than 20 domestic and international orders have been successfully completed.

In terms of business expansion, the drug production business line has already developed mature commercial capabilities in spray drying and hot-melt extrusion technologies and has successfully completed the commercial production and delivery of hot-melt extrusion drug product. During the Reporting Period, multiple batches of topical drug product projects were successfully completed for clinical batch supply, further enhancing the research and production service capabilities for topical formulations. In 2023, the development and production technology platform for oral liquids has been established, with the completion of formulation development and clinical batch production for multiple oral liquid projects. Meanwhile, several oral peptide projects are in progress with their bioavailability meeting or exceeding expectations. The breakthrough in oral formulations has provided Asymchem with a broader range of technological applications, further deepening overseas customer base expansion and fully opening international markets.

The lipid nanoparticle technology platform continues to be solidified, undertaking and delivering multiple types of lipid nanoparticle projects. The nasal spray and nebulized inhalation solution technology platforms are also expanding with multiple projects simultaneously underway. Other complex formulation technology platforms are being concurrently advanced, such as nano emulsions, in-situ gels, micelles, and suspensions.

In terms of capacity construction, the assessment for the establishment of new production capacity in the drug product business line has been completed. The expansion of capacity for pre-filled syringes and other business lines is being planned, providing a solid guarantee for undertaking new projects.

Export of New Technology

In 2023, Asymchem's two primary flags technologies, namely continuous flow technology and synthetic biology technology, significantly have breakthrough to our CDMO business. In 2023, it was the beginning year for the company's continuous external technology output business. Leveraging its technical advantages and continuous production experience, the market expansion and order delivery progressed simultaneously. The recognized revenue exceeded RMB100 million, with 19 new external technology contracts signed, including 6 commercial contracts totaling over RMB250 million. The company engaged with over 700 customers across more than 10 provinces, establishing deep partnerships with 15 new clients. Notable clients included a fine chemical company in Dalian (10,000mt/a oxidation project), a pharmaceutical company in Shandong (50mt/a pharmaceutical nitration project), and an agrochemical enterprise in Inner Mongolia (3,000mt/a advanced green pesticide project).

The Company overcame technical barriers in multiple high-risk and high-difficulty processes, successfully validating the scale-up of several oxidation, nitration, and hydrogenation projects. These projects were implemented full-scale continuous processes for several thousand-ton and ten-thousand-ton projects, rapidly increasing the market influence and reputation of their continuous technology in the domestic fine chemical industry.

The Center of Flow and Continuous Technology ("**CFCT**") continued to support the internal projects' continuous application. During the Reporting Period, 68 production projects were executed, including the first domestic API continuous verification production – metformin hydrochloride continuous production verification. The application for approval has been submitted to the Center for Drug Evaluation ("**CDE**") of the National Medical Products Administration ("**NMPA**"). PAT technology was applied for the first time in the continuous production of APIs, aligning with the International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use ("**ICH**") Q13 guidelines from multiple perspectives, aiming to promote the breakthrough of continuous reaction technology in the pharmaceutical API field.

Synthetic Biology Technology

During the Reporting Period, we successfully completed the construction and filing of our BSL-2 laboratory, commenced production in the 50L GMP Lab, and undertook our first IND filing project. Furthermore, we successfully fulfilled our first order for enzyme evolution and received high praise from our customers for our efficient collaboration and R&D capabilities. This positive feedback led to the further development of several subsequent orders. The Company has generated a revenue increase of 38.14% year-on-year growth with touch base of 70 new customers and completed the first batch delivery of an IND project. Through technical promotion and demonstrations, there are currently 7 continuous hydrogenation projects in operation.

Our CSBT platform has possessed mature and leading technical capabilities, by building four basic technology pillars, including Artificial Intelligence ("**AI**") technology, cell biosynthesis, high throughput screening ("**HTS**"), and continuously enzymatic catalysis technology. We have built up an integrated technology platform for mature enzyme engineering, featuring enzyme screening, enzyme development, enzyme evolution, enzyme immobilization, enzyme fermentation production as well as process scale-up, enzymatic catalysis for the efficient and green synthesis of small molecule drugs. We have established a fully continuous platform for non-natural amino acid synthesis, carried out several commercial production projects for tonnage continuous enzymatic catalysis, and developed technology platform for polypeptide biosynthesis.

So far, the Company has developed a library consisting of over 2,700 engineered enzymes, over 1,100 protected by the Company's IP rights, covering more than 20 enzyme classes. We also developed 17 enzyme kits for customers to quickly screen target enzymes with specific catalytic activity. The platform is gradually being applied in innovative pharmaceutical projects or commercialization projects with life cycle management for customers, signaling great potential for future development. The current enzyme evolutionary period has been shortened to a minimum of one week which taking our enzyme engineering technology to a next level.

We further deepened and improved the technical capabilities of the enzyme engineering technology platform, achieving comprehensive enhancement of AI-assisted enzyme evolution capabilities. We completed the construction of the oligopeptide synthetic biology technology platform. Additionally, we accomplished the construction of oligonucleotide biosynthesis, including the development of solid-phase enzyme connection and liquid-phase enzyme connection technologies, as well as the development of high-throughput screening technologies. Furthermore, we completed the construction of a non-natural amino acid full continuous synthesis platform and successfully realized commercial production of multiple ton-level continuous enzymatic catalyzed projects. Meanwhile, we have successfully developed multiple advanced technologies for several microbial cell factories, including E. coli and some yeast strain, which have been validated to be very efficient by improving the yields to the highest levels reported so far at lab or pilot scale for some small molecules. The construction of the polypeptide synthetic biology technology platform was completed and has been utilized for testing the efficient synthesis of multiple polypeptide products. Simultaneously, we have also completed the establishment of production capacity, enabling us to design polypeptide synthetic biology technology routes, develop high-yield strains, conduct process development, and achieve efficient production.

We have focused on creating underlying technological advantages and successfully established a DNA synthesis and sequencing platform to assist enzyme evolution capabilities, significantly enhancing research and development efficiency. Through collaboration with the AI team in the IT department, we have innovatively developed an AI protein design platform, resulting in the publication of research papers. This has led to the realization of a highly automated research and development platform driven by AI big data. Our AI platform is continuously being developed and optimized as we strive to build a world-class biological laboratory.

In addition, we have received orders for more than 20 test kits, and through the drainage of more than 20 subsequent enzyme evolution/enzyme powder orders from the test kit. With the new 500L and 5,000L fermentation capacity under construction, it will be put into operation in the second quarter of 2024. More partners are beginning to explore greener and lower-cost enzyme catalytic synthesis routes to replace traditional chemical routes. The synthetic biology sector will rely on our Company's strong one-stop service system, with leading technology and R&D capabilities as the core driving force, to meet diverse customer needs, help transform traditional chemical synthesis processes, and embrace a new era of green pharmaceutical industry.

Clinical Research Service

During the Reporting Period, the revenue of the CRO business dropped by 9.96% year-on-year. The Company endeavored to accelerate the business development and enhance client satisfaction with 347 new project contracts signed, of which the Company engaged with major diseases such as cardiovascular and metabolic diseases, respiratory, neurology, hematology diseases and solid tumors.

As one of key elements of Asymchem's "One-stop, Integrated Development Service" Strategy, the Company seamless coordinated with CMC, non-clinical, and enhanced R&D efficiency for our clients while reducing the overall costs. We undertook 33 integrated service orders, successfully obtaining 5 implied China IND approvals, of which 3 have been deferred to clinical trials. Our overseas business continued to strengthen, with 14 new overseas application orders assisting customers in successfully applying for FDA approval for 4 items, of which 3 have received FDA IND implied approval. We supported the successful market launch of innovative antiviral drugs and GLP-1 products. Additionally, we assisted in the submission of China IND applications for 20 first-class innovative drugs, with 14 projects receiving implied approval for clinical trials. Further, we successfully enrolled phase I clinical trials for a new anti-tumor drug targeting a novel pathway and advanced the initiation of a nationwide first stem cell therapy for spinal cord injury in phase I. We also facilitated the smooth transition of the world's first lung basal stem cell drug and high-potency HIV treatment drug to phase II clinical trials, ensuring the timely delivery of key ongoing phase II and III clinical projects. As of the end of Reporting Period, the Company had 356 clinical trial projects in progress, of which 123 had entered phase II or later stages. The Company further invested efforts and expand resources within academic institutions, fostering deeper collaborations in clinical trials and bolstering research and innovation capabilities for innovative drug companies.

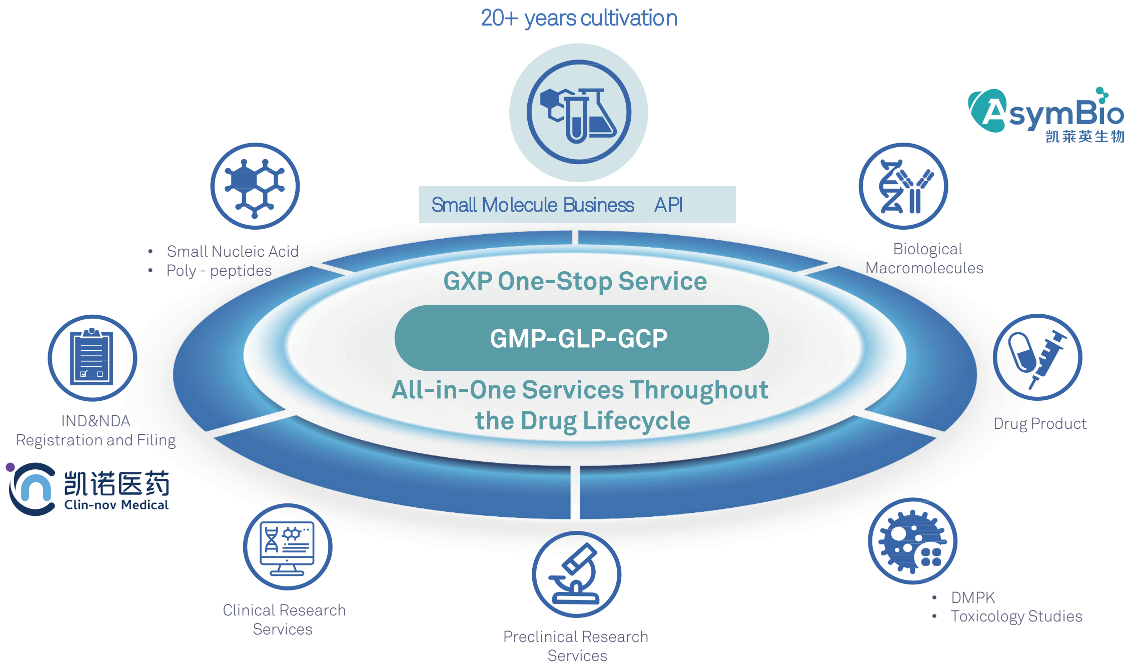
Leveraging AI to empower the intelligent drug surveillance platform, enhancing the quality and efficiency in clinical trial project management, clinical trial document management, clinical research data management, and drug surveillance detection, we empowered the entire process of clinical research.

Operating under a "compliance-first" approach, the Company successfully passed client audit and authority inspections without critical findings. Through continuous improvements in quality and quality system, the Company ensured the consistent high-quality delivery of projects for our clients.

Biological Macromolecules CDMO

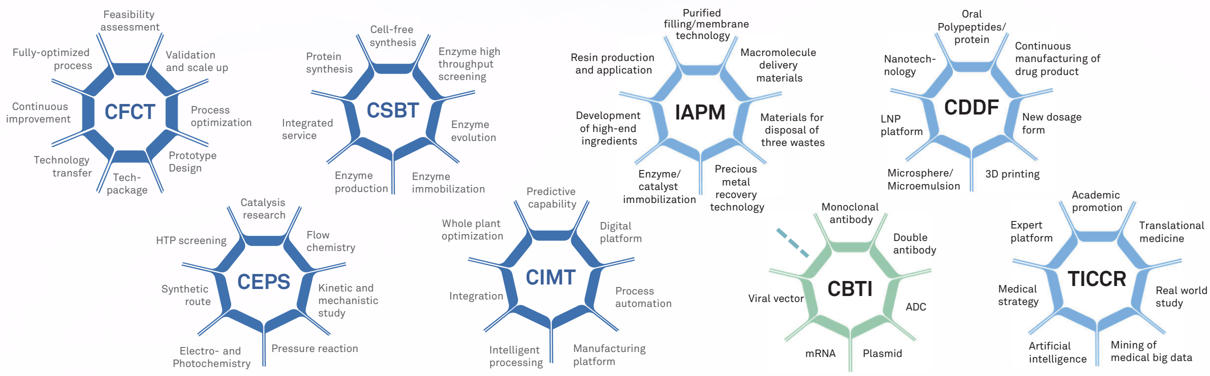
During the Reporting Period, the revenue of the biological macromolecules CDMO business increased by 27.74% year-on-year. The number of projects continued to grow, with a variety of project types. Currently, there are 71 projects on hand, including 16 IND projects, 18 ADC projects, 3 AOC projects, and 2 Biologic License Application ("**BLA**") project. Based on the types of active orders, it is expected that the proportion of revenue from various types of conjugate drug orders, including antibody-drug conjugates, will continue to rise in the future.

During the Reporting Period, this segment actively expanded its market presence, securing abundant orders and increasing market recognition. Breakthroughs were achieved in key overseas markets and mid – to late-stage project areas, with the company securing orders for 4 overseas projects. They also obtained the first BLA order for an integrated service ADC project, continuing to deepen their integrated business operations. Technology advancement is fundamental to the development of the biopharmaceutical business. The Center of Biological Technology and Innovation ("**CBTI**") at the Zhangjiang base in Shanghai was officially launched in May 2023, driving internal research and development initiatives, enhancing forward-looking capabilities, and empowering process development. Efforts are being made to optimize the process development cycle, steadily improve delivery quality and efficiency, with several patents currently under application. Concurrently, focusing on business development strategies and order demands, the commercial capacity expansion and renovation project at the Jinshan base in Shanghai has been completed, while the construction project for the commercial production base in Fengxian, Shanghai is progressing steadily.



(IV) R&D Platform Construction

As a technology driven company, our key success lies in seamlessly integrating cutting-edge technologies and their industrial application, continuously strengthening our technological competitiveness, and solidifying our leading position in the CDMO industry. Our R&D activities are primarily relying on our in-house eight innovative R&D platforms, namely the Center of Excellence for Process Science ("**CEPS**"), the CFCT, the CBST and the Center for Intelligent Manufacture Technology ("**CIMT**"), and CBTI, and Institute for Advanced Pharmaceutical Materials ("**IAPM**"), Center of Drug Delivery and Formulation ("**CDDF**"), and Technology Innovation Center for Clinical Research ("**TICCR**"). Our process development team provides customized solutions for our customers using technologies and know-how developed by the first four R&D platforms.



With a strategic emphasis on the "development" component of CDMO services, Asymchem has been focusing on developing a top-tier technology platform and is among the CDMO companies that contribute the most to R&D per Frost & Sullivan. As at the end of the Reporting Period, our Group has obtained a total of 383 authorized patents both domestically and internationally, including 319 patents in China and 64 patents overseas. Among these, 108 are in the field of synthetic biology and 112 in the continuous flow technology, respectively. Especially for the latter, our Company was one of the earliest companies to apply continuous manufacturing in drug production and is also one of the few that can apply the technology at the ton-level instead of gram-level, leading to simplified procedures, reduced processing duration and raw material cost. These patents are being used in the phase II or later projects, giving Asymchem a strong competitive edge. This continued focus on R&D has made Asymchem one of the few companies that can provide a one-stop solution platform.

As at the date of this annual report, we have obtained 148 authorized invention patents and 70 authorized utility model patents in China, as well as 22 authorized patents in other jurisdictions such as the United States, the European Union, Japan, South Korea, and India. Our research papers on new technologies have been published multiple times in the most authoritative scientific journals in the field of natural sciences such as *Nature*, as well as other important journals in the industry including *Journal of the American Chemical Society*, *Angewandte Chemie (Germany Applied Chemistry)*, *Journal of Organic Chemistry*, *Organic Letters*, and other leading international journals. By the end of the Reporting Period, a total of 41 papers have been published, among which 14 have impact factors exceeding 10.

For the year ended 31 December 2023, our R&D expenses surpassed RMB707.86 million, representing 9.10% of our total revenue. As we anticipate future revenue growth, we also plan to allocate a proportional increase in our R&D expenses.

Center of Excellence for Process Science ("CEPS")

CEPS aims to explore advanced technology platforms, develop, and apply innovative technologies and strategies for pharmaceutical process development. It strives to achieve green chemistry, cost reduction and efficiency improvement on the premise of mitigating process risks and enhancing safety. Currently, it has seven major functions, namely high-throughput screening, synthetic route innovation, flow chemistry, photochemistry and electrochemistry, kinetic and mechanistic studies, and pressure reactions.

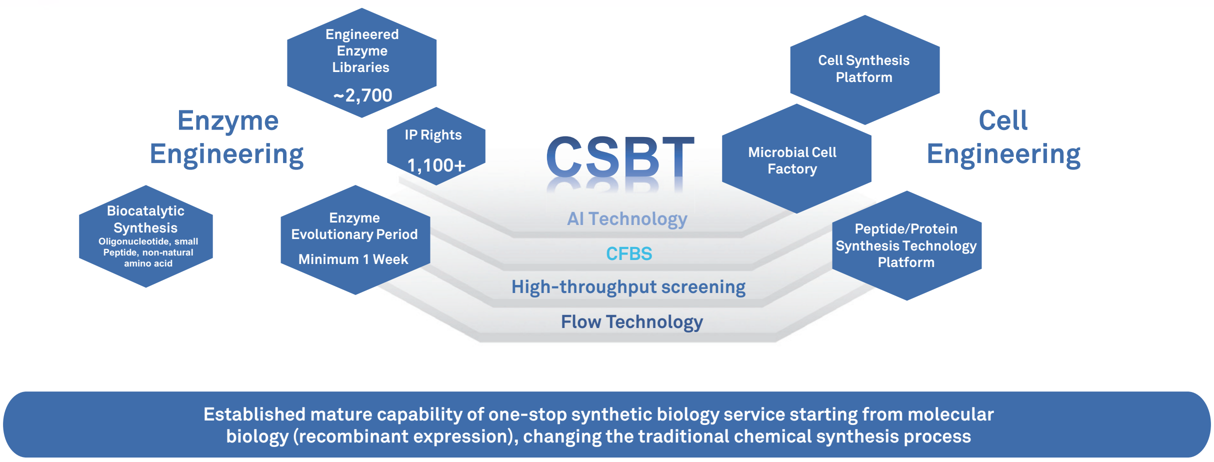
During the Reporting Period, the pivotal R&D platform for our small molecule CDMO business, CEPS supported approximately 300 R&D projects. There were 20 projects in the development and application of continuous hydrogenation technology carried out, establishing a cross-center collaborative development model among CEPS, Chemical Engineering Department ("**CED**"), and CFCT. Through technical promotion and demonstration, there are currently 7 ongoing continuous hydrogenation projects. Precious metal recovery technology has been implemented at the production end of projects, validated in scale-up liquid-phase synthesis, and control strategies have been recognized by multiple customers and received corresponding quotation requests.

Center of Flow and Continuous Technology ("CFCT")

CFCT's mission is to penetrate each of our business segments with our self-developed continuous flow technology. Continuously carrying out technological upgrades and innovations, we have submitted 53 new patents and obtained 26 authorizations. We have built a modular cryogenic test platform, customized laser 3D printing technology, and continued to tackle new continuous reaction technologies, with several new technologies already applied in commercial projects with remarkable results. Leveraging the National Supercomputing Center, we have established a new research and development mode driven by simulation for continuous liquid-liquid reactors, continuous gas-liquid reactors, continuous solid-liquid reactors, and continuous gas-liquid-solid reactors. By combining reaction kinetics, thermodynamics, and CFD simulations, we are exploring new pathways for the future development of biopharmaceuticals and fine chemicals.

Center of Synthetic Biology Technology ("CSBT")

Relying on strong R&D capabilities and over a decade of technological accumulation, we have established a mature one-stop synthetic biology service capability starting from molecular biology (recombinant expression). During the Reporting Period, we further deepened and improved our enzyme engineering technology platform capabilities, achieving a comprehensive enhancement of AI-assisted enzyme evolution capabilities. This includes completing the construction of an oligopeptide synthetic biology technology platform, establishing oligonucleotide biosynthesis, developing solid-phase and liquid-phase enzyme linking technologies, and high-throughput screening method development. We have also completed the construction of a non-natural amino acid total continuous synthesis platform, commercializing several ton-scale continuous enzyme catalysis production projects. Furthermore, we have built microbial cell factory technology platforms for E. coli and yeast, surpassing the highest reported levels in small-scale production of multiple bio-based small molecules. The construction of a peptide synthetic biology technology platform has been completed, used for efficient synthesis testing of multiple peptide products, along with simultaneous production capacity building to realize peptide synthetic biology technology route design, high-yield strain development, process development, and efficient production. By creating underlying technological advantages, we successfully established DNA synthesis and sequencing platforms, significantly improving enzyme R&D efficiency. Through innovative collaboration with the AI team in the IT department, we independently developed an AI protein design platform, published research papers, and achieved a highly automated R&D platform driven by AI big data. The AI platform is continuously being developed and optimized to strive for building a world-class biological laboratory.



Center of Biological Technology and Innovation ("CBTI")

CBTI is responsible for CBTI is responsible for the scientific development, process research and development, technology platform construction, and supply chain optimization related to biologics (antibodies, fusion proteins, etc.) and advanced therapies. The focus is on iterating the ADC project process, creating a dual antibody/dual antibody ADC, site-specific conjugation ADC process development platform, and continuously expanding process development toolbox capabilities. While meeting the internal development needs of Asymchem, it aims to provide customers with higher quality research and technical services, and to provide endogenous power for the company's long-term development.

Institute for Advanced Pharmaceutical Materials ("IAPM")

Committed to the research, production, and promotion of advanced separation and purification materials, high-end excipients, and other high value-added green functional materials. IAPM is an important strategic initiative for the diversification of Asymchem's business. During the Reporting Period, IAPM has established a rich product pipeline in multiple areas such as medical and pharmaceutical polymer materials and green manufacturing materials, completed product specification development and performance testing, and has already begun to promote applications in internal production.

Center for Intelligent Manufacture Technology ("CIMT")

We see great potential in the digitalization of pharmaceutical development and commercial operations. During the Reporting Period, CIMT completed the construction of the intelligent + PAT technology pilot-scale experimental platform. With the experimental platform, CIMT validated modular solutions for the application of soft measurement technology, developed modular solutions for automation of unit operations such as temperature control, pressure control, dosing, and pH control. These solutions effectively improved production efficiency and the flexibility of process execution. CIMT supported the application of advanced automation and PAT technology in the factory and optimized batch technologies in multiple commercial projects. By combining AI analysis algorithms and multivariate control, CIMT facilitated the efficient application of production in commercial projects, advancing towards digitalization and intelligent manufacturing. CIMT also supported the automation upgrade and digital development of the company's laboratories. It established an automated high-throughput crystallization research workstation and a central control management system, completed the automation upgrade of multiple continuous hydrogenation experimental devices, significantly improving experimental efficiency, and creating conditions for further iteration and promotion of continuous reaction technology.

Center of Drug Delivery and Formulation ("CDDF")

Dedicated to innovating drug delivery technology, developing new formulation technology platforms, and new dosage forms to help customers overcome formulation bottlenecks and provide more formulation options. With a focus on technology-driven initiatives, CDDF aims to enhance drug integrity, ensure drug efficacy, and reduce drug production costs. During the Reporting Period, it has initiated and carried out high-end formulation and drug delivery technology projects including continuous formulation production, novel liposomes, LNP delivery technology platforms, 3D printing, and other research and development efforts.

Technology Innovation Center for Clinical Research ("TICCR")

We emphasize promoting the internationalization and professionalization of TICCR, aiming to establish differential competitiveness under the CARO model led by one of our subsidiaries namely Tianjin Clin-Nov Medical Technology Co. Ltd and academic leadership. This includes introducing high-end international talents, collaborating with our cross functions to enhance the clinical trial capabilities of medical institutions, jointly building the empowerment of Tianjin's pharmaceutical industry, and collaborating with experts in various disease fields nationwide to create academic influence. In terms of data intelligence, we are developing a fully automated drug surveillance platform throughout the process and introducing digital applications in recruitment areas and launching a central resource platform.

The eight technology centers are dedicated to cultivating cutting-edge technologies and spearheading technical innovation, in order to offer robust technical support for the Company's new strategic direction and expansion.

(V) Investments and Constructions of Capacity Expansion

We maintain advanced manufacturing sites built from the ground up to stringent standards. As of the year ended 31 December 2023, we had eight manufacturing sites in China. The following map illustrates the locations of our manufacturing sites, as well as our offices in across China, the United States, and the United Kingdom.

In the small molecule CDMO business segment, the continuous reaction plant area experienced a remarkable year-on-year growth in the past three years, accompanied by a reasonable percentage increase in the number of continuous equipment units. This significant expansion of continuous reaction capabilities plays a vital role in enhancing the Company's production efficiency and facilitating capacity release. In the following period, we will actively absorb newly added productions from the past three years, minimize raw material waste, reduce the operation cost, and boost gross profits.

In terms of the emerging services business segment, significant progress was made in the chemical macromolecule project. Construction was successfully completed for the R&D center, spanning approximately 12,000m², and the Good Manufacturing Practice ("**GMP**") production plant, covering an area of around 9,500m².

To prioritize the development of our peptide CDMO business, we expedited the phase I construction of peptide commercial production facilities, aiming to reach a solid-phase synthesis capacity exceeding 14,250L by mid-2024. This will enable us to meet the demand for commercial production of hundred-kilogram-level solid-phase peptides.

Additionally, in 2023, we continued to promote the growth of our oligonucleotide CDMO business, and the exclusive production workshop I for chemical macromolecules is now operational with ten pilot-to-commercialization production lines for oligonucleotides, exceeding an annual capacity of 500 kilograms.

In light of the growth trends observed in 2023 within the solid and parenteral formulations of drug products, aimed at further penetrating overseas markets and maintaining a strong presence in the domestic Chinese market, an evaluation has been conducted regarding the establishment of additional production capacity within the drug product business line. Plans are underway to expand capacity for pre-filled syringes and other production lines, which will serve as a robust foundation for undertaking new projects in various jurisdictions.

To promote the synthetic biology technology, in the construction of new GMP-level fermentation capacities of 500L and 5,000L, partners have begun exploring greener and more cost-effective enzyme-catalyzed synthesis routes to replace traditional chemical routes. Planning for a new 5,000L fermentation capacity is underway to meet the growing demands of customers.

As for the biological macromolecule CDMO business line within the emerging services business segment, the Company established a dedicated R&D and pilot test base for plasmid and mRNA operations in Suzhou. In 2023, we have initiated the commercial production capacity renovation and expansion in Jinshan district in the city of Shanghai and the construction of the commercial production base were in a steady progress in Fengxian district in the city of Shanghai, respectively. Additionally, the production workshop and supporting auxiliary engineering for CBTI in Shanghai Zhangjiang were finalized and put into use in May 2023.

We generally expand and build our development and manufacturing facilities in anticipation of increased demand arising from new customer engagements and strategic plan. For details, please refer to the chapter of "Uses of Net Proceeds" in this annual report. We are strategically focusing on further expanding our overseas capacity in the small molecule business segment. Recognizing the growing global demand for our services, we aim to strengthen our presence in international markets by establishing production facilities abroad or through the acquisition of suitable production base. This approach will enable us to effectively cater to the needs of our overseas core clients base and enhance our competitiveness on a global scale. By leveraging our expertise, advanced technologies, and efficient processes, we are committed to providing high-quality small molecule CDMO solutions to customers worldwide. Through overseas capacity expansion, we aim to optimize our supply chain, shorten lead times, and improve overall operational efficiency. This strategic initiative aligns with our commitment to delivering exceptional services to our clients while solidifying our position as a leader in the small molecule CDMO industry.

(VI) Cultivation of Our Team of Talents

The highly competitive and rapidly evolving pharmaceutical industry requires an effective talent management strategy to succeed. As a leading CDMO company, we recognize the importance of cultivating and retaining a diverse pool of professionals with multi-disciplinary expertise. Our global team possesses advanced technical knowledge, strong execution capabilities, and a customer-centric culture, which enables us to help our clients overcome complex process development and manufacturing challenges through teamwork and collaboration. We attract and cultivate talent globally by offering a collaborative work environment, cutting-edge projects, a reasonable competitive remuneration package, and a community-driven career development platform.

In 2023, to achieve our goals, we implemented a tailored talent strategy for each of our key business segments. We offered internal training programs to equip our employees with the latest technology advancements, industry know-how, and regulatory developments. We inspired our employees to develop a strong sense of ownership and encourage them to work on industry-defining and landmark projects. Moreover, we offered competitive compensation and compelling career development opportunities to motivate and retain our high-quality talent base.

Our Company firmly grasps and adheres to the strategy of talent introduction by optimizing various employment mechanisms such as talent selection, training, utilization, evaluation, incentive, and retention. We established talent management systems for small molecule CDMO business and strategic emerging business and accelerated the introduction of talents including business leaders and key technical positions in emerging business segments. In 2023 full year, we have recruited 205 expertise, including 83 Ph.D., 29 senior executives and above, and 93 returnees and personnel with working backgrounds in overseas pharmaceutical companies. As of the year ended 31 December 2023, we had a total of 9,788 employees, of which more than 78% were undergraduates and 23% were masters/Ph. D and/or above. We believe that our employees are the valuable wealth of the Company, and we serve as the platform for employees to show their talents and realize their values.

(VII) Social Responsibility and Sustainable Development

As a listed company with social responsibility, Asymchem stays committed to offering quality products and professional services to its partners. The Company, in strict accordance with the provisions of relevant laws and regulations and in light of its particular conditions, undertakes the responsibilities to Shareholders, partners, employees, society and other stakeholders. The Company gives back to the society through practical action and fosters a harmonious environment for development, to achieve the ultimate goal of sustainable development.

Under the Asymchem sustainability model, there are four major elements for synergy: enabling customers, responsible for citizens, construction of community, and protecting the earth. As a leading CDMO service provider in China, we are committed to the global pharmaceutical technology innovation and commercial application. We are sincerely dedicated to providing customers with quality products and professional services, and actively fulfill and assume responsibility for our employees, shareholders, investors, and other stakeholders. While maximizing economic benefits, we pursue the collaborative development of social benefits and environmental protection, in order to achieve sustainable development. We are highly focused on protecting the interests of our shareholders, customers, all employees, suppliers, and other interest groups and stakeholders. We have established an improved corporate governance structure, a complete internal control system, and a platform to interact with investors, to assure all shareholders of fairness, promptness, justice, transparency, and openness.

In our daily operations, we are committed to our customer-centric approach and provide our customers with high-quality services through continuous development of technologies and processes. In terms of employee rights and interests, we comply in all material respects with the PRC Company Law, Labor Contract Law and other laws and regulations, and have formed a management philosophy that "there will be no quality products without satisfactory employees", showing that we care about the health, safety, and satisfaction of our employees. At the same time, we maintain good interaction with suppliers, especially suppliers with long-term cooperative relationships. We fully understand that most of our overseas clients have established comprehensive ESG management objectives, which will be communicated to Asymchem. In particular, overseas customers have put forward clear ESG expectations for supply chain companies. As part of the supply chain, we strive for the best efforts to balance the requirements while operating the business to maximize the mutual benefit.

We have established "Teda-Asymchem Scholarship" in several colleges and universities to support the study and research of college students, showing our concern for the growth of young students and encouragement to them. Particularly, we have set up several scholarships for college students in hardship in many universities and colleges. We have also created several fellowships for outstanding research results of drug synthesis in some universities and colleges and sponsored various academic conferences and symposiums.

For more details regarding social responsibility and sustainable development information, please refer to the 2023 ESG Report which will be available at the end of April 2024.

II. FINANCIAL REVIEW

In 2023, the Group realized revenue of RMB7,781.44 million. If the large orders are excluded, the other revenue of RMB5,360.91 million represented a period-on-period increase of 23.67%. The annual gross profit margin in 2023 was 50.89%, an increase of 3.65% from the same period last year. Excluding large orders, the annual gross profit margin in 2023 increases by 3.40%. The adjusted net profit attributable to shareholders of the listed company amounted to RMB2,302.09 million, representing a decrease of 23.23% as compared with 2022. In 2023, the small molecule CDMO business realized revenue of RMB6,605.14 million. If the large orders are excluded, the other revenue of RMB4,184.62 million represented a period-on-period growth of 25.47%. In 2023, the emerging business realized revenue of RMB1,170.20 million, representing an increase of 17.79% as compared with 2022. Domestic revenue reached RMB1,437.27 million in 2023, representing a decrease of 7.88% from 2022, with the proportion of domestic revenue increasing from 15.25% in 2022 to 18.47% in 2023. The Group continued to build the R&D platform, with an investment of RMB707.86 million in 2023, which remained stable compared with the same period last year, accounting for 9.10% of the revenue.

(I) Revenue

During the Reporting Period, the Group's revenue by product categories was as follows:

	2023 RMB'000	Proportion	2022 RMB'000	Proportion	Change ratio %
Commercial stage CDMO solutions	5,107,487	65.64%	7,568,209	73.98%	(32.51)
Clinical stage CDMO solutions	1,497,658	19.25%	1,662,241	16.25%	(9.90)
Emerging services	1,170,199	15.04%	993,478	9.71%	17.79
Total revenue from principal business	7,775,344	99.92%	10,223,928	99.94%	(23.95)
Other businesses	6,092	0.08%	6,258	0.06%	(2.64)
Total revenue	7,781,436	100.00%	10,230,186	100.00%	(23.94)

During the Reporting Period, the Group had 40 commercialization projects for which the revenue has been recognized, achieving revenue of RMB5,107.49 million, representing a period-on-period decrease of 32.51%. If the large orders are excluded, the other revenue of RMB2,686.96 million represented a period-on-period increase of 47.22%. The Group's R&D, production, analysis, supply chain management, quality and other departments and teams achieved seamless cooperation and worked in coordination to fully satisfy the needs of customers for pharmaceutical supply, further enhancing the level of fine management and the advantages of the platform system. The Group continuously developed key processes and technologies for green pharmaceuticals and increased the use of new technologies and new intelligent equipment to continuously enhance the competitive advantage in the commercialization of small molecule CDMOs. The green technologies were continuously implementing in several industry-leading commercialization projects, and the Group's good track record in delivery will further drive deeper collaboration with numerous domestic and international clients on commercial projects.

During the Reporting Period, the Group had a total of 386 clinical stage projects for which the revenue has been recognized, including 69 clinical phase III projects, achieving revenue of RMB1,497.66 million, representing a period-on-period decrease of 9.90%, which was basically flat year-on-year excluding the impact of specific anti-virus projects. The Group has put more effort in its early-stage project development, laying the foundation for long-term growth. The Group strategically reserves potential bulk projects, and the clinical phase III projects served by the Group involved popular novel targets or major drug targets, such as GLP-1, KRAS, JAK and TYK2, securing project reserves for the continued acquisition of bulk commercial orders of drugs.

Leveraging our competitive advantages accumulated in the small molecule CDMO segment, the Group accelerated the construction of its talent team and capabilities, promoted the rapid development of new business such as chemical macromolecule CDMO, clinical research services, drug product, biological macromolecules CDMO, exporting the application of advanced synthetic biology technology, and other strategic emerging business lines. During the Reporting Period, the strategic emerging segment recorded revenue of RMB1,170.20 million, representing a period-on-period increase of 17.79%. With the enhancement of service capacity in emerging business, some business lines achieved breakthroughs in overseas orders.

During the Reporting Period, the Group's revenue by countries or regions where our customers operate was as follows:

	2023 RMB'000	**Proportion**	2022 RMB'000	Proportion	Change ratio %
Domestic (Mainland China)	**1,431,182**	**18.39%**	1,553,941	15.19%	(7.90)
Foreign countries (including North America, Europe and Asia except Mainland China)	**6,344,162**	**81.53%**	8,669,987	84.75%	(26.83)
Total revenue from principal business	**7,775,344**	**99.92%**	10,223,928	99.94%	(23.95)
Domestic revenue from other businesses	**6,092**	**0.08%**	6,258	0.06%	(2.65)
Total revenue	**7,781,436**	**100.00%**	10,230,186	100.00%	(23.94)

Our revenue in domestic (China) market decreased 7.90% compared with the same period last year. Our revenue in foreign countries (including North America, Europe and Pan-Asia ex China) reached RMB6,344.16 million in 2023, representing a decrease of 26.83% from the same period of 2022, or a period-on-period increase of 41.41% after excluding large orders. The Group is prioritizing market development, and its market business has shown positive progress. During the Reporting Period, revenue from American customers amounted to RMB5,267.28 million, and if the large orders are excluded, the other revenue of RMB2,846.75 million represented a period-on-period increase of 47.84%; revenue from Asia Pacific (except China) customers amounted to RMB711.58 million, representing a period-on-period increase of 15.31%; revenue from European customers amounted to RMB365.31 million, representing a period-on-period increase of 57.50%.

(II) Cost of Sales and Services

Our costs of sales include costs of raw materials, direct personnel expenses, manufacturing expenses and other related expenditures. Raw materials costs cover direct and indirect materials required for production. Manufacturing expenses include depreciation of plant and equipment, energy cost, testing and release expenses, among others. The category of "Others" include transportation and insurance costs directly linked to sales, as well as associated taxes and fees. In 2023, our cost of sales was RMB3,821.80 million, representing a decrease of 29.19% from 2022, primarily attributed to a revenue declined in 2023 compared to the same period last year, while cost of sales and services experienced a significant decrease compared to revenue. The was due to improved gross profit margins on commercialized projects and stringent cost control measures.

During the Reporting Period, the Group's cost breakdown by revenue type was as follows:

	2023 RMB'000	2022 RMB'000	Change ratio %
Commercial stage CDMO solutions	2,041,368	3,752,540	(45.60)
Clinical and pre-clinical stage CDMO solutions	893,098	978,387	(8.72)
Emerging business	881,727	660,477	33.50
Total cost of principal business	**3,816,193**	5,391,404	(29.22)
Other business costs	5,607	6,194	(9.48)
Total operating cost	**3,821,800**	5,397,598	(29.19)

(III) Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit margin of principal business by product categories was as follows:

	2023 %	2022 %	Change %
Commercial stage CDMO solutions	60.03	50.42	9.61
Clinical and pre-clinical stage CDMO solutions	40.37	41.14	(0.77)
Emerging business	24.65	33.52	(8.87)
Total gross profit margin of principal business	**50.92**	47.27	3.65

During the Reporting Period, the Group's revenue decreased by 23.94% and the cost decreased by 29.19%, leading to the increase of overall gross profit margin by 3.65% compared to the same period last year. This improvement can be attributed to the following three factors: i) approximately 81.53% of the Group's total business came from overseas sales, and the positive impact of exchange rate fluctuations in 2023 was significant; ii) there was an increase in the gross profit margin of commercialized projects, particularly large order projects; and iii) the Group implemented strict control measures over various costs and expenses.

At a consistent exchange rate, the overall revenue gross profit margin for our Company was 48.76% in 2023. Similarly, under a constant exchange rate, the gross profit margin for small molecule CDMO clinical projects stood at 37.38%, reflecting a slight decrease of 3.76% compared to the previous year, while the gross profit margin for small molecule CDMO commercialized projects stood at 57.95%, reflecting an increase of 7.54% compared to the previous year.

During the Reporting Period, the Group's gross profit margin of principal business by countries or regions where our customer operates was as follows:

	2023	2022	Change
	%	%	%
Domestic (China)	22.50	29.50	(7.00)
Foreign countries (including North America, Europe and Pan-Asia ex-China)	57.33	50.43	6.90
Total gross profit margin of principal business	**50.92**	47.27	3.65

Notes:

(1) Our gross profit margin from domestic (China) in 2023 was 22.50%, representing a decrease of 7.00% from 2022.

(2) Our gross profit margin from foreign countries (including North America, Europe and Pan-Asia ex China) in 2023 was 57.33%, with an increase of 6.90% compared to the same period last year, mainly due to the higher gross profit margin of commercialization projects.

(IV) Other Gains and Losses

Other Income and Gains

The decrease in other income and gains from RMB653.94 million in 2022 to RMB409.85 million in 2023 was primarily driven by the impact of volatility resulting from the foreign exchange settlement of raised funds.

Credit Impairment Loss

The Group recorded an impairment provision for credit losses on financial assets measured and recognized using the expected credit loss approach. For the year ended 31 December 2023, our impairment losses amounted to approximately RMB9.90 million, with a decrease of 61.60% compared with 2022, mainly attributed to the decrease of trade receivables.

(V) Selling and Marketing Expenses

In 2023, our sales expense was RMB196.42 million, representing an increase of 30.78% from the same period last year, mainly due to the increase in the number of sales staffs of the Group in the current period compared to the same period last year, as the Group expanded in size. This year, the Group actively cultivated overseas markets and customers, while expanding the emerging business segment, and enhancing domestic and foreign market influence and publicity efforts. Our overall sales activities have shown an increase compared with the same period last year.

(VI) Administrative Expenses

Our administrative expense in 2023 was RMB819.58 million, which remained flat compared with the RMB837.69 million for the same period last year.

(VII) R&D Expenses

Our R&D expense amounted to RMB707.86 million in 2023, remaining consistent with the same period last year. This stability can be attributed to the Group's commitment to its core principle of being technology-driven, maintaining investments in technology innovation and independent research and development of core technologies, fostering eight innovation R&D platform, and enhancing related R&D investments.

(VIII) Finance Cost

Our finance costs primarily consist of interest expenses on bank borrowings and interest expenses on lease liabilities. In 2023, our finance cost totaled RMB5.91 million, marking a decrease of 43.85% or RMB4.62 million from 2022. The reduction is mainly attributed to attribute to a decrease in finance expense arising from the short-term loans which have been settled in 2022.

(IX) Income Tax Expense

Our income tax expense amounted to RMB306.31 million in 2023, reflecting a decrease of 28.82% or RMB124.00 million in 2022. This reduction aligns with the Group's profit growth trend and is primarily attributed to the decrease in revenue.

(X) Net Profit and Net Profit Margin

Our net profit decreased by 31.68% from RMB3,294.63 million in 2022 to RMB2,250.82 million in 2023. In 2023, the net profit attributable to shareholders of the listed company amounted to RMB2,268.81 million, representing a 31.28% decrease as compared with the RMB3,301.64 million for 2022. In 2023, the net profit margin attributable to shareholders of the listed company was 29.16%, representing a 3.11% decrease from 32.27% in 2022.

(XI) Basic and Diluted Earnings per Share

Our basic earnings per share declined from RMB9.02 in 2022 to RMB6.26 in 2023, while our diluted earnings per share decreased from RMB9.00 in 2022 to RMB6.26 in 2023. The decrease in both basic and diluted earnings per share was primarily due to the decline in net profit.

(XII) Analysis on Assets and Liabilities

	2023 RMB'000	2022 RMB'000	Change ratio	Reason
Non-Current Assets				
Property, Plant and Equipment	5,366,081	4,829,924	11.10%	Primarily resulting from the construction of research and development equipment and plant infrastructure for operation.
Deferred tax assets	213,215	177,858	19.88%	Primarily attribute to the increase in deferred tax assets recognized for deductible losses.
Prepayments, deposits and other receivables	688,479	237,124	190.35%	Primarily generated from the long-term deposits and Jumbo certificates of deposit that are purchased to be held until maturity.
Current Assets				
Inventories	945,347	1,510,413	(37.41%)	Primarily due to the fluctuations resulting from continuous delivery of orders.
Trade and bill receivables	2,010,989	2,451,148	(17.96%)	As a result of the recovery of accounts receivable.
Prepayments, other receivables and other assets	296,573	376,398	(21.21%)	Primarily owing to the recovery of land compensation and investment funds receivable.
Current Liabilities				
Trade payables	452,365	568,892	(20.48%)	By reason of the decrease in group purchase of raw materials at the end of the period.
Other payables and accruals	1,275,184	1,511,198	(15.62%)	Primarily due to accrued liability generated by the release of restricted stock.
Tax Payable	31,235	67,422	(53.67%)	Because of the decrease of the profit.
Interest-bearing bank borrowings	12,228	–	100.00%	Primarily attribute to Interest-bearing bank and other borrowings are recognized by note receivable discounted with recourses.
Non-Current Liabilities				
Deferred income	232,599	168,121	38.35%	Including grants receive during the Reporting Period.
Deferred tax liabilities	117,292	89,195	31.50%	Mainly recorded in respect of taxable temporary differences existing in the accelerated depreciation of fixed assets.

(XIII) Investment Analysis & Income Analysis of Long-term Equity Investment Under Equity Method

Financial Assets at Fair Value through Profit or Loss (Current Portion and Non-current Portion)

Financial assets at fair value through profit or loss mainly consisted of short-term and low-risk wealth management products purchased from banks, investment in Sany Zhongzhi (Tianjin) Venture Capital Center (L.P.) and Sany Zhongzhi Phase II (Tianjin) Venture Capital Center (L.P.), and the purchase of convertible bonds of the joint venture, Yugen Medtech. The Group's financial assets at fair value through profit or loss among current and non-current assets decreased from RMB2,264.14 million as of 31 December 2022 to RMB2,036.26 million as of 31 December 2023. This decrease was primarily due to the decline in the purchase of short-term and low-risk wealth management products from banks.

Income from Long-term Equity Investment under Equity Method

As of 31 December 2023, the loss from long-term equity investment under equity method amounted to RMB2.17 million, compared with an income of RMB33.05 million as at 31 December 2022. This decrease was mainly driven by the changes in net assets of Tianjin Haihe Asymchem Fund and Yugen Medtech, companies in which the Group has invested, multiplied by the Group's shareholding ratio during the Reporting Period.

The Group's major joint venture, Tianjin Haihe Asymchem Fund, primarily invests in the commercialization project of the innovative field of biological medicine in the clinical stage. It is accounted for using the equity method and strategically important to the Group's operations. The Group's other joint venture, Yugen Medtech, serves as a platform for scientific research CRO technology services, integrating innovative drug druggability research, pre-clinical and clinical stage systematic evaluation and registration services. It is also accounted for using the equity method and is strategically significant to the Group's operations.

(XIV) Goodwill

Goodwill with net carrying amount of approximately RMB146.18 million as at 31 December 2023, (as at 31 December 2022: approximately RMB146.18 million) is acquired through the Group's acquisition of GoalGen Biotechnology and Improve Quality. Management of the Group performed impairment reviews of goodwill annually or more frequently if events or changes in circumstances indicated a potential impairment. The recoverable amounts of the cash-generating units to which the goodwill relates were determined based on the value in use. These calculations required the use of estimates and professional judgements, and management of the Group involved an external valuer in these calculations. The Group has conducted impairment assessment on goodwill and no signs of impairment have been found.

(XV) Cash and Bank Balances

As of 31 December 2023, the Group's cash and bank balances increased by RMB1,820.39 million or 34.41% compared to 31 December 2022. This increase was mainly attributed to a net cash inflow of RMB353.44 million generated by the Group and an additional cash inflow of RMB1,465 million resulting from the maturity of time deposits.

(XVI) Pledge of Assets

As at 31 December 2023, the net book value of buildings, land and equipment pledged by the Group amounted to approximately RMB0.00 million (as at 31 December 2022: approximately RMB31.85 million), and the pledged deposits amounted to approximately RMB8.96 million (as at 31 December 2022: approximately RMB17.84 million) mainly including performance bonds and letter of credit deposit.

(XVII) Capital Expenditure

During the Reporting Period, the Group's capital expenditure on property, plant and equipment, land use rights and other intangible assets amounted to approximately RMB1,241.61 million (2022: approximately RMB2,150.64 million).

(XVIII) Capital Commitments

As at 31 December 2023, the Group had capital commitments of approximately RMB552.01 million (as at 31 December 2022: approximately RMB472.47 million), all of which were used for the purchase of property, plant and equipment.

(XIX) Contingent Liabilities

As at 31 December 2023, the Group did not have any material contingent liabilities or guarantees that would have a material impact on the financial position or operations of the Group.

(XX) Subsequent Events

Please refer to the paragraph "Report of the Board of Directors – XLII. Events After the Reporting Period" of this annual report for the details.

(XXI) Gearing Ratio

As at 31 December 2023, the gearing ratio (calculated by dividing total liabilities by total assets) of the Group was 11.42% (as at 31 December 2022: 13.95%).

(XXII) Adjusted Non-IFRS Measures

To supplement the Group's consolidated financial statements which are presented in accordance with IFRS, the Group has provided adjusted net profit attributable to shareholders of the parent and other data as additional financial measures, which are not required by or presented in accordance with IFRS. The Group believes that the adjusted financial measures are useful for understanding and assessing underlying business performance and operating trends. The Group's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual, non-recurring, non-cash and/or non-operating items that the Group does not consider indicative of the performance of the Group's core business.

These non-IFRS financial measures, which the Group's management considers widely accepted and adopted in the industry, are provided to supplement the financial information prepared in accordance with IFRS. It is important to note that the presentation of these non-IFRS financial measures is not intended to be viewed in isolation or as a replacement for the IFRS-compliant financial information. Shareholders of the Group and potential investors should not solely rely on the adjusted results but should consider them in conjunction with the results reported under IFRS. Furthermore, these non-IFRS financial measures may not be directly comparable to similar measures used by other companies in the industry.

Additional data is provided below to reconcile adjusted net profit attributable to shareholders of the parent and adjusted net profit margin attributable to shareholders of the parent.

	2023 RMB'000 (except percentage)	2022 RMB'000 (except percentage)
Net profit attributable to shareholders of the parent:	**2,268,811**	3,301,635
Add:		
equity incentive amortization expense	**53,912**	52,870
gain or loss on exchange rate fluctuations	**(14,762)**	(409,139)
income tax effect	**(5,873)**	53,440
Adjusted net profit attributable to shareholders of the parent	**2,302,089**	2,998,806
Adjusted net profit margin attributable to shareholders of the parent	**29.6%**	29.3%

Notes:

In order to better reflect the key results of the Group's current business and operations, the adjusted net profit is based on the net profit attributable to shareholders of the parent, and adjusted for the following matters:

(1) share-based compensation expense.

(2) foreign exchange gains or losses, primarily generated from revaluation of the assets and liabilities denominated in foreign currencies and the fair value change of foreign currency forward contracts, which the management believes is irrelevant to the Group's core business.

(3) the calculation of the adjusted net profit margin attributable to shareholders of the parent is based on the above net profit attributable to shareholders of the parent.

(XXIII) Foreign Exchange Risk

The majority of our revenues are derived from sales denominated in U.S. dollar, while most of our service and operating costs and expenses are denominated in Renminbi, and our financial data is presented in Renminbi. Consequently, when the Renminbi strengthens against the U.S. dollar, our margins come under pressure, potentially limiting our ability to price our service contracts, especially those with our U.S. customers, in currencies other than the U.S. dollar. During the Reporting Period, we engaged in foreign exchange transactions, including long-term or short-term forward and swap contracts, to mitigate the impact of foreign exchange risk.

(XXIV) Cash Flows

During the year ended 31 December 2023, the Group's net cash flows from operating activities amounted to RMB3,549.73 million, representing an increase of RMB262.82 million as compared with the year ended 31 December 2022, primarily attributed to the large-scale purchase of raw materials for large orders in the previous year.

During the year ended 31 December 2023, the Group's net cash flows used in investing activities amounted to RMB2,691.23 million, representing an decrease of RMB1,980.19 million as compared to the year ended 31 December 2022. During the Reporting Period, we optimized capital structure to enhance preservation and appreciation capabilities and purchased low-risk financial products from banks more frequently.

During the year ended 31 December 2023, the Group's net cash flows used in financing activities amounted to RMB542.03 million. During the year ended 31 December 2022, the Group's net cash flows used in financing activities amounted to RMB742.53 million, mainly attributed to share repurchase payment and bank loans repayment in the previous year.

(XXV) Capital Structure

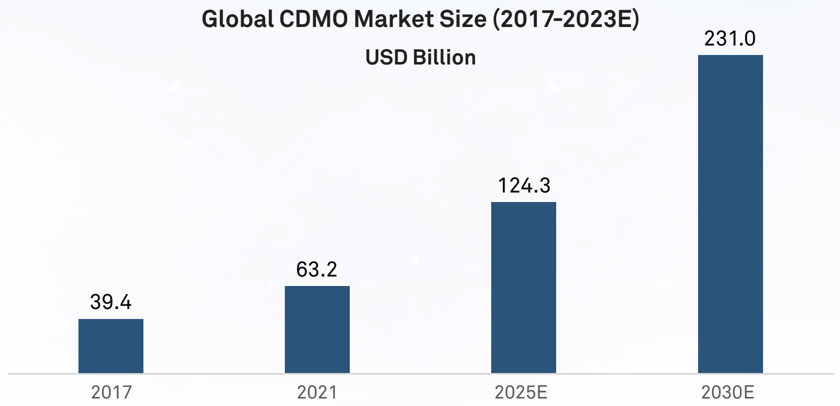
Total equity of the Group amounted to approximately RMB17,509.98 million as at 31 December 2023, as compared to approximately RMB15,695.00 million as at 31 December 2022.

III. OUTLOOK AND PROSPECT

(I) Industry Dynamics and Emerging Trends

Global CDMO Industry Dynamics

CDMOs play a crucial role and provide the core value in balancing the increasing demand for new drugs with the escalating R&D costs. The global CDMO industry is experiencing sustained and robust growth, maintaining a high market momentum. Sourced from *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, from 2017 to 2021, the global CDMO market size accelerated from US$39.4 billion to US$63.2 billion, with a compound annual growth rate of 12.5%. It is projected to reach US$124.3 billion by 2025 and US$231.0 billion by 2030. The compound annual growth rates for the periods 2021 to 2025 and 2025 to 2030 are estimated to be 18.5% and 13.2%, respectively.



China CDMO Industry Dynamics

CDMO plays an important role in the pharmaceutical innovation industry chain, and with the continuous development of China's innovative drug industry, the CDMO industry has experienced strong momentum and rapid growth in recent years. Sourced from *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, from 2017 to 2021, the size of the CDMO market in China increased from RMB13.2 billion to RMB47.3 billion, with a compound annual growth rate of 37.7%. It is expected to reach RMB157.1 billion by 2025 and RMB355.9 billion by 2030.

China's CDMO industry has shown a growth rate higher than the global average, and the proportion of the Chinese CDMO market in the global market has been increasing year by year. Sourced from *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, in 2017, China's CDMO market accounted for only 5.0% of the total global CDMO market size. By 2021, it had expanded to 11.6%. It is expected that after 2025, it will account for more than one-fifth of the global market share.

China' CDMO in the Global Share (2017-2030E)

Driving Forces in the Global CDMO Market

The stable growth rate of the global pharmaceutical market will drive the continuous development of the CDMO industry

Under the combined influence of factors such as the enhancement of medical and health awareness, increases in disposable income per capita, and the intensification of population aging, the global pharmaceutical market demand continues to grow. From 2017 to 2021, the overall size of the global pharmaceutical market expanded from US$1,208.4 billion to US$1,401.2 billion, with the market size declining slightly in 2020 due to the impact of the pandemic, reaching US$1,298.8 billion compared to 2019. According to the *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, the global pharmaceutical market is expected to maintain a stable growth trend in the future, with an estimated size of US$1,718.8 billion in 2025 and US$2,114.8 billion in 2030, with compound annual growth rates of 5.2% and 4.2%, respectively.

Globally, the market size of innovative drugs far exceeds that of generic and biosimilar drugs, with the market size of innovative drugs reaching approximately US$967.0 billion in 2021, accounting for 69.0% of the total global pharmaceutical market, while generic and biosimilar drugs accounted for 31.0%. In the future, with the continuous breakthroughs in global medical technology, more products will emerge in the field of innovative drugs as research progresses in drug targets and treatment methods. It is expected that the market size for innovative drugs will reach US$1,222.7 billion and US$1,545.5 billion in 2025 and 2030, respectively.

R&D investment in the pharmaceutical market, as a core driving force for drug innovation, is showing an upward trend in overall size, and the wave of innovation is accelerating the development of the CDMO industry

Per the *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, from 2017 to 2021, the global pharmaceutical market's R&D investment scale increased from US$165.1 billion to US$224.1 billion, with a compound annual growth rate of 7.9%. It is projected to reach US$306.8 billion in 2025 and US$417.7 billion in 2030.

With the continued expansion of the global pharmaceutical market, particularly the steady growth of innovative drug sector and the increasing prevalence of pharmaceutical outsourcing, the CDMO market has outpaced pharmaceutical sales in terms of growth rate. According to the *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, the global CDMO market for intermediates and APIs reached approximately US$83.0 billion in 2020, with around one third of this amount originating from the Asia-Pacific region. In comparison, the market size for CDMO drug products is approximately US$26.0 billion, with a smaller market size and penetration rate compared to intermediates and APIs.

Driving Forces in the Chinese CDMO Market

The continuous infusion of pharmaceutical research and development expenses will drive the enthusiasm for new drug R&D and contribute to the rapid development of the CDMO industry

The investment in pharmaceutical research and development and the continuously growing pharmaceutical market are the basis for the overall development of the CDMO industry, and sustained research and development investment is also the core of CDMO companies building technological barriers. In recent years, China's investment in pharmaceutical research and development has shown a steady growth trend, increasing from US$14.3 billion in 2017 to US$29 billion. Sourced from *Current Perspective and Future Development on CDMO Market Report* authored by Frost & Sullivan Analysis dated April 2023, it is expected to continue expanding at a rate higher than global research and development investment, with China's pharmaceutical market research and development investment expected to reach US$47.6 billion in 2025 and US$76.6 billion in 2030. The increasing R&D spending provides more active and abundant funding resources for innovative drug R&D and benefiting from the overall prosperity of the pharmaceutical market and the heat of innovative drug R&D, the CDMO market will further expand.

The promulgation of a series of pharmaceutical industry policies and the implementation of systems have created opportunities for the development of the CDMO industry

The implementation of policies such as the Marketing Authorization Holder ("**MAH**") system, new drug evaluation and approval system reform, quantity-based procurement, and medical insurance negotiations have created a favorable environment for the development of China's CDMO industry. In 2016, the regulatory authority agreed and issued the *Pilot Scheme for the Marketing Authorization Holder System for Drugs.* The implementation of the Drug Administration Law in 2019 marked the formal establishment of the MAH system. The management model of separating marketing authorization and production license is conducive to promoting cooperation between R&D enterprises and CDMO institutions, and the MAH system has laid a systemic foundation for the comprehensive development of CDMO companies. Since 2015, the national drug regulatory authorities have introduced measures for drug review reform, prioritizing new drug evaluation and approval systems to accelerate the listing of innovative drugs and promoting the continued growth of IND numbers in China. In addition, quantity-based procurement and medical insurance negotiations promote the release of innovative drugs, which in turn promotes the growth of CDMO business orders, while price pressure stimulates cost control and flexible production demand, making pharmaceutical companies more inclined to turn to domestic CDMO companies for outsourcing.

With the rise of domestic innovative drugs, pharmaceutical companies in China are increasing their investments in innovative R&D programs. Since China joined the ICH in 2017, interactions between Chinese pharmaceutical enterprises and the FDA have become more frequent. The number of certifications for orphan drugs, fast track status, breakthrough therapies, and others has significantly increased. In particular, after the FDA confirmed in 2019 that Chinese clinical data could be accepted in the marketing approval process, the pipelines of domestic pharmaceutical companies began to enter the FDA's clinical filing and reached the peak of market potential, contributing to greater opportunities for China's CDMO industry.

Abundant human resources and significant cost advantages enhance the competitive ability of China's CDMO enterprises

The domestic CDMO industry has both human resources and cost advantages, which can meet the cost control requirements of pharmaceutical companies when choosing to outsource production services, to some extent guaranteeing the growth space of China's CDMO industry. Drug development and production process optimization require a large number of professional technical personnel. Therefore, CDMO is a technology-intensive industry. Every year, China's biopharmaceutical-related professional graduates provide abundant talent sources for the CDMO industry. Compared with earlier-started European and American companies, the average salary of CDMO employees in China is generally lower than that of overseas companies. In addition, China has obvious cost advantages in logistics, raw materials, and energy, which will promote the transfer of overseas production capacity to China.

Continuous innovation and iteration of technological platforms empower CDMO enterprises to provide diversified R&D and production services

The CDMO industry provides integrated services from preclinical research to commercial production, undertaking the process development and production functions of pharmaceutical companies. Compared with CMO companies that mainly focus on single-capacity output, CDMO companies pay more attention to the innovative ability of production processes during research and development. In recent years, more and more "technology transfer + customized production" CMO companies have gradually participated in the drug development process and transformed into CDMO companies. Industry participants are constantly upgrading their technology platforms and R&D capabilities to achieve industrial upgrading. With the service model combining scale production capacity and high-tech added value R&D production processes, CDMO relies on its own technological advantages to help pharmaceutical companies improve their R&D and production success rates, further expanding the scope of services and opening broader market space.

Emerging Trend

Looking ahead, the evolution of the CDMO industry in China will entail increasing specialization, driving market expansion. After years of accumulation, the industry landscape will continue to differentiate, giving rise to the following dominant trends: i) CDMO will possess a scalable production function, with enterprises continuously enhancing production capacity to ensure flexibility; ii) Academic research in emerging technology fields will spur the development of corresponding technological platforms. For instance, there is a substantial unmet demand for clinical-level research and development of ADC drugs, leading to the establishment of specialized technical platforms within the CDMO industry; and iii) Chinese innovative pharmaceutical companies have actively pursued overseas clinical trials in recent years. CDMO will establish overseas production capacity to facilitate the entry of domestic innovative drugs into foreign markets, thereby expanding broader market opportunities in conjunction with these companies.

(II) Core Advantages

Asymchem is a leading, technology driven CDMO providing comprehensive solutions and services throughout the drug development and manufacturing process. Our Company's industry experience covers more than two decades in small molecule drugs development and manufacturing and has become an integral part of the global value chain for innovative drugs. With extensive know-how and advanced technologies, the Company has collaborated with diversified largest global pharmaceutical companies and has become the leading small molecule CDMO in China.

Drawing on our extensive industry knowledge, well-established R&D platforms, manufacturing capabilities, and stellar reputation with customers, we have enhanced our CDMO offerings to encompass cutting-edge drug modalities. These include peptides, oligonucleotides, monoclonal antibodies ("**mAbs**"), antibody-drug conjugates ("**ADCs**"), and messenger RNA ("**mRNA**"). Furthermore, we have expanded our service portfolio to encompass chemical macromolecule CDMO solutions, drug product solutions, biosynthesis solutions, and clinical CRO solutions, collectively referred to as our Emerging Services. Our vision is to become a reliable partner for the global pharmaceutical industry providing superior one-stop CDMO services and solutions throughout the full lifecycle of drugs from their development to commercialization.

Leveraging our management team's global vision, intensive strategy, and local expertise, Asymchem is well positioned to capture the growing trend of global CDMO outsourcing to China, with its technological leadership and extensive know-how, established long-term relationships with global leading biopharma/biotech companies, as well as service capability expansion into new modalities and service types. During the past three years for the outbreak of public healthcare emergency, the recent commercial contracts with a leading global pharma company were further validating our leading services and delivery capabilities in the result of bringing the Company up to the next level.

- **We have continued to develop as a technology driven CDMO providing comprehensive solutions with strong revenue growth performance of the flagship services under the dual-engine strategy through small molecule and emerging business services.** Asymchem has amassed over decades of experience and solidified its position in the small molecule business. Our collaborations with international multinational pharmaceutical companies have grown stronger. The gradual resumption of international business travel enables more clients to witness our capabilities firsthand, while an increasing number of advanced projects, including Active pharmaceutical ingredient ("**API**") verification initiatives, are successfully being implemented. We have effectively addressed external apprehensions regarding the partnerships between multinational pharmaceutical firms and Asymchem through tangible outcomes. Moreover, the enhancement of research and development production efficiency for small molecules, driven by collective efforts, coupled with ongoing cost reductions, ensures our sustained competitiveness. Serving as the foundational business of Asymchem, the prospects for small molecule CDMO remain promising with ample space for further growth.

  We strive to further advance our market leadership in the small molecule CDMO market through the established reputation, advanced R&D platforms, robust manufacturing capabilities and high-quality customer services to diversified multinational pharmaceutical companies and leading biotechnology companies across different jurisdictions. Derived from six business lines of the emerging services segment, we spotted on peptide and oligonucleotide in chemical macromolecules, captured the blooming of biological macromolecules through integration service of ADC, various conjugated drugs, and payload linkers, and promoted export continuous flow technology and synthetic biology Technology. The two flagship technologies have evolved from individual components into full-fledged technological platforms. We can now offer external technology output, enabling partners from diverse fields to leverage our cutting-edge technological achievements to address their own pain points, leading to notable enhancements in efficiency and safety while significantly reducing costs. By leveraging the deep industry insights, we will continue to push forward the three business lines as the priorities among emerging services, which we believe will drive the diauxic growth curve of the Company through the number of blockbuster drugs and several drug candidates of our other innovative projects which hold great promise to become blockbuster drugs in the future.

- **We have laid the groundwork for revenue growth and a broad project funnel through strong customer retention and expanding customer base.** Our Company has been able to retain its top global pharma companies' client base, which are favorable diversified multinational pharmaceutical companies, through a cooperative relationship of more than ten consecutive years which demonstrate very strong customer loyalty. We have established partnerships with 16 out of the Top 20 global pharmaceutical companies and have been providing continuous service to 8 of these companies for over a decade. Besides large pharmacies clients, our Company is also gaining traction in small to midsize pharmaceutical companies and leading biotechnology companies by upholding a customer-centric business philosophy. The robust customer base with expansion allows us to have an extensive pipeline of projects at various stages creating a broad funnel to maintain a steady stream of small molecules business segments and increment of emerging services. As of the year ended 2023, we have over 1,100 active clients worldwide with 40 commercialization projects. Our commercial stage projects and late-stage clinical project continue to increase, which substantially improved the stability and predictability of our revenue growth.

- **We have continued to focus on advancing and evolving eight R&D platforms for technology leadership based on our customer-focused innovation root.** With a strategic emphasis on the "development" component of CDMO, our Company has been focusing on developing a top-tier technology platform and is among the CDMO companies that contribute the most to R&D per Frost & Sullivan Analysis. Our Company was one of the earliest CDMOs to apply continuous flow technology in drug production and is also one of the few that can apply the technology at the ton-level instead of gram-level, leading to simplified procedures, reduced processing duration and raw material cost, enhancement of yield and safety, and eventually turning out to be a cost efficiency to clients. As of the year end of 2023, more than 33% of the middle and late-stage clinical projects and commercial stage projects of the Company applied key technologies for green pharmaceuticals, generating favorable economic benefits and efficiency including but not limited to continuous flow technology and synthetic biology technology, etc. In May 2023, Center of Biological Technology and Innovation ("**CBTI**") was officially launched to enhance internal R&D, strengthen forward-looking capabilities, and streamline process development. This continued focus on R&D has enabled Asymchem to maintain its competitive edge and technology leadership in small molecule CDMO space and further development of emerging businesses. Meanwhile, promoting the export of green technologies i.e. continuous flow technology and synthetic biology technology to external clients allows Asymchem to enhance the industrial image, drive the industrial trend, and elevate to a higher level of source of revenue through technologies rather than customized manufacturing.

- **We have enriched the first-class operational and quality management capabilities meeting the stringent requirements from clients and global industry standards and have built a decent industry reputation.** Our extensive technical know-how in process development makes us a preferred choice for large customers. We can expediently solve a variety of complex process challenges in the scale-up production of innovative drugs, accelerating clinical development process and providing high-quality enhancement of yield and stable production during the commercial stage. Based on years of large-scale manufacturing experience, we have established a comprehensive, rigorous Current Good Manufacture Practices ("**cGMP**") quality system and a first-class environmental, health, and safety ("**EHS**") and quality assurance ("**QA**") system. In the past, we have an outstanding track record of ESH and EA system compliance and further extensive improvement and development on the rapid upgrading of supplier requirements from several clients i.e. multiple pharmaceutical companies through their individual environmental, social and governance ("**ESG**") standards.

- **We have further enhanced our fully integrated platform from different aspects including talent introduction and capacities expansion.** In 2023, while keeping our cost-effective and cost-efficient as one of our core principles, we continuously strengthened talent recruitment and cultivation, and constantly improved the employment mechanisms, accelerating the embracing talents including key technical personnels in emerging business segments and senior executive talents with professional working backgrounds and extensive experience in overseas pharmaceutical companies. In addition, we accelerated construction of multiple production capacity expansion including but not limited to the peptide commercial production aiming for a commercialized solid-phase synthesis capacity exceeding 10,000L as the first phase of construction meeting the demand for unmet clinical needs of peptide production, prioritized the development of the exclusive production workshop for 10 pilot-to-commercialization production lines for oligonucleotide, initiated commercial production capacity renovation and expansion in biological macromolecules CDMO business. As of the year ended 31 December 2023, we had eight manufacturing sites in China in a total of 13 production facilities and multiple branches/offices across China, the United States, the United Kingdom, and Japan.

- **We have maintained a stable, visionary, experienced senior executive management team who have long-term industry and operation experience with a sophisticated corporate governance sense, supported by talented and dedicated employees.** Our Company is led by the founder, Chairperson, and CEO Dr. Hao Hong and a group of senior executives with an average of more than 20 years of profound experience in their respective fields. The management team is also very stable with multiple members joined during the early days of the Company and several others who have been at the Company for over 10 years. Combined with the diversified talent pool and employees with a global vision, advanced technical knowledge, sturdy execution capabilities, and a strong sense of ownership, it is likely to continue driving the Company's growth.

- **We have maintained a healthy financial position with a long-term cash runway which provides flexibility for further development and overseas expansion.** Our free cash flow had turned to positive in the first half of 2023 compared with the same period in 2022. After the global offering of the Company, having been successfully dual listed on the Main Board of the Hong Kong Stock Exchange, we have more than RMB7.00 billion cash and bank balances. The healthy financial positions and consistently efficient capital allocation provide us with flexibility on the long-term strategy i.e. roll out our global footprint through overseas capacities, dual stock markets employees share schemes, and share buyback, etc.

(III) Long Term Development Strategy

We aim to build and solidify Asymchem as a premium global CDMO brand and establish an advanced manufacturing technology platform by executing the following long-term strategies:

Continue to Invest in R&D and Reinforce the "Technology-driven" Efforts

As a current global provider of CDMO solutions integrated within an innovative technological framework, our Company is dedicated to driving technological innovation and global pharmaceutical process commercialization. We have embraced a business development philosophy centered on "international standards, industrial advantages, technology driven, and environmental sustainability." Technological innovation has always been the cornerstone of our operations, and we have successfully developed several internationally recognized patented technologies applied in commercial manufacturing, establishing ourselves as a respected leader in outsourced integrated pharmaceutical services. Ultimately, we aim to accumulate advanced technologies and establish an advanced manufacturing technology platform.

Continue to Strengthen Our Service Capabilities and Advance Our Leadership Position for Small Molecule CDMO Solutions

We will continue to optimize and upgrade our backbone – small molecule CDMO solutions to maintain and advance our leadership position. Pressing demand from pharmaceutical and biotechnology companies to improve R&D efficiency, accelerate commercial launch and enhance product competitiveness continue to increase their reliance on outsourcing to comprehensive CDMO platforms. In the highly fragmented small molecule CDMO industry, we believe that companies that possess competitive strengths in technology, operational and cost efficiency and can seamlessly meet customer demand will set themselves apart from competitors and acquire a larger market share. To capture the massive opportunity for consolidation, we will continue to strengthen our process development capabilities and to develop leading technical expertise and industry know-how.

Deepen Our Relationship with Existing Customers and Broaden Our Customer Base Globally

We firmly believe in proactive preparation, calculated risk-taking, and leveraging our accumulated strength for rapid growth. Our ongoing efforts are focused not only on exploring cutting-edge technologies, effectively implementing them in large-scale production, improving target management approaches for research and production, but also continually enhancing customer cooperation. We are actively expanding our market presence among small and medium-sized innovative drug companies through various channels and optimizing our operational management system to better align with their unique characteristics, aiming to broaden the scope of our services.

Accelerate Our Expansion into New Drug Modalities and Service Types

Drawing on the competitive strengths of our small molecule CDMO business, consisted with our dual-engine business strategy, we are proactively diversifying into fields such as chemical macromolecules, drug product service, exporting continuous flow technology, synthetic biology, clinical research services and biological macromolecules CDMO. These strategic imperatives not only cultivate fresh avenues for growth but also play a pivotal role in shaping a fully integrated closed-loop industrial chain.

Enrich Our Services Offerings & Capacities and Expand Our Global Footprint

To grow our customer base and broaden our service capabilities, we intend to actively pursue investments that can enrich our service offerings and expand our global footprint. We have set strategic overseas capacity expansion as a key strategy in our next stage of development. This involves enhancing collaboration with customers, particularly in the commercial production of APIs for multinational corporations and addressing potential risks and concerns through self-construction and acquisitions to drive the development and expansion of overseas production capacity.

Continue to Attract, Retain and Incentivize Talent

Our dedicated talent base is crucial to our ability to provide consistent high-quality services to customers. We will continue to attract, retain, and incentivize qualified employees to fulfill our vision and capture the growth opportunities in the global pharmaceutical industry. We have implemented a tailored talent strategy for each of our key business segments. We have established internal training programs to equip our employees with the latest technology advancements, industry know-how and regulatory developments. We will continue to implement a "hire well, manage little" code and inspire our employees to develop a strong sense of ownership. In addition, we will motivate and retain our high-quality talent base by offering them opportunities to work on industry-defining and landmark projects, and by offering competitive compensation and compelling career development opportunities.

(IV) 2024 Strategy Highlights

The key words of Asymchem in 2024 is global footprint positioning and expansion.

Accelerating Overseas Expansion: Expanding Global Footprint in Production Capacities

As a leading Chinese CDMO company that was originally established in the United States early on and later built its own production capacities upon returning to China, Asymchem has been seeking suitable production capacities or bases outside of China in previous years to maintain robust production support. We aim to acquire commercial production capacity of chemical small molecules and large molecules' APIs in Europe, or by investing in building our own for self-construction, to establish overseas laboratories and pilot production bases. This will expand our advantageous business areas, extend our service radius, deepen cooperation with overseas customers, especially multinational pharmaceutical companies. Meanwhile, we will expedite the Boston R&D center to drive the expansion of American biotech clients. We anticipate utilizing this as a lever to broaden our service areas and customer base, further attract domestic and international orders, continuously penetrate into the international market, accelerate our global footprint, and thereby further ensure future growth certainty and increase order visibility.

Optimizing Profitability: Reinforcing Backbone Business and Overall Operation

Adhering to years of leading professional accumulation and profound experience in the small molecule CDMO industry, Asymchem will i) consistently prioritize to steadily increase the gross profit margin of small molecule CDMO business, strictly control production costs by improving efficiency and management optimization, further reduce raw material costs through technological research and development; ii) under the premise of prioritizing development, reasonably control the various costs of emerging businesses, especially the growth of fixed costs; iii) rigorously control unnecessary administrative expenses to optimize the overall profitability of the Company.

Building Capability: Advancing Emerging Services Offerings

Aligned with our dual-engine driven Business Strategy, we will vigorously accelerate the development of Emerging Services, striving to significantly enhance delivery capability and swiftly expand overseas markets. We will i) enhance management and operational systems, allocate resources synergistically, focus on delivering emerging business projects and capability building; ii) expedite the rapid establishment of commercial production capacity for small nucleic acids, peptides, and ADCs, and achieve further breakthroughs in commercial project undertakings; iii) leverage recent technological accumulation and performance records, synergize with the Company's accumulated customer resources and reputation, accelerate the exploration of overseas markets for emerging businesses; iv) further enhance the design and manufacturing of continuous flow reaction equipment, vigorously promote the application of continuous flow technology in multiple fields and strengthen the cooperation model with clients for the output of continuous flow reaction technology.

Technology Driven: Strengthen R&D Platform Capabilities

We will i) maintain a substantial commitment to research and development investment, establish an iteratively evolving research and development platform, create cross-department collaboration models for processes, engineering, and equipment, fortify process synthesis route design and optimization using state-of-the-art research and development methodologies to facilitate order fulfillment; ii) continually bolster the development of synthetic biology technology platforms, advocate for the integration of these platforms across different sectors, and cultivate manufacturing capabilities for synthetic biology products; iii) prioritize research and application in intelligent technology, digital platform construction, etc., leveraging advanced control methods to drive the advancement of intelligent manufacturing technology and the implementation of intelligent production in factories.

Operational Excellence: Enhancing Efficiency and Cost-effectiveness through System Upgrades

Looking back over the past decade, Asymchem has been able to seize opportunities every few years, undertaking and seamlessly completing high-quality orders with substantial amounts. Benefiting from the support of epic-scale orders in the past nearly three years, the CAGR from 2021 to 2023 reached 29.61%, with Asymchem advancing step by step and remaining grounded, striving to maintain a strong position in revenue. Facing the elimination of epic-scale large orders in 2024 presents a new challenge and opportunity for the Company. We will consistently enhance the organizational and procedural development of operational management systems to drive continuous improvements in management efficiency; reinforce the cultivation of corporate culture, emphasizing a people-centric approach to recruitment, ongoing enhancement of management talent, refinement of incentive structures, productivity enhancement, fostering unity, and boosting overall staff effectiveness. Additionally, we will retain a focus on excelling in the implementation of management digitization and digital transformation.

(V) Potential Risk Factors and Solutions

The Company is a global industry leading CDMO enterprise, specializing in the technological innovation and commercialization of global pharmaceutical processes. It also serves as a one-stop provider of drug development and manufacturing services for large and medium-sized pharmaceutical and biotechnology companies both domestically and internationally. Potential risks that the Company may encounter include issues related to the withdrawal or large-scale recall of major innovative drugs, operational challenges during clinical project stages, life cycle turnover, lower than anticipated market sales of key innovative drugs, failure to pass ongoing review by international drug regulatory authorities, loss of essential technical personnel, environmental protection and safety in production, as well as international trade disputes and exchange rate fluctuations.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. DIRECTORS

The Board currently consists of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. The following table sets forth information about our Directors.

Name	Age	Position	Date of first appointment
Executive Directors			
Dr. Hao Hong	68	Founder, Chairperson of the Board, Executive Director and Chief Executive Officer	Appointed as the Chairperson of the Board and the General Manager on 18 July 2011 and re-designated as Chief Executive Officer on 19 January 2022
Ms. Yang Rui (楊蕊)	47	Executive Director and Co-Chief Executive Officer	Appointed as a Director and a Deputy General Manager on 18 July 2011 and as a Co-chief Executive Officer on 19 January 2022
Mr. Zhang Da (張達)	43	Executive Director, Chief Financial Officer and Chief Operating Officer	Appointed as the Chief Financial Officer on 7 August 2018, as a Deputy General Manager on 4 April 2019, as a Director on 18 April 2019, re-designated as Chief Financial Officer on 19 January 2022 and appointed as the Chief Operating Officer concurrently on 8 March 2024
Mr. Hong Liang (洪亮)	50	Executive Director and Executive Vice President	Appointed as a Director on 18 July 2011, as a Deputy General Manager on 31 October 2017 and re-designated as Executive Vice President on 19 January 2022
Non-executive Directors			
Dr. Ye Song	63	Non-executive Director	Appointed as a Director on 18 July 2011
Ms. Zhang Ting (張婷)	38	Non-executive Director	Appointed as a Director on 9 February 2021
Independent Non-executive Directors			
Dr. Sun Xuejiao (孫雪嬌)	41	Independent Non-executive Director	Appointed as an independent non-executive Director on 18 October 2023
Mr. Hou Xinyi (侯欣一)	64	Independent Non-executive Director	Appointed as an independent non-executive Director on 29 February 2024
Mr. Lee, Kar Chung Felix (李家聰)	42	Independent Non-executive Directors	Appointed as an independent non-executive Director on 16 June 2021

Dr. Hao Hong, aged 68, is currently the Chairperson, the executive Director and the chief executive officer of the Company. Dr. Hao Hong is responsible for the formulation of the strategic direction, business plans and major operational decisions and direct day-to-day management of our brands, sales and daily operation of the Group.

Prior to founding Asymchem Laboratories, Incorporated ("**ALAB**"), a controlling Shareholder of the Company, in November 1995, Dr. Hao Hong has served at North Carolina State University (北卡州立大學) as a post-doctoral research associate and was mainly responsible for conducting scientific research. Dr. Hao Hong founded Chirachem Laboratories (Tianjin) Co., Ltd. (天津凱萊英精細有機化工有限公司, the predecessor of the Company) in October 1998 and was appointed as the Chairperson of the board and the general manager.

Dr. Hao Hong obtained a bachelor's degree of medicine from Sichuan Medical College (四川醫學院, currently known as West China Hospital of Sichuan University (四川大學華西醫院)) in March 1982 and a master's degree of medicine from the China Capital Medical University (中國首都醫科大學) in June 1985. He also obtained a doctorate degree of medicinal chemistry from the Chinese Academy of Medical Sciences (中國醫學科學院) in October 1988.

Dr. Hao Hong is the spouse of Dr. Ye Song (a non-executive Director), the uncle of Mr. Hong Liang (an executive Director and executive vice president).

Ms. Yang Rui (楊蕊), aged 47, is currently the executive Director and the co-chief executive officer of the Company. Ms. Yang Rui is responsible for the operational decisions and direct day-to-day management of the strategic emerging business segments of the Group.

Ms. Yang Rui joined the Company in April 1999 and successively served several managerial positions in the administration office, import and export department and accounting department, as a deputy general manager and as the executive deputy general manager. Ms. Yang Rui concurrently serves as a director or the Chairperson of the board of directors of several subsidiaries of the Company. Ms. Yang Rui has been serving as a director of Haiying Chuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) since April 2019.

Ms. Yang Rui obtained a bachelor's degree of engineering from Tianjin Institute of Light Industry (天津輕工業學院), currently known as Tianjin University of Science & Technology (天津科技大學)) in July 1999 and a master's degree of EMBA from Peking University in July 2013. She was selected into Tianjin New Entrepreneur Training Project (天津市新型企業家培養工程).

Mr. Zhang Da (張達), aged 43, is currently the executive Director, the chief financial officer and the chief operating officer of the Company. Mr. Zhang Da is responsible for our financial operation, financing and investment activities, and the operation management and business strategy of the Group.

Prior to joining the Company, Mr. Zhang Da joined the CSRC in July 2006 and served for 8 years. Mr. Zhang Da later served as a director, a deputy general manager and the secretary to the board in Beijing Youyuan Online Technology Company Limited (北京友緣在線網絡科技股份有限公司) from December 2014 to May 2018. He has been concurrently serving as an independent director of Hunan Nucien Pharmaceutical Co., Ltd. (湖南南新製藥股份有限公司) since April 2018 and a director of Haiying Chuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) since April 2019.

Mr. Zhang Da obtained a bachelor's degree of engineering from Tianjin University (天津大學) in June 2003 and a master's degree of economics from the Financial Research Institute of The People's Bank of China (中國人民銀行金融研究所) in October 2006.

Mr. Hong Liang (洪亮), aged 50, is currently the executive Director and the executive vice president of the Company. Mr. Hong Liang is responsible for the major operational decisions and direct day-to-day management of the Group.

Mr. Hong Liang joined the Group in October 1998 and successively served as the director of the production department and a deputy general manager of the engineering equipment department of the Company and a deputy general manager of the engineering equipment department, the general manager and the Chairperson of the board of directors of Asymchem Laboratories, a wholly-owned subsidiary of the Company. Mr. Hong Liang concurrently serves as a director or the general manager of several subsidiaries of the Company.

Mr. Hong Liang obtained an associate's degree of clinical medicine from Jilin Medical School (吉林醫學院) in July 1996.

Mr. Hong Liang is the nephew of Dr. Hao Hong, the founder, Chairperson of the Board, executive Director, and chief executive officer of the Company.

Dr. Ye Song, aged 63, is currently the non-executive Director of the Company. Dr. Ye Song is responsible for advising on our business plans, major decisions, and investment activities.

Dr. Ye Song joined ALAB, a controlling Shareholder of the Company, since it was founded in November 1995 and successively served as a deputy general manager, the general manager, a director and the chief financial officer of ALAB. Dr. Ye Song concurrently serves as a director and/or chief financial officer of several subsidiaries of the Company and has been serving as a director of Tianjin Qingya Tourism Information Consulting Co., Ltd. (天津青亞旅遊信息諮詢有限公司) since March 2017.

Dr. Ye Song obtained a bachelor's degree of science from Peking University in July 1983, a master's degree of science from Peking University in July 1986 and a PhD's degree from North Carolina State University in May 1999.

Dr. Ye Song is the spouse of Dr. Hao Hong, the founder, Chairperson of the Board, executive Director and chief executive officer of the Company.

Ms. Zhang Ting (張婷), aged 38, is currently the non-executive Director of the Company. Ms. Zhang Ting is responsible for advising on our business plans, major decisions and investment activities and is currently in charge of the Company's operation management office, PCO management, procurement management and other related matters within the Company.

Ms. Zhang Ting joined the group in March 2008 and successively served as a clerk and deputy director of the department of project management and the executive deputy general manager assistant of Asymchem Laboratories, a wholly-owned subsidiary of the Company. She then served as the head of the audit department, the executive deputy general assistant and deputy general manager of the operation management office. Ms. Zhang Ting concurrently serves as a supervisor of several subsidiaries of the Company. Ms. Zhang Ting obtained a bachelor's degree of science from Hubei University (湖北大學) in June 2008.

Dr. Sun Xuejiao (孫雪嬌), aged 41, a Chinese national with no overseas residence, was appointed as an independent non-executive Director on 18 October 2023 of the Company. Since January 2023, Dr. Sun Xuejiao has served as an independent director of Tianjin Bo'Aosi Biotechnology Co., Ltd. From July 2023, she has also been an independent director of Bohai Securities Co., Ltd.

Since July 2012, Dr. Sun Xuejiao has held various positions at the School of Accounting, Tianjin University of Finance and Economics, including assistant, lecturer, associate professor, and professor. Her main research focuses on corporate taxation and financial and accounting issues in capital markets. She has led multiple research projects supported by the National Natural Science Foundation of China, China Postdoctoral Science Foundation, and Tianjin Social Science Fund. She has also led a sub-project of the National Torch Program. She was selected as a second-tier innovative talent in Tianjin's 131 Innovative Talents Program and has received the third prize for excellent social science achievements in both Tianjin and Fujian provinces.

Dr. Sun Xuejiao obtained a Ph.D. in Accounting from Xiamen University and is a registered accountant in China (non-practicing member). From June 2013 to June 2016, she worked as a postdoctoral researcher at Tianjin Haitai Technology Investment Management Co., Ltd. She is currently a professor at the School of Accounting, Tianjin University of Finance and Economics.

Mr. Hou Xinyi (侯欣一), aged 64, born in 1960, is a member of the Chinese Peasants and Workers Democratic Party (中國農工民主黨), a juris doctor and a professor of law. He owns Chinese nationality with no right of abode abroad. From September 1983 to May 2000, he worked as a lecturer at Northwest University of Political Science and Law (西北政法大學). From May 2000 to September 2016, he served as a professor and doctoral advisor at the law school of Nankai University (南開大學). From September 2016 to February 2024, he served as a professor and doctoral advisor at the law school of Tianjin University of Finance and Economics (天津財經大學). Since February 2024, Mr. Hou has been a professor and doctoral advisor at the Shandong University School of Law (山東大學法學院).

Mr. Hou's main research direction is Chinese legal history. He has profound knowledge in the fields of traditional Chinese civil law, China's modern and contemporary judicial systems, and the legal history of the Communist Party of China. He had presided over and completed a number of projects such as the National Social Science Fund projects, the social science projects of the Ministry of Justice of the People's Republic of China (the "**PRC**") (中華人民共和國司法部), the social science projects of the Ministry of Education of the PRC (中國教育部), and the scientific research projects of the Supreme People's Court of the PRC (中國最高人民法院). He also published many individual academic works and dozens of academic papers, and won Tianjin Social Science Excellent Achievement Award (天津市社會科學優秀成果獎) and Teaching and Scientific Research Achievement Award from the Ministry of Justice (司法部教學科研成果獎) several times. From October 2013 to October 2023, he served as the executive Chairperson of the China Institute of Legal History (中國法律史學會). From 2007 to 2023, he served as the deputy Chairperson of the Committee of Tianjin Municipality of the Chinese Peasants and Workers Democratic Party (農工民主黨天津市委員會). From 2008 to 2018, he served as a member of the National Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議全國委員會). Mr. Hou currently serves as a special prosecutor (特約檢察員) of the Supreme People's Procuratorate of the PRC (中國最高人民檢察院).

Since May 2020, Mr. Hou has been an independent director of Vcanbio Cell Gene Engineering Co., Ltd. (中源協和細胞基因工程股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600645.SH)). Since October 2022, Mr. Hou has been an independent director of Tianjin Troila Information Technology Co., Ltd. (天津卓朗信息科技股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600225.SH).

Mr. Lee, Kar Chung Felix (李家聰), aged 42, is currently an independent non-executive Director of the Company. Mr. Lee, Kar Chung Felix is responsible for supervising and providing independent judgement to the Board.

Mr. Lee, Kar Chung Felix is currently a senior vice president of Chow Tai Fook Enterprises Limited ("**CTFE**") with responsibilities in making investments in the healthcare sector in Asia and globally since September 2014 and a director of Healthcare Ventures Holdings Limited, a wholly owned subsidiary of CTFE. Mr. Lee is also an executive director of UMP Healthcare Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 722) since September 2014 and an independent non-executive director of China Resources Medical Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1515, formerly known as Phoenix Healthcare Group Co., Ltd.) since August 2015, and started working at the ClouDr Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 9955) as a non-executive director in July 2022. He has over 15 years of experience in law and finance. He served as a solicitor with the law firm Freshfields Bruckhaus Deringer from January 2005 to February 2008, an analyst in the investment banking department of UBS AG, Hong Kong branch from March 2008 to January 2009. He then joined Deutsche Bank AG, Hong Kong branch and last held the position of director in the Corporate Finance Division, where he worked from January 2009 to August 2014.

Mr. Lee obtained a bachelor's degree of laws from the London School of Economics and Political Sciences and a postgraduate certificate in Laws from the University of Hong Kong in July 2003 and June 2004, respectively. He is a solicitor of the High Court of Hong Kong since September 2007 and a solicitor (non-practicing) in the Senior Courts of England and Wales since February 2013. Mr. Lee is also a Vice Chairperson of the China Committee, the Hong Kong General Chamber of Commerce.

II. SUPERVISORS

Our board of supervisors consists of three Supervisors, including two shareholder representative Supervisors and one employee representative Supervisor. The following table sets forth the information about our Supervisors.

Name	Age	Position	Date of first appointment
Ms. Zhi Xinxin (智欣欣)	43	Shareholder representative Supervisor and Chairperson of the board of supervisors	18 July 2011
Ms. Hou Jingyi (侯靖藝)	40	Employee representative Supervisor	24 January 2021
Ms. Di Shanshan (狄姍姍)	37	Shareholder representative Supervisor	31 October 2017

Ms. Zhi Xinxin (智欣欣), aged 43, is currently a shareholder representative Supervisor and the Chairperson of board of supervisors of the Company and is responsible for overseeing our operations and financial activities.

Ms. Zhi Xinxin joined the Group in July 2003 and successively served as a clerk of the comprehensive office and a deputy director of human resource department in Asymchem Laboratories, a wholly-owned subsidiary of the Company.

Ms. Zhi Xinxin obtained an associate's degree of arts in general studies from Southwest Missouri State University in July 2003.

Ms. Hou Jingyi (侯靖藝), aged 40, is currently an employee representative Supervisor of the Company and is responsible for overseeing our operations and financial activities.

Ms. Hou Jingyi joined the Group in July 2007 and successively served as a general manager assistant, a director of the comprehensive office and a director of human resources department in Asymchem Laboratories (Fuxin), a wholly-owned subsidiary of the Company, from July 2007 to November 2020 and a director of the comprehensive office and a director of human resources department in Jilin Asymchem Laboratories, a wholly-owned subsidiary of the Company, from June 2015 to November 2020. Ms. Hou Jingyi currently serves as a director of human resources department in Asymchem Laboratories, a wholly-owned subsidiary of the Company since November 2020.

Ms. Hou Jingyi obtained a bachelor's degree of engineering from Liaoning Petrochemical University (遼寧石油化工大學) in July 2007.

Ms. Di Shanshan (狄姍姍), aged 37, is currently a shareholder representative Supervisor of the Company and is responsible for overseeing our operations and financial activities.

Ms. Di Shanshan joined the Group in August 2012 and successively served as a clerk, a deputy manager and manager of the administration office of Asymchem Laboratories, a wholly-owned subsidiary of the Company.

Ms. Di Shanshan obtained a bachelor's degree of pharmaceutical engineering from Hebei University of Technology (河北工業大學) in July 2009 and a master's degree of pharmaceutical engineering from Sichuan University (四川大學) in June 2012.

III. SENIOR MANAGEMENT

The following table sets forth the information about our senior management.

Name	Age	Position	Date of first appointment
Dr. Hao Hong	68	Founder, Chairperson of the Board, Executive Director and Chief Executive Officer	Appointed as the Chairperson of the Board and the General Manager on 18 July 2011 and re-designated as Chief Executive Officer on 19 January 2022
Ms. Yang Rui (楊蕊)	47	Executive Director and Co-Chief Executive Officer	Appointed as a Director and a Deputy General Manager on 18 July 2011 and as a Co-Chief Executive Officer on 19 January 2022
Mr. Zhang Da (張達)	43	Executive Director, Chief Financial Officer and Chief Operating Officer	Appointed as the Chief Financial Officer on 7 August 2018, as a Deputy General Manager on 4 April 2019, as a Director on 18 April 2019, re-designated as Chief Financial Officer on 19 January 2022 and appointed as the Chief Operating Officer concurrently on 8 March 2024

Name	Age	Position	Date of first appointment
Mr. Hong Liang (洪亮)	50	Executive Director and Executive Vice President	Appointed as a Director on 18 July 2011, as a Deputy General Manager on 31 October 2017 and re-designated as Executive Vice President on 19 January 2022
Dr. James Randolph Gage	60	Chief Science Officer	Appointed as a Deputy General Manager on 18 July 2011 and re-designated as Chief Scientific Officer on 19 January 2022
Mr. Chen Chaoyong (陳朝勇)	43	Executive Vice President	Appointed as a Deputy General Manager on 31 October 2017 and re-designated as Executive Vice President on 19 January 2022
Mr. Jiang Yingwei (姜英偉)	48	Executive Vice President	Appointed as a Deputy General Manager on 23 June 2020 and re-designated as Executive Vice President on 19 January 2022
Dr. Xiao Yi (肖毅)	62	Senior vice president	Appointed as a Deputy General Manager on 4 April 2019 and re-designated as Senior Vice President on 19 January 2022
Ms. Huang Xiaolian (黃小蓮) (Note)	50	Senior vice president	Appointed as a Deputy General Manager on 18 July 2011 and re-designated as Senior Vice President on 19 January 2022
Dr. Zhou Yan (周炎)	44	Vice president	Appointed as a Deputy General Manager on 31 October 2017 and re-designated as Senior Vice President on 19 January 2022
Mr. Xu Xiangke (徐向科)	44	Vice president	Appointed as a Deputy General Manager and Secretary to the Board on 18 July 2011 and re-designated as Vice President on 19 January 2022

Note: Ms. Huang Xiaolian has resigned as senior vice president of the Company for personal reasons and will cease to hold any management position in the Company after her departure. For details, please refer to the Company's announcement on the Shenzhen Stock Exchange dated 21 March 2023.

For the biographical details of Dr. Hao Hong, Ms. Yang Rui, Mr. Zhang Da and Mr. Hong Liang, please refer to the section headed "— I. Directors."

Dr. James Randolph Gage, aged 60, is currently a Chief Science Officer of the Company and is responsible for guiding the new technology development and commercial applications of the Company's research and development, production, and drug synthesis development.

Dr. James Randolph Gage has nearly 30 years of work experience in the medicinal chemistry industry. From February 2006 to November 2010, Dr. James Randolph Gage served as a deputy general manager of ALAB, a controlling Shareholder of the Company. In November 2010, Dr. James Randolph Gage joined Asymchem Inc., a wholly-owned subsidiary of the Company, and has been serving as a deputy general manager of it since then. Prior to joining the Company, he has served at Pfizer Inc. and Pharmacia Corp., a subsidiary of Pfizer Inc., from October 1991 to February 2006.

Dr. James Randolph Gage obtained a bachelor's degree of science from Columbia University in December 1985 and a PhD's degree of Organic Chemistry from Harvard University in November 1991.

Mr. Chen Chaoyong (陳朝勇), aged 43, is currently an Executive Vice President of the Company and is responsible for the overall management of project commercial development and production.

Mr. Chen Chaoyong joined the Group in July 2003 and successively served as the R&D supervisor and deputy general manager of the Company. He currently serves as the general manager of Jilin Asymchem Laboratories, the Chairperson of Asymchem Laboratories (Fuxin) and the executive director of Jilin Asymchem Pharmaceuticals Co., Ltd. (吉林凱萊英製藥有限公司), all of which are subsidiaries of the Company.

Mr. Chen Chaoyong obtained a bachelor's degree of science from Sichuan University (四川大學) in July 2003.

Mr. Jiang Yingwei (姜英偉), aged 48, is currently an Executive Vice President of the Company and is responsible for the overall management, organization and coordination, supervision and evaluation of the Group's human resources. Mr. Jiang Yingwei is also responsible for coordinating the overall construction, comprehensive coordination and service safeguard of the Group's administrative logistics system.

Prior to joining the Company in January 2020, Mr. Jiang Yingwei served in Beijing Alliance PKU Management Consultants Ltd. (北京北大縱橫管理諮詢有限責任公司) from July 2008 to July 2014. He participated in the founding of Peking University Entrepreneurship Training Camp in August 2014 and has been working at there since then and served as the co-founder and general manager of the Jiangsu Base of Peking University Entrepreneurship Training Camp from June 2015 to December 2019. Mr. Jiang Yingwei served as a supervisor of Yanyuan Alumni (Beijing) Technology Development Co., Ltd. (燕園校友(北京)科技發展有限公司) from February 2016 to July 2021.

Mr. Jiang Yingwei obtained a bachelor's degree of engineering from North China School of Engineering (華北工學院, currently known as North University of China (中北大學)) in June 1999 and a master's degree of MBA from Guanghua School of Management, Peking University in July 2008.

Dr. Xiao Yi (alias: Hsiao Yi) (肖毅), aged 62, is currently a Senior Vice President of the Company and is responsible for the innovation and breakthrough of the Company's business, technology, and professional solutions.

Dr. Xiao Yi joined the Group in September 2018 as senior vice president in the project processing and development center of Asymchem Life Science, a wholly-owned subsidiary of the Company, and has been serving as the Chairperson and general manager of Asymchem Life Science since May 2019. Prior to joining the Group, Dr. Xiao Yi has worked at the department of Process Research of Merck Research Laboratories and then served as the senior principal scientist in Bristol-Myers Squibb (百時美施寶公司) from May 2006 to August 2018. Dr. Xiao Yi has over 20 years of work experience in pharmaceutical technology research and development and has created a catalyst research laboratory for Bristol-Myers Squibb (百時美施寶公司).

Dr. Xiao Yi obtained a bachelor's degree of science from Sun Yat-Sen University (中山大學) in July 1983 and a PhD's degree of chemistry from Nagoya University in Japan in January 1994.

Dr. Zhou Yan (周炎), aged 44, is currently a Vice President of the Company and is responsible for the overall management of the Company's quality system.

Dr. Zhou Yan joined the Group in July 2007 and successively served as a senior researcher, a R&D supervisor and a senior R&D supervisor of Asymchem Life Science, a wholly-owned subsidiary of the Company. In addition, he is currently deputy general manager of several subsidiaries of the Company.

Dr. Zhou Yan obtained a bachelor's degree of science from Central China Normal University (華中師範大學) in June 2002 and a doctor's degree of science from Wuhan University (武漢大學) in June 2007.

Mr. Xu Xiangke (徐向科), aged 44, is currently a Vice President of the Company and is responsible for managing day-to-day work of the Board and corporate governance matters.

Mr. Xu Xiangke has extensive experience in corporate securities affairs, government affairs and public utilities. Mr. Xu Xiangke joined the Company in July 2003 and served successively as the director of the general manager secretariat and the director of the public affairs department of the Company. Mr. Xu Xiangke has served as a deputy general manager and the director of the public affairs department of Asymchem Life Science from June 2008 to December 2011, a wholly-owned subsidiary of the Company and has been serving as a supervisor of Jilin Asymchem Laboratories, a wholly-owned subsidiary of the Company, since March 2015. Other than positions in the Group, he also serves as a supervisor of Haiyingchuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) since April 2019.

Mr. Xu Xiangke obtained a bachelor's degree of engineering from Inner Mongolia Agricultural University (內蒙古農業大學) in July 2003 and has completed all the requirements prescribed by Shanghai Advanced Institute of Finance (上海高級金融學院) for the degree of EMBA in December 2018.

REPORT OF THE BOARD OF DIRECTORS

The Board is pleased to present this Report of the Board of Directors together with the audited consolidated financial statements of the Group for the Reporting Period.

I. PRINCIPAL BUSINESS

Asymchem is a globally renowned, technology driven comprehensive CDMO service provider. By offering end-to-end CMC services and efficient, high-quality R&D and manufacturing solutions to both domestic and international pharmaceutical and biotech companies, we expedite the clinical research and commercialization of cutting-edge drugs. With years of industrial experience, coupled with deep industry insights and a stellar reputation among clients, we have solidified our position as the top tier within the global innovative drug industry chain. As a preferred partner for the pharmaceutical companies worldwide, we continue to expand our expertise in small molecule drug CDMO while diversifying our offerings to establish a professional, all-encompassing service platform. On 18 November 2016, our A Shares were listed on the Shenzhen Stock Exchange with stock code of 002821. On 10 December 2021, our H shares were listed on the Main Board of the Hong Kong Stock Exchange with stock code of 6821.

The business and details of the Company's principal subsidiaries are set out in note 1 to the financial statements. An analysis of the Group's revenue for the year by principal business is set out in the section headed "Management Discussion and Analysis" in this annual report and note 5 to the financial statements.

II. BUSINESS REVIEW

Discussion and analysis of the Group's business in accordance with Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are set out in the following sections of this annual report, which form an integral part of this Report of the Board of Directors:

- Chairperson's Statement (pages 4 to 7)
- Business Review (pages 10 to 29)
- Financial Highlights (pages 8 to 9) and Financial Review (pages 29 to 39)
- Potential Risk Factors and Solutions (page 51)
- Financial Risk Management Objectives and Policies (note 39 to financial statements)
- Events After the Reporting Period (page 85 and note 40 to financial statements)

III. ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is highly aware of the importance of environmental protection and has not noted any material non-compliance with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment. The Group has implemented environmental protection measures and also encouraged staff to be environmentally friendly at work by consuming the electricity and paper according to actual needs, so as to reduce energy consumption and minimize unnecessary waste. For further details of the Group's environmental policies and performance, please refer to the "2023 Environmental, Social and Governance Report" of the Company, which was published separately.

IV. RESULTS OF OPERATIONS

The consolidated results of the Group for the Reporting Period are set out on pages 121 to 128 of this annual report.

Financial Summary

The Company's Shares were listed on Shenzhen Stock Exchange on 18 November 2016 and the H shares were listed on the Hong Kong Stock Exchange on 10 December 2021. A summary of the published results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial information and financial statements, is set out on pages 8 to 9 of this annual report.

V. PROPERTY, PLANT AND EQUIPMENT

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

VI. RESERVES AND DISTRIBUTABLE 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 125 to 126 of this annual report. Details of movements in the reserves of the Company during the Reporting Period are set out in note 31 to the financial statements.

As of 31 December 2023, the Company's distributable reserves, calculated in accordance with PRC rules and regulations, were RMB1,142.92 million.

VII. SHARE CAPITAL

Details of the movements in share capital of the Group during the Reporting Period are set out in note 29 to the financial statements.

VIII. SUFFICIENCY OF PUBLIC FLOAT

The Stock Exchange has granted the Company a waiver from strict compliance with Rule 8.08(1)(b) of the Listing Rules, subject to the minimum public float of the Company being the highest of (a) 7.0% of the total issued share capital of the Company, or (b) such higher percentage of H Shares held by the public immediately after the completion of the Global Offering as a result of the issue of H Shares upon the exercise of the Over-allotment Option, and the minimum percentage of H Shares of the Company from time to time not subject to lock-up (i.e. free float) being the highest of (a) 7.0% of the total issued share capital of the Company, or (b) such increased percentage of free float H Shareholders as a result of the issue of H Shares upon the exercise of the Over-allotment Option immediately following the completion of the Global Offering. Based on the information that is publicly available to the Company and within the knowledge of the Board, the Company has maintained the prescribed minimum public float and free float required by the Stock Exchange during the Reporting Period and as at the date of this annual report.

IX. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association, or the laws of the PRC, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

X. TAX INCENTIVES AND EXEMPTIONS FOR HOLDERS OF LISTED SECURITIES

The Company is not aware of any tax incentives or exemption available to the Shareholders by reason of their holding of the Company's securities.

XI. PROFIT DISTRIBUTION

i. The Company's Profit Distribution Policy

The Company has adopted a dividend policy, which provides the principles and guidelines in relation to the declaration, payment or distribution of its net profits as dividends to the Shareholders.

In recommending or declaring dividends, the Company shall maintain adequate cash reserve for meeting its working capital requirements and future growth as well as its shareholder value. Details of the dividend policy of the Company is set out in the section headed "Corporate Governance Report – Dividend Policy" of this annual report.

Regarding the declaration and payment of dividends, the Board considers the results of operations, cash flows and financial position, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), market conditions, the Company's strategy and projection for business, the Company's contractual restrictions and obligations, taxation, regulatory restrictions, cash requirements and availability and any other factors that the Board may consider relevant.

ii. 2023 Profit Distribution Plan

The Board proposed the following 2023 Profit Distribution Plan: distribute a dividend of RMB18.00 per 10 ordinary shares to the Shareholders as at the record date for determining Shareholders' entitlements to the 2023 Profit Distribution Plan (2022: RMB18.00 per 10 ordinary shares). Based on a total of 369,471,533 shares of the Company in issue as at 28 March 2024 and excluding 538,002 shares of the Company repurchased by means of centralized price bidding, the total amount of the proposed final dividend is approximately RMB664,080,355.80 (tax inclusive) (2022: RMB656,473,642.20 (tax inclusive)).

The 2023 Profit Distribution Plan is subject to the approval of the Shareholders at the AGM and the above profit distribution is expected to be paid to the eligible Shareholders no later than two months after the AGM.

Information on the closure period of the register of members of the Company in relation to the proposed 2023 Profit Distribution Plan and the record date for determining entitlements to the 2023 Profit Distribution Plan will be announced in due course.

The Board is not aware of any Shareholder who has waived or agreed to waive any dividends.

iii. Taxation

A Shareholders

According to the Notice on Relevant Issues Regarding the Implementation of the Policy of Differentiated Individual Income Tax for Stock Dividends from Listed Companies issued by the Ministry of Finance, State Administration of Taxation and the CSRC (Cai Shui [2012] No. 85)《財政部、國家稅務總局、證監會關於實施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[2012]85號)) and the Notice on Relevant Issues Regarding the Implementing Differentiated Individual Income Tax Policy for Stock Dividends of Listed Companies (Cai Shui [2015] No. 101)《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 the relevant individuals who have held the shares, where the holding period is less than one month (inclusive), the full amount of dividends shall be counted as taxable income; 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 and where the holding period is more than one year, the dividends is temporarily exempted from individual income tax. The individual income tax rate of 20% shall be applicable for all incomes mentioned above. For the dividends obtained from a listed company by a securities investment fund, individual income tax is levied in accordance with the requirements above.

According to Article 26.2 of the PRC Enterprise Income Tax Law, dividends, bonuses, and other equity investment proceeds distributed between qualified resident enterprises shall be tax-free.

According to Article 83 of the Implementation Rules of the PRC Enterprise Income Tax Law, dividends, bonuses and other equity investment proceeds distributed between qualified resident enterprises as referred in Article 26.2 of the PRC Enterprise Income Tax Law include those proceeds obtained from direct investment of resident enterprises into other resident enterprises, excluding the proceeds from holding the stocks of the resident enterprises that were obtained through public offering or through trading in the stock market for less than 12 months on a continuing basis.

According to the PRC Enterprise Income Tax Law and its implementation rules, dividend income obtained by non-resident enterprises, which do not have organs or establishments in China or though having organs or establishments in China but income is not related to such organs or establishments, dividend income obtained by shareholders shall be levied at a preferential enterprise income tax rate of 10%.

H Shareholders

Pursuant to the Circular of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Shareholders which are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897)《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)), the Company is required to withhold and pay enterprise income tax at a rate of 10% on behalf of shareholders of non-resident enterprises whose names appear on the register of shareholders of H shares of the Company when distributing dividends to them.

According to the Circular on Certain Issues Concerning the Policies of Individual Income Tax (Cai Shui Zi [1994] No. 20)《關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)) promulgated by the Ministry of Finance and the State Administration of Taxation, dividends and bonus income received by foreign individuals from foreign-invested enterprises are exempted from individual income tax for the time being.

Shareholders are suggested to consult their tax consultants regarding the tax impacts in China, Hong Kong and other countries (regions) for holding and selling the Company's Shares.

XII. SHARE INCENTIVE SCHEMES

Pursuant to Administrative Measures for the Equity Incentives of Listed Companies《上市公司股權激勵管理辦法》issued by the CSRC, as amended and supplemented from time to time, the Company may adopt various equity incentive schemes at the same time provided that the aggregate number of A Shares involved in equity incentive schemes within any validity period shall not exceed 10% of the Company's total share capital.

i. A Share Incentive Schemes

The 2018 Restricted A Share Incentive Scheme, the 2019 Restricted A Share Incentive Scheme, the 2020 Restricted A Share Incentive Scheme and the 2021 Restricted A Share Incentive Scheme (collectively, the "**A Share Incentive Schemes**") were adopted and approved by the Shareholders' meetings held on 12 July 2018, 12 April 2019, 9 July 2020 and 5 July 2021, respectively. As such, the terms of the A Share Incentive Schemes are not subject to the provisions of Chapter 17 of the Listing Rules as they do not involve any grant of options by our Company to subscribe for new Shares after the Listing.

The purpose of the A Share Incentive Schemes is to establish the long-term incentive mechanism of the Company, attract and retain talents, mobilize the enthusiasm of the directors, senior management and key technical employees of the Company, foster shared interests among the shareholders, the Company and operators, thereby promoting sustained, long-term and healthy growth of the Company. Participants in the A Share Incentive Schemes are directors, senior or mid-level management and key technical employees of the Company (excluding independent non-executive Directors, Supervisors, Shareholders that hold more than 5% of the Shares and the controlling Shareholders and their spouses, parents, and children).

The Shares underlying the A Share Incentive Schemes are ordinary A Shares. The maximum number of shares involved with the Awards to be granted to an eligible employee under all effective A Share Incentive Schemes shall not exceed 1% of the total outstanding share capital of the Company. The total number of shares involved with all effective A Share Incentive Schemes shall not exceed 10% of the total outstanding share capital of the Company. The A Share Incentive Schemes shall be valid and effective commencing on the date that the Awards are granted (the "**Initial Grant**") to when such Awards are no longer under any lock-ups, fully exercised or cancelled. The term of validity underlying the A Share Incentive Schemes of 2016, 2018, 2020 and 2021 shall not exceed 60 months. The term of validity underlying the 2019 Restricted A Share Incentive Scheme shall not exceed 48 months.

The lock-up periods for the Awards underlying the A Share Incentive Schemes (other than the special Awards granted under the 2021 Restricted A Share Incentive Scheme) are 12 months, 24 months, and 36 months, respectively, and the lock-up periods for the special Awards granted under the 2021 Restricted A Share Incentive Scheme are 12 months, 24 months, 36 months and 48 months, respectively. All the above-mentioned lock-up periods commence from the date on which the Awards were registered (the "**Registration Date**"). During the lock-up period, the Awards shall not be transferred, used as guarantee or repayment of debt.

The unlocking periods (each, an "**Unlocking Period**") in relation to the Restricted A Shares granted under the Initial Grant are set out below.

Unlocking Period of the A Share Incentive Schemes (other than the special Awards granted under the 2021 Restricted A Share Incentive Scheme):

	Unlocking Period	Proportion of unlocking
First Unlocking Period	From the first trading day after 12 months from the Registration Date to the last trading day within 24 months from the Registration Date	40%
Second Unlocking Period	From the first trading day after 24 months from the Registration Date to the last trading day within 36 months from the Registration Date	30%
Third Unlocking Period	From the first trading day after 36 months from the Registration Date to the last trading day within 48 months from the Registration Date	30%

Unlocking Period of the special Awards granted under the 2021 Restricted A Share Incentive Scheme:

	Unlocking Period	Proportion of unlocking
First Unlocking Period	From the first trading day after 12 months from the Registration Date to the last trading day within 24 months from the Registration Date	30%
Second Unlocking Period	From the first trading day after 24 months from the Registration Date to the last trading day within 36 months from the Registration Date	20%
Third Unlocking Period	From the first trading day after 36 months from the Registration Date to the last trading day within 48 months from the Registration Date	20%
Fourth Unlocking Period	From the first trading day after 48 months from the Registration Date to the last trading day within 60 months from the Registration Date	30%

As at 31 December 2023, a total of 2,185,820 restricted A Shares were granted to 395 eligible Participants under A Share Incentive Schemes other than certain restricted A Shares repurchased and cancelled by the Company due to resignation of certain Participants. The following table sets forth the restricted A Shares held by relevant Participants under the A Share Incentive Schemes as at 31 December 2023:

Name	Position	Number of restricted A Shares granted as at 31 December 2023	Percentage to the total number of Shares in issue as at 31 December 2023 *(%)*
SENIOR MANAGEMENT			
Jiang Yingwei	Executive Vice President	75,600	0.0205%
Members of senior or mid-level management (excluding senior management) and key technical employees of the Company		2,110,220	0.5709%
Total		2,185,820	0.5913%

Note:

1. None of the Participants is independent non-executive Director, Supervisor, Shareholder that hold more than 5% of the Shares and the controlling Shareholders and their spouses, parents, and children.

For details of the restricted A Shares repurchased and cancelled during the Reporting Period, please refer to the section headed "– XIV. Purchase, Sale or Redemption of the Listed Securities of the Company."

XIII. EMPLOYEE SHARE OWNERSHIP PLAN

The Company's A Share Employee Share Ownership Plan (the "**Employee Share Ownership Plan**") was approved and adopted at the Shareholders' meeting held on 16 December 2022. The Employee Share Ownership Plan, which is discretionary, does not involve the granting of options to the Company to issue new shares or any other new securities, or constitute a stock option plan within the meaning of Chapter 17 of the Listing Rules.

The purpose of the Employee Share Ownership Plan is to establish and improve the benefit sharing mechanism of employees and Shareholders, improve the corporate governance level of the Company, enhance the cohesion of employees and the competitiveness of the Company, mobilize the enthusiasm and creativity of employees, and promote the long-term, sustainable, and healthy development of the Company. The participants of the Employee Share Ownership Plan are Directors (excluding independent non-executive Directors), senior management or core technology (business) personnel of the Company. The total number of participants shall not exceed 608, including four Directors (excluding independent non-executive Directors) and six senior management personnel. The final participants will be determined according to the actual payment of the Employee Share Ownership Plan.

The size of the underlying shares involved in the Employee Share Ownership Plan shall not exceed 4,454,800 A Shares. The source of the underlying shares involved in the Employee Share Ownership Plan is the A Shares repurchased by the Company from the secondary market through the special account for share repurchase. The Employee Share Ownership Plan will be funded through the legal compensation of the Company's employees, self-raised funds and other means permitted by laws and regulations. The Company does not provide advance fund, guarantee, loan, or other financial support to the participants in any way. The Employee Share Ownership Plan does not involve leveraged funds, and there is no third-party arrangement to provide incentives, subsidies, or guarantees for employees to participate in the Employee Share Ownership Plan. The total amount of funds raised by the Employee Share Ownership Plan shall not exceed RMB155,918,000, which shall be subscribed and held by units of RMB1.00 per unit. The maximum number of units held by the Employee Share Ownership Plan shall not exceed 155,918,000 units. The Employee Share Ownership Plan intends to obtain the A Shares held by the Company's special account for share repurchase at the price of RMB35.00 per share through non-transaction transfer and other ways permitted by laws and regulations.

As of the date of this annual report, the Company is still going through the relevant procedures of the registration of the transfer of the underlying shares.

XIV. PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

i. Repurchase and cancellation of certain restricted A shares granted under the 2020 and 2021 A Share Incentive Scheme

As incentive recipients of the A Share Incentive Scheme resigned, on 26 September 2022, the Board considered and approved the repurchase and cancellation of 6,720 restricted A Shares granted under the 2020 Restricted A Share Incentive Scheme at a repurchase price of RMB82.26 per A Share and the repurchase and cancellation of 60,900 restricted A Shares granted under the 2021 A Share Incentive Scheme at a repurchase price of RMB131.94 per A Share (taking into account the capitalization issue in July 2022), respectively. On 28 October 2022, the fourth extraordinary general meeting of 2022, the fourth A Shares class meeting of 2022 and the fourth H Shares class meeting of 2022 approved the repurchase and cancellation of such restricted A Shares. The repurchase and cancellation of such restricted A Shares will not have any material impact on the operating results or financial conditions of the Company. For further details, please refer to the relevant announcements and circulars of the Company dated 26 September 2022, 10 October 2022 and 28 October 2022. The above repurchase and cancellation of restricted A Shares had been completed as of 8 February 2023. For further details, please refer to the relevant announcement of the Company dated 8 February 2023.

As incentive recipients of the A Share Incentive Scheme resigned, on 17 July 2023 and 13 September 2023, the Board considered and approved the repurchase and cancellation of a total of 13,440 restricted A Shares initially granted under the 2020 Restricted A Share Incentive Scheme at a repurchase price of RMB80.46 per A Share, the repurchase and cancellation of a total of 26,880 restricted A Shares reserved under the 2020 Restricted A Share Incentive Scheme at a repurchase price of RMB104.26 per A Share and the repurchase and cancellation of a total of 41,748 restricted A Shares initially granted under the 2021 Restricted A Share Incentive Scheme at a repurchase price of RMB130.14 per A Share (taking into account the capitalization issue in July 2022), respectively. On 18 October 2023, the first extraordinary general meeting of 2023, the first A Shares class meeting of 2023 and the first H Shares class meeting of 2023 approved the repurchase and cancellation of such restricted A Shares. For details, please refer to the relevant announcements and circulars of the Company on 18 July 2023, 13 September 2023, 26 September 2023, and 18 October 2023.

As incentive recipients of the A Share Incentive Scheme resigned, on 22 December 2023, the Board considered and approved the repurchase and cancellation of a total of 1,260 restricted A Shares reserved under the 2020 Restricted A Share Incentive Scheme at a repurchase price of RMB104.26 per A Share and the repurchase and cancellation of a total of 100,520 restricted A Shares initially granted under the 2021 Restricted A Share Incentive Scheme at a repurchase price of RMB130.14 per A Share (taking into account the Capitalization Issue), respectively. On 22 January 2024, the first extraordinary general meeting of 2024, the first A Shares class meeting of 2024 and the first H Shares class meeting of 2024 approved the repurchase and cancellation of such restricted A Shares. For details, please refer to the relevant announcements and circulars of the Company on 22 December 2023, 2 January 2024, and 22 January 2024.

ii. Cancellation of the repurchased A Shares pursuant to the Employee Share Ownership Plan

With the actual progress of the Employee Share Ownership Plan taken into account, on 1 June 2023, a total number of 261,464 A Shares of the repurchased A Shares were cancelled after approval and confirmation of Shenzhen Stock Exchange and the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited. For further details, please refer to the relevant announcement of the Company dated 2 June 2023.

Save as disclosed above, during the Reporting Period, neither the Company nor any of its subsidiaries has purchased, sold, or redeemed any of the Company's listed securities.

XV. USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

(I) Use of Net Proceeds from the Global Offering

The net proceeds from the global offering by the Company (after deducting the underwriting fees and related Listing expenses) (the "**Net Proceeds**") amounted to approximately RMB5,979.09 million(1), and the balance of unutilized Net Proceeds was approximately RMB2,092.67 million as at 31 December 2023.

The Net Proceeds have been and will be utilized in accordance with the purposes set out in the Prospectus, except for the changes the Company made to the main purposes of several projects in January 2024. The table below sets out the planned applications of the Net Proceeds and actual usage as at 31 December 2023:

Use of proceeds		Allocation of Net Proceeds (HKD million)	Allocation of Net Proceeds (RMB million)	Unutilized amount (as at 1 January 2023) (RMB million)	Utilized amount (during the year ended 31 December 2023) (RMB million)	Utilized amount (up to 31 December 2023) (RMB million)	Unutilized amount (as at 31 December 2023) (RMB million)	Expected timeline for utilizing the remaining allocated Net Proceeds
To further enhance the manufacturing capacity and capabilities of our small molecule CDMO solutions	20%	1,463.61	1,195.82	896.93	0.07	298.96	896.86	
– To construct phase II of the comprehensive small molecule R&D and manufacturing site in Zhenjiang, and purchase relevant equipment and machinery (the "**Zhenjiang Project**")	15%	1,097.71	896.86	896.86	–	–	896.86	In or before December 2025(2)
– To upgrade the equipment and machinery and expand the capacity of our existing manufacturing sites in Tianjin and Dunhua	5%	365.90	298.96	0.07	0.07	298.96	–	N/A

Use of proceeds		Allocation of Net Proceeds (HKD million)	Allocation of Net Proceeds (RMB million)	Unutilized amount (as at 1 January 2023) (RMB million)	Utilized amount (during the year ended 31 December 2023) (RMB million)	Utilized amount (up to 31 December 2023) (RMB million)	Unutilized amount (as at 31 December 2023) (RMB million)	Expected timeline for utilizing the remaining allocated Net Proceeds
To strengthen our Emerging Services and expand our service offerings	35%	2,561.32	2,092.68	913.59	614.64	1,793.73	298.95	
– To construct a R&D and manufacturing facility for oligonucleotides and polypeptides in Tianjin and invest in R&D and manufacturing facilities for recombinant DNA products (including mAb) and ADC	20%	1,463.61	1,195.82	549.86	549.86	1,195.82	–	N/A
– To improve our capabilities related to our biosynthesis solutions and drug products solutions	10%	731.81	597.91	64.78	64.78	597.91	–	N/A
– To build up our capabilities related to advanced therapy medicinal products (ATMPs)	5%	365.90	298.95	298.95	–	–	298.95	In or before December 2025(2)
To invest in R&D initiatives and maintain our technology leadership	20%	1,463.61	1,195.82	144.01	144.01	1,195.82	–	
– To upgrade our continuous flow technology platform	10%	731.81	597.91	11.82	11.82	597.91	–	N/A
– To fund the R&D initiatives led by our Center of Synthetic Biology Technology	10%	731.80	597.91	132.19	132.19	597.91	–	N/A
To selectively pursue strategic investments and acquisitions (the "Strategic Investments and Acquisitions Project")	15%	1,097.71	896.86	896.86	–	–	896.86	In or before December 2025(2)
For working capital and general corporate purposes	10%	731.81	597.91	479.13	479.13	597.91	–	N/A
	100%	7,318.06	5,979.09	3,330.52	1,237.85	3,886.42	2,092.67	

Notes:

(1) The total proceeds included approximately RMB5,591.36 million from the Global Offering in December 2021 and RMB387.73 million from the partial exercise of over-allotment option in January 2022 as disclosed in the announcement of the Company dated 2 January 2022.

(2) Since the Company received the Net Proceeds, the Board and the management of the Company have actively promoted the project-related work and prudently planned the use of the allocated Net Proceeds in light of actual needs. However, although the feasibility of the relevant projects has been fully demonstrated in the early stage, the actual implementation process is affected by many factors such as the market environment and the overall project progress. In addition, the Company changed the main purposes of these three projects in January 2024 as set out below, and therefore the original expected timeline is no longer applicable to these projects. In order to ensure the steady implementation of these projects, taking into consideration the changes to the main purposes of these projects, after careful consideration, the Company decided to extend the expected timeline for utilizing the remaining allocated Net Proceeds of these projects. The Board is of the view that the extension will not have any material adverse impacts on the operations of the Company and is in the best interests of the Company and the Shareholders as a whole.

(II) Changes in Part of the Uses of Net Proceeds

In light of market conditions and the Company's business needs, the Board proposed with the Shareholders' approval obtained on 22 January 2024 the below changes in part of the uses of the proceeds.

Proposed main purposes	Proposed main purposes after the changes	Proportion	Amount of the allocated Net Proceeds (RMB million)
The Zhenjiang Project	To construct comprehensive small molecule R&D and manufacturing site and to purchase relevant equipment and machinery.	15%	896.86
The ATMP Project	To improve our capabilities related to our biosynthesis solutions and drug products solutions and construct a R&D and manufacturing facility in Tianjin for oligonucleotides and polypeptides.	5%	298.95
The Strategic Investments and Acquisitions Project	To strategically set up foreign subsidiaries, engage in overseas investments to further expand production capacities, enhance overseas sales centers, and acquire equity interests in target companies.	15%	896.86

Reasons For Changes

The Change to the Zhenjiang Project

During the early stage of implementing the Zhenjiang Project, the Company came to note that the geological conditions of the potential site could not meet the construction requirements of this project. After a comprehensive assessment of our overall development strategy, the Company proposed to redirect the proceeds initially allocated to the Zhenjiang Project to the construction of a comprehensive small molecule R&D and manufacturing site and the purchase of relevant equipment and machinery. The aforesaid proposed change will significantly enhance the R&D capabilities of our small molecule CDMO business, solidify our market share and provide a robust foundation for the Company's long-term and stable growth.

The Change to the ATMP Project

Our biomacromolecule business segment introduced several external investors in March 2022, aiming to leverage a high-level, one-stop specialized R&D service to tap into the rapidly growing domestic and international CDMO market for advanced therapy medicinal products. This has supplemented our funding source for the biomacromolecule business segment. To efficiently utilize the proceeds, the Company proposed to redirect the proceeds initially allocated to the ATMP Project to the improvement of our capabilities related to our biosynthesis solutions and drug products solutions and the construction of an R&D and manufacturing facility in Tianjin for oligonucleotides and polypeptides. The aforesaid proposed change will further elevate our existing integrated R&D and production service capabilities to a higher level and a larger scale.

The Change to the Strategic Investments and Acquisitions Project

The Company proposed to redirect the proceeds initially allocated to the Strategic Investments and Acquisitions Project to strategically set up foreign subsidiaries, engaging in overseas investments to further expand production capacities, enhancing overseas sales centers, and acquiring equity interests in target companies. The aforesaid proposed change is rooted in the Company's existing overseas framework, aiming to continuously deepen the expansion into international markets and generate effective synergy with the existing platform.

For more details on the changes in part of the use of the proceeds, please refer to the announcements of the Company dated 22 December 2023 and 22 January 2024 and the circular of the Company dated 2 January 2024.

XVI. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As of the date of this annual report, the names of the Directors, Supervisors and senior management of the Group are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" in this annual report.

i. Biographical Details of Directors, Supervisors and Senior Management

As of the date of this annual report, biographical details of the Directors, Supervisors and senior management of the Group are set out in the section headed "Biographies of Directors, Supervisors and Senior Management" in this annual report.

ii. Changes in Information of Directors

Save as disclosed in this annual report, there are no other changes in the Directors', Supervisors' and senior management's information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

XVII. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

We have entered into a contract with each of our Directors and Supervisors in respect of, among other things (i) compliance of relevant laws and regulations, (ii) observance of the Articles of Association, and (iii) provisions on arbitration.

Save as disclosed above, none of the Directors or Supervisors has entered into any service contracts as a director or supervisor with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

XVIII. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

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 and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

i. Interests in Shares or Underlying Shares of our Company

Name of Director and chief executive	Nature of interest	Class of Shares	Number of Shares interested[1]	Approximate percentage of the relevant class of Shares in issue	Approximate percentage of the Company's issued Shares
Dr. Hao Hong	Beneficial owner	A Shares	14,268,699 (L)	4.17%	3.86%
	Interests of controlled corporation	A Shares	115,133,168 (L)[2]	33.65%	31.16%
Dr. Ye Song	Interests of spouse	A Shares	129,401,867 (L)[3]	37.83%	35.02%
Mr. Zhang Da	Beneficial owner	A Shares	252,000 (L)	0.07%	0.07%
Mr. Hong Liang	Interests of controlled corporation	A Shares	6,555,504 (L)[4]	1.92%	1.77%

Notes:

(1) (L) represents long position and (S) represents short position.

(2) Dr. Hao Hong directly holds 71.39% equity interest in ALAB. By virtue of the SFO, Dr. Hao Hong is deemed to be interested in the Shares held by ALAB.

(3) Dr. Ye Song is the spouse of Dr. Hao Hong. By virtue of the SFO, Dr. Ye Song is deemed to be interested in the same parcel of Shares in which Dr. Hao Hong is interested.

(4) Mr. Hong Liang directly holds 43.46% equity interest in Tianjin Guorong Business Information Co., Ltd. Therefore, Mr. Hong Liang is deemed to be interested in the 6,555,504 A Shares held by Tianjin Guorong Business Information Co., Ltd.

(5) As at 31 December 2023, the number of issued shares of the Company was 369,655,381, including 27,553,260 H Shares and 342,102,121 A Shares.

ii. Interest in Associated Corporations

Name of Director and chief executive	Associated Corporations	Nature of interest	Number of shares interested[1]	Approximate percentage of shareholding interest
Dr. Hao Hong	Tianjin Yugen Medtech Development Co., Ltd. (天津有濟醫藥科技發展有限公司) ("**Yugen Medtech**")	Interests of controlled corporation	3,418,800 (L)[2]	10.53%
	Asymchem Biotechnology Development	Beneficial owner	2,289,157 (L)[3]	1.00%
Ms. Yang Rui	Asymchem Biotechnology Development	Interests of controlled corporation	13,734,940 (L)[3], [4]	6.00%
Mr. Zhang Da	Asymchem Biotechnology Development	Interests of controlled corporation	4,578,313 (L)[3], [4]	2.00%

Notes:

(1) (L) represents long position and (S) represents short position.

(2) The Company holds 29.08% of the equity interest in Yugen Medtech, and therefore Yugen Medtech is an associated corporation of the Company. Dr. Hao Hong is a limited partner of Tianjin Tianhao Management Consulting Partnership (Limited Partnership) (天津天浩管理諮詢合夥企業(有限合夥)) ("**Tianjin Tianhao**") and holds 90.7% of the limited partnership interest in Tianjin Tianhao. Yugen Medtech is a limited liability company established in the PRC with a registered capital of RMB32,478,600, of which Tianjin Tianhao contributed RMB3,418,800, representing approximately 10.53% of the registered capital of Yugen Medtech. By virtue of the SFO, Dr. Hao Hong is deemed to be interested in the limited partnership interest in Yugen Medtech held by Tianjin Tianhao.

(3) The Company holds 83.00% of the equity interest in Asymchem Biotechnology Development, and therefore Asymchem Biotechnology Development is an associated corporation of the Company. The number of shares listed above represents only the equity shares held by Dr. Hao Hong directly of the share capital of Asymchem Biotechnology Development.

(4) AsymCore (a controlled corporation of Ms. Yang Rui) and Tianjin Haihe Asymchem Biomedical Industry Innovation Investment Fund (Limited Partnership) ("**Haihe Asymchem Fund**") (a controlled corporation of Ms. Yang Rui and Mr. Zhang Da) hold 4% and 2% of the equity interest in Asymchem Biotechnology Development, respectively. Ms. Yang Rui is the general partner of AsymCore and holds a 99% interest in it. Haiying Chuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) is the general partner of Haihe Asymchem Fund, and Haiying Chuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) is owned as to approximately 44.38% by Yunqi (Tianjin) Corporate Management Advisory Partnership (Limited Partnership) ("**Yunqi Management**") (雲起(天津)企業管理諮詢合夥企業(有限合夥)("**雲起管理**")), respectively. Yunqi Management is owned as to 60% and 40% by Ms. Yang Rui and Mr. Zhang Da, respectively. By virtue of the SFO, Ms. Yang Rui (through AsymCore and Haihe Asymchem Fund) and Mr. Zhang Da (through Haihe Asymchem Fund) are deemed to be interested in Asymchem Biotechnology Development.

iii. Interests in debentures of associated corporations

Name of Director and chief executive	Associated Corporation	Nature of interest	Principal amount of the relevant bonds held	Approximate percentage of the total principal amount of the relevant bonds issued
Dr. Hao Hong	Yugen Medtech[(1)]	Interests of controlled corporation	RMB7,920,783[(2),(3)]	15.84%
Ms. Yang Rui	Yugen Medtech[(1)]	Interests of controlled corporation	RMB20,198,135[(2),(4),(5)]	40.40%
Mr. Zhang Da	Yugen Medtech[(1)]	Interests of controlled corporation	RMB20,198,135[(2),(4),(5)]	40.40%

Notes:

(1) The Company holds 29.08% of the equity interest in Yugen Medtech, and therefore Yugen Medtech is an associated corporation of the Company.

(2) These bonds are convertible bonds which are not freely transferable but are convertible into shares of Yugen Medtech. The aggregate principal amount of the convertible bonds is RMB50,000,000, of which (i) RMB21,881,082 was subscribed by the Company, (ii) RMB12,198,135 was subscribed by Haihe Asymchem Fund, (iii) RMB8,000,000 was subscribed by Jihang Tianjin and (iv) RMB7,920,783 was subscribed by Tianjin Tianhao. For details of the convertible bonds, please refer to the announcement of the Company dated 11 April 2023.

(3) The principal amount of the convertible bonds of RMB7,920,783 is held by Tianjin Tianhao. Dr. Hao Hong is a limited partner of Tianjin Tianhao and holds 90.74% of the limited partnership interest in Tianjin Tianhao. Yugen Medtech is a limited liability company established in the PRC with a registered capital of RMB32,478,600, of which Tianjin Tianhao contributed RMB3,418,800, representing approximately 10.53% of the registered capital of Yugen Medtech. By virtue of the SFO, Dr. Hao Hong is deemed to be interested in the bonds of Yugen Medtech held by Tianjin Tianhao.

(4) The principal amount of the convertible bonds of RMB12,198,135 is held by Haihe Asymchem Fund. Haiying Chuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) is the general partner of Haihe Asymchem Fund, and Haiying Chuang (Tianjin) Investment Management Co., Ltd. (海英創(天津)投資管理有限公司) is owned as to approximately 44.38% by Yunqi Management, and Yunqi Management is owned as to 60% and 40% by Ms. Yang Rui and Mr. Zhang Da, respectively. By virtue of the SFO, Ms. Yang Rui and Mr. Zhang Da (through Haihe Asymchem Fund) are deemed to be interested in the bonds of Yugen Medtech.

(5) The principal amount of the convertible bonds of RMB8,000,000 is held by Jihang (Tianjin) Enterprise Management Consulting Partnership (Limited Partnership) ("**Jihang Tianjin**"). Ms. Yang Rui and Mr. Zhang Da are interested in 56.18% and 43.70% in Jihang Tianjin, respectively. By virtue of the SFO, Ms. Yang Rui and Mr. Zhang Da (through Jihang Tianjin) are deemed to be interested in the bonds of Yugen Medtech.

Save as disclosed above, to the best knowledge of the Directors, as at 31 December 2023, none of the Directors, Supervisors or the chief executive of the Company has any interests and/or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

XIX. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2023, so far as it was known to the Directors of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares which are required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or had interests or short positions in the respective type of Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of substantial shareholder	Nature of interest	Class of Shares	Number of Shares interested[1]	Approximate percentage of the relevant class of Shares in issue	Approximate percentage of the Company's issued Shares
ALAB	Beneficial owner	A Shares	115,113,168 (L)	33.65%	31.15%
FMR LLC	Interests of controlled corporation	H shares	3,857,113 (L)[2]	13.99%	1.04%
Fidelity Management & Research Company LLC	Beneficial owner	H shares	2,328,185 (L)[2]	8.45%	0.63%
	Interests of controlled corporation	H shares	487,415 (L)	1.77%	0.13%
JPMorgan Chase & Co.	Interests of controlled corporation	H shares	333,167 (L)	1.21%	0.09%
		H shares	301,307 (S)	1.09%	0.08%
	Investment manager	H shares	4,709,160 (L)[3]	17.09%	1.27%
	Security interest in shares	H shares	147,422 (L)	0.54%	0.04%
	Approved lending agent	H shares	35,223 (P)	0.13%	0.01%
JPMorgan Asset Management (Asia Pacific) Limited	Investment manager	H shares	4,006,080 (L)[3]	14.54%	1.08%
HHLR Advisors, Ltd.	Investment manager	H shares	2,820,000 (L)	10.24%	0.76%
HHLR Fund, L.P.	Beneficial owner	H shares	2,707,500 (L)	9.83%	0.73%
Fidelity Investment Trust	Beneficial owner	H shares	2,901,191 (L)	10.53%	0.78%

Notes:

(1) (L) represents long position, (S) represents short position, (P) represents lending pool.

(2) Fidelity Management & Research Company LLC is wholly-owned by FMR LLC. By virtue of the SFO, FMR LLC is deemed to be interested in the Shares held by Fidelity Management & Research Company LLC.

(3) JPMorgan Asset Management (Asia Pacific) Limited is indirectly owned by JPMorgan Chase & Co.. By virtue of the SFO. JPMorgan Chase & Co. is deemed to be interested in the Shares held by JPMorgan Asset Management (Asia Pacific) Limited.

(4) As at 31 December 2023, the number of issued shares of the Company was 369,655,381, including 27,553,260 H Shares and 342,102,121 A Shares.

Save as disclosed above, to the best knowledge of the Company, as at 31 December 2023, no person (other than the Directors, Supervisors and chief executives) had informed the Company that he/she had interests or short positions in the Shares or underlying Shares of equity derivatives of the Company which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or held any interests or short position in the respective types of capital in issue of the Company.

XX. DIRECTORS' INDEMNITIES

During the Reporting Period, the Company has in force the permitted indemnity provisions (as defined in the Hong Kong Companies Ordinance) in relation to the Directors' and officers' liability insurance.

XXI. DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "– Share Incentive Schemes" in this annual report, at no time during the year ended 31 December 2023 was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouse or children under the age of 18 had any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

XXII. DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors confirmed that during the year ended 31 December 2023 and up to the date of this annual report, he or she did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business and requires disclosure under Rule 8.10 of the Listing Rules. From time to time our non-executive Directors may serve on the boards of both private and public companies within the broader healthcare and biopharmaceutical industries. However, as these non-executive Directors are not members of our executive management team, we do not believe that their interests in such companies as directors would render us incapable of carrying on our business independently from the other companies in which these Directors may hold directorships from time to time.

XXIII. CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

On 11 April 2023, Yugen Medtech (as the issuer), Dr. SI Duanyun (a founder of the issuer), the Company, Tianjin Haihe Asymchem Biopharmaceutical Industry Innovation Investment Fund (Limited Partnership) (天津海河凱萊英生物醫藥產業創新投資基金(有限合夥)) ("**Haihe Asymchem Fund**"), Jihang (Tianjin) Enterprise Management Consulting Partnership (Limited Partnership) (濟航(天津)企業管理諮詢合夥企業(有限合夥)) ("**Jihang Tianjin**"), and Tianjin Tianhao Management Consulting Partnership (Limited Partnership) (天津天浩管理諮詢合夥企業(有限合夥)) ("**Tianjin Tianhao**") entered into the Subscription Agreement in relation to the subscription for convertible bonds in a principal amount of RMB50,000,000. As of 11 April 2023, Yugen Medtech is owned as to (i) approximately 29.08% by the Company, (ii) approximately 26.84% by Haihe Asymchem Fund, (iii) approximately 10.53% by Tianjin Tianhao and (iv) approximately 33.55% by independent third parties of the Company which are ultimately controlled by Dr. Si Duanyun, respectively. Both Haihe Asymchem Fund and Tianjin Tianhao are connected persons of the Company and are entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of Yugen Medtech. As a result, Yugen Medtech is a commonly held entity and therefore a connected person of the Company, and the subscription for such convertible bonds by the Company constitutes a connected transaction of the Company pursuant to Rule 14A.26 of the Listing Rules. Among the principal amount of the convertible bonds, (i) RMB21,881,082 was subscribed for by the Company, (ii) RMB12,198,135 was subscribed for by Haihe Asymchem Fund, (iii) RMB8,000,000 was subscribed for by Jihang Tianjin and (iv) RMB7,920,783 was subscribed for by Tianjin Tianhao. On or prior to the maturity date of the convertible bonds, each of the subscribers (including the Company, Haihe Asymchem Fund, Jihang Tianjin and Tianjin Tianhao) shall have the right, at its sole discretion, to convert all or part of its outstanding principal amount and interest payable by Yugen Medtech into the increased registered capital of Yugen Medtech based on a pre-money valuation of Yugen Medtech multiplied by 90%. For details, please refer to the announcement of the Company dated 11 April 2023. If the Company decides to exercise its aforesaid conversion rights, such conversion will constitute an acquisition of the Company in Yugen Medtech's equity interest. The Company will make further announcement in respect thereof in accordance with the Listing Rules when appropriate.

Save as disclosed above, the Group had no connected transactions or continuing connected transactions which are required to be disclosed under the Listing Rules during the Reporting Period.

XXIV. RELATED PARTY TRANSACTIONS

During the Reporting Period, the board of supervisors reviewed and supervised the related party transactions of the Company and concluded that the related party transactions of the Company in 2023 were conducted on a fair and mutually beneficial basis, and all relevant consideration and decision-making procedures were performed, which met the actual needs of the production and operation of both parties of the related party transactions. The pricing method of the transactions was fair, and there was no prejudice to the interests of the Company and minority Shareholders.

The related party transactions as disclosed in note 36 to the financial statements were not regarded as connected transactions under the Listing Rules which were not exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

XXV. DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements, and contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director/Supervisor or any entity connected with such Director/Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the Reporting Period.

XXVI. CONTRACTS OF SIGNIFICANCE WITH SUBSTANTIAL SHAREHOLDERS

No contract of significance was entered into or subsisted between the Company or any of its subsidiaries and a substantial Shareholder or any of its subsidiaries during the Reporting Period and no contract of significance for the provision of services to the Company or any of its subsidiaries by a substantial Shareholder or any of its subsidiaries was entered into or subsisted as at 31 December 2023.

XXVII. MANAGEMENT CONTRACTS

Other than the Directors' and Supervisors' service contracts and appointment letters, no contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or in existence as at the end of the year or at any time during the Reporting Period.

XXVIII. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of the Directors, Supervisors and senior management of the Group are decided by the Board with reference to the recommendations of the Remuneration and Examination Committee, having regard to the Group's operating results, individual performance, and comparable market statistics.

Details of the Directors' remuneration and remuneration of the five highest paid individuals in the Group are set out in note 9 to the financial statements in this annual report.

Details of the remuneration of the executive Directors, Supervisors and senior management of the Group are set out in note 8 to the financial statements in this annual report.

During the Reporting Period, no remuneration was paid by the Group to any of the Directors and Supervisors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors and Supervisors waived any remuneration for the year ended 31 December 2023.

Save as disclosed above, no other payments have been made or are payable, for the year ended 31 December 2023, by the Group to or on behalf of any of the Directors.

XXIX. CONVERTIBLE BONDS

During the Reporting Period, the Group did not issue any convertible bonds.

XXX. EQUITY-LINKED AGREEMENTS

During the Reporting Period, save as disclosed in the share incentive arrangement in the section headed "– Share Incentive Schemes" in this annual report and note 32 to the financial statements, the Company had not entered into any equity-linked agreement.

XXXI. MATERIAL LITIGATION

During the Reporting Period, the Company was not engaged in any material litigation or arbitration of material importance, or the Directors were not aware of any material litigation or claim pending or threatened against the Group.

XXXII. SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not have any significant investments (including any investment in an investee company with a value of 5% or more of the Group's total assets as of 31 December 2023), acquisitions or disposals.

XXXIII. LOANS AND GUARANTEES

During the Reporting Period, the Group had not made any loan or provided any guarantee for loan, directly or indirectly, to the Directors, Supervisors and senior management of the Company, the controlling Shareholders, or their respective connected persons.

XXXIV. FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of the issue date of this annual report, the Company did not have any existing plan for material investments or acquisition of capital assets.

XXXV. ON-GOING DISCLOSURE RESPONSIBILITIES UNDER THE LISTING RULES

Save as disclosed in this annual report, the Company has no other disclosure responsibilities under rules 13.20, 13.21 and 13.22 of the Listing Rules.

XXXVI. ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed "– Share Incentive Schemes" in this annual report, at no time during the Reporting Period was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

XXXVII. MAJOR SUPPLIERS AND CUSTOMERS

During the Reporting Period, the revenue generated from Group's largest customer accounted for 41.83% of the Group's total revenue and the revenue generated from the Group's five largest customers accounted for 60.69% of the Group's total revenue.

During the Reporting Period, the purchases from the Group's largest supplier accounted for 3.09% of the Group's total purchases and the purchases from the Group's five largest suppliers accounted for 12.22% of the Group's total purchases.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or five largest customers.

XXXVIII. EMPLOYEES AND REMUNERATION POLICY

At the end of the Reporting Period, the Group had 9,788 employees and their salaries and allowances were determined based on their performance, experience and the prevailing market remuneration. We have also invested in continuing education and training programs, including internal and external training, so that our management personnel and other employees can improve their skills and knowledge. We also offer competitive salaries, packages and equity incentive plans to our employees, especially key employees.

Our employees' remuneration includes salaries, bonuses, social security contributions and other welfare benefits. In accordance with applicable PRC laws, we have made contributions to social security insurance funds (including pension insurance, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees.

The Company also has adopted the A Share Incentive Schemes and A Share Employee Share Ownership Plan. For further details, please refer to the sections headed "– Share Incentive Schemes" and "– Employee Share Ownership Plan" in this annual report.

During the Reporting Period, the Group did not experience any significant labour disputes or any difficulty in recruiting employees.

XXXIX. CORPORATE GOVERNANCE

The Company recognizes the importance of good corporate governance for enhancing the management of the Company as well as preserving the interests of the Shareholders as a whole. The Company has adopted the code provisions set out in the CG Code as its own code of corporate governance practices.

In the opinion of the Directors, except for code provision C.2.1 of the CG Code (see the paragraph headed "Corporate Governance Report – Chairperson and Chief Executive Officer" in this annual report), the Company has complied with the relevant code provisions contained in the CG Code during the Reporting Period.

In order to maintain a high standard of corporate governance, the Board will continue to review and monitor the operation of the Company.

Information on the corporate governance practices adopted by the Company is set out in the section headed "Corporate Governance Report" of this annual report.

XL. CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Company donated a total of RMB0.83 million.

XLI. AUDITOR

On 19 January 2022, considering that RSM China (Special General Partnership) ("**RSM China**") has served as the domestic auditor of the Company for consecutive years and the Company's H Shares have been listed on the main board of the Hong Kong Stock Exchange, and in order to ensure independence and objectivity of auditing procedures of the Company, the Company has reached a mutual consensus with RSM China on the non-renewal of its appointment and RSM China would thereby retire as the domestic auditor of the Company.

As recommended by the Audit Committee, the Board proposed to the appointment of Ernst & Young Hua Ming LLP as the domestic auditor of the Company following the retirement of RSM China, with its term of office commencing from the date of approval of Shareholders until the conclusion of the next annual general meeting of the Company. This proposed change of domestic auditor was approved by the Shareholders on 11 March 2022 at the first extraordinary general meeting of 2022.

The Audit Committee proposed the consideration and approval of the re-appointment of Ernst & Young Hua Ming LLP as the domestic auditor of the Company in 2023, for the term of one year and that the Board be authorized to fix their remuneration, with its term of office commencing from the date of approval of Shareholders until the conclusion of the next annual general meeting of the Company. This re-appointment of domestic auditor was approved by the Shareholders on 9 June 2023 at the annual general meeting of the Company of 2022.

During the Reporting Period, there was no change of auditor and the consolidated financial statements for the Reporting Period have been audited by Ernst & Young, Certified Public Accountants, who is proposed for re-appointment at the AGM.

XLII. EVENTS AFTER THE REPORTING PERIOD

i. A Share Repurchase

The Company intends to repurchase part of the A Shares with self-owned funds through centralized price bidding which will be used to implement the employee share ownership plan of the Company or the share incentive scheme of the Company, and cancellation and reduction of the registered capital. The number of repurchased A Shares used to implement the employee share ownership plan or the share incentive scheme is no more than 60% of the total number of repurchased A Shares, and the number of repurchased A Shares used for cancellation and reduction of the registered capital is not less than 40% of the total number of repurchased A Shares. As of 10 April 2024, the Company successfully has accumulatively repurchased 3,429,389 A shares, representing 1.0030% of the Company's total A Share capital, through the centralized price bidding process on the Shenzhen Stock Exchange. The repurchase prices ranged from a minimum of RMB80.90 to a maximum of RMB102.00 per share, utilizing a total of RMB309,767,047.92 in funds (excluding commissions and additional fees). This repurchase was financed entirely with the Company's self-owned funds, ensuring that the transaction price did not surpass the stipulated maximum limit of RMB157.00 per share (inclusive) as outlined in the repurchase plan. The operation was conducted in full compliance with applicable laws and regulations, aligning with the predetermined repurchase strategy. For further details on the A Share repurchase through centralized price bidding, please refer to the relevant announcements of the Company dated 31 January 2024, 29 February 2024 and 11 April 2024, the circular of the Company dated 6 February 2024 and other follow-up announcements the Company published and will publish in due course based on the progress of the repurchase.

On 15 March 2024, the Company approved the proposal to repurchase and cancel 420 restricted A Shares granted but not yet unlocked under A Share Incentive Schemes held by one eligible participant who has resigned. Upon completion of the repurchase and cancellation, the A Share capital of the Company would be adjusted from 341,918,273 A Shares to 341,917,853 A Shares.

Subsequent to 31 December 2023 and up to the date of this annual report, the Group did not have any other significant events.

XLIII. COMPLIANCE WITH LAWS AND REGULATIONS

During the Reporting Period, the Company has complied with the relevant laws and regulations that have a significant impact on the Company, including the requirements under the Hong Kong Companies Ordinance, the Listing Rules, the SFO and the CG Code in relation to, among other things, information disclosure and corporate governance. During the Reporting Period and up to the date of this annual report, none of the Group and the Directors, Supervisors and senior management of the Company had been subject to any investigation or administrative penalty by the CSRC, banned from access to the market, identified as inappropriate candidates, publicly condemned by stock exchanges, subject to mandatory measures, transferred to judicial authorities or held criminally responsible, nor were they involved in any other litigation, arbitration or administrative proceedings that would have a material adverse effect on our business, financial condition or results of operations.

By order of the Board
Asymchem Laboratories (Tianjin) Co., Ltd.
Chairperson of the Board, Executive Director and Chief Executive Officer
Dr. Hao Hong

Tianjin, 28 March 2024

CORPORATE GOVERNANCE REPORT

The Board is pleased to present the corporate governance report for the year ended 31 December 2023.

I. CORPORATE GOVERNANCE PRACTICES

The Board of the Company is committed to maintaining good corporate governance standards. The Board believes that good corporate governance standards are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company's corporate governance practices are based on the principles as set out in the CG Code in Appendix C1 to the Listing Rules.

The Company has adopted the principles and code provisions as set out in the CG Code contained in Appendix C1 to the Listing Rules and has complied with the code provisions of the CG Code during the year ended 31 December 2023, except for code provision C.2.1 of the CG Code (see the paragraph headed "Chairperson and Chief Executive Officer" below).

II. CORPORATE GOVERNANCE CODE COMPLIANCE

Up to the date of this annual report, the Company has complied with the code provisions as set out in the CG Code and supplementary requirements in force in material time in Appendix C1 to the Listing Rules. In the following corporate governance areas, the Company's practices have exceeded the relevant CG Code/ Listing Rules requirements by incorporating the best practice with more improvement:

Corporate Governance Areas	Details of Exceedance
Number of INED	The number of INEDs represents more than one-third of the Board, which exceeded the independence requirement under the Listing Rules.
Number of INED in Audit Committee	The Audit Committee consists of three INEDs, which met the independence requirement under the Listing Rules.
Number of Regular Board Meetings	The Company held 10 Board meetings including 4 regular Board meetings and 6 Special Board Meetings in this year, which exceeded the requirement under the CG Code.
Notice of the Regular Board Meetings	The dates of regular Board meetings for the following year are usually fixed in the fourth quarter of the preceding year.
Model Code Confirmation	Confirmation of Compliance with the Model Code is obtained from each Director and executive management personnel every half year.

Corporate Governance Areas	Details of Exceedance
Terms of Reference of all Committees	As part of the Board effectiveness, the Company published its Terms of Reference of The Audit Committee Under the Board of Directors, Terms of Reference of The Nomination Committee Under the Board of Directors, Terms of Reference of the Remuneration and Examination Committee Under the Board of Directors, and Terms of Reference of The Strategy Committee Under The Board of Directors via HKEXnews website.
Evaluation of the Effectiveness of Internal Control and Risk Management System	The Company reviews not only the effectiveness of the internal control and risk management of the Company and its subsidiaries, but also that of its key associates operating in Mainland China and overseas.
Board Diversity Policy	The Company has a Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of the Board. In particular, there are four female board members, which exceeded our peers' board composition in gender diversity.
Whistleblowing Policy	The Company adopted the Whistleblowing Policy in 2023 and is committed to maintaining high standards of business ethics and corporate governance. For the details, please refer to the Whistleblowing Policy, which is available on the HKEXnews website.
Anti-corruption and Anti-bribery Policy	The Company adopted the Anti-corruption and Anti-bribery Policy and is committed to conducting all its business in an honest and ethical manner. For the details, please refer to the Anti-corruption and Anti-bribery Policy, which is available on the HKEXnews website.

The Company continues to monitor developments in the area of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of shareholders and stakeholders.

III. ASYMCHEM'S CULTURE

With a core values of "seriousness, rigor, and strictness" ("嚴肅、嚴謹、嚴苛"), Asymchem has been dedicated to serving the realm of innovative and breakthrough medicines, actively tackling research and development ("**R&D**") technical challenges in production to expedite our clients' product launches to market. These endeavors have contributed to promoting drug accessibility, enhancing the quality of life for patients, relieving their suffering and allowing more patients to benefit from high-quality drugs and medical solutions. Over two decades, the management philosophy of "accumulating strength for future success, staying vigilant, and be cautious" ("厚積薄發、居安思危、如履薄冰") continues to guide the Company.

Equally unchanged is the spirit of perseverance and strong execution among Asymchem's staff, serving as the enduring driving forces behind the company's development. Asymchem upholds the "people-oriented" culture and adheres to the employment principle of "leveraging talents to their fullest potential". We offer our staff with an inclusive, diversified, and safe working environment and place, and we are dedicated to the development of each employee, assisting them in achieving their professional aspirations. In terms of social responsibility, we stand committed to safeguarding employee benefits and rights, fostering a fair and inclusive working environment.

- Asymchem's Vision:

  Being the partner of choice to global pharmaceutical companies of all sizes providing R&D and manufacture solutions throughout the full lifecycle of innovative drug development

- Asymchem's Mission:

  Collaboration for Innovation

More information about Asymchem's culture is available on the Asymchem's website.

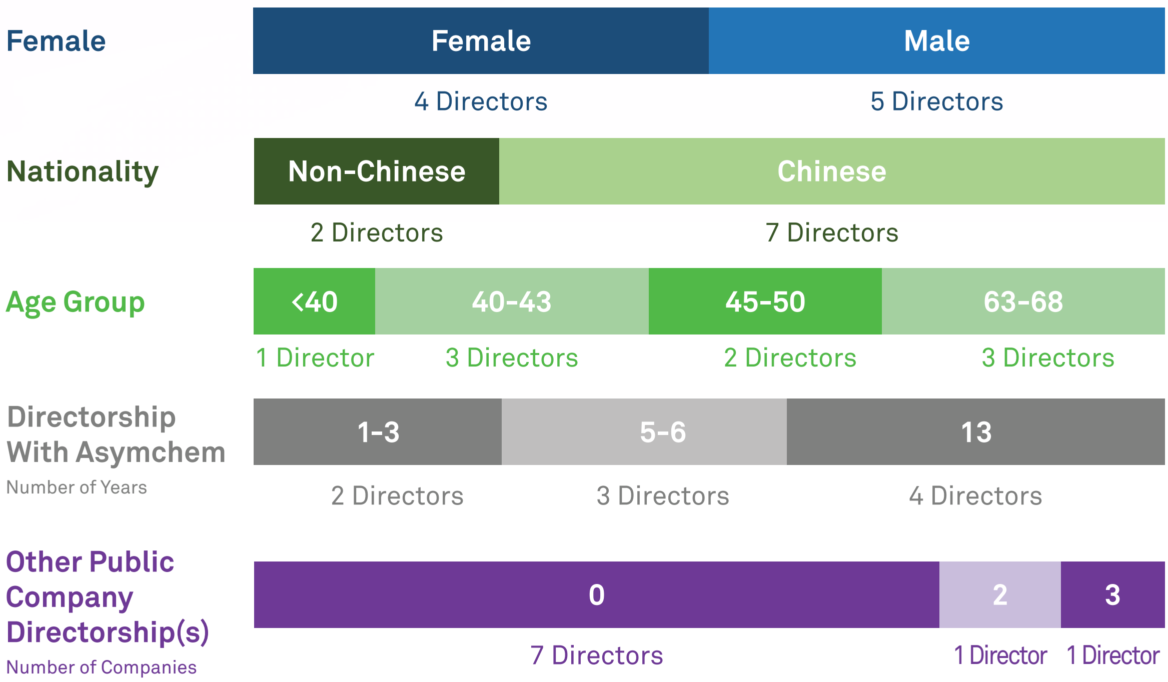
IV. THE BOARD OF DIRECTORS

The Board is accountable to the Shareholders' general meeting and is primarily responsible for the overall management and control of the Company, determining the Company's business plans and investment plans, and providing leadership and approving strategic policies and plans to enhance Shareholders' value. All Directors carry out their duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Board regularly reviews the contribution required from each Director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time performing them (including attendance at regular meetings).

i. Board Composition

The Board comprises nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors.



Executive Directors

Dr. Hao Hong *(Chairperson and Chief Executive Officer)*
Ms. Yang Rui
Mr. Zhang Da
Mr. Hong Liang

Non-Executive Directors

Dr. Ye Song
Ms. Zhang Ting

Independent Non-executive Directors

Dr. Sun Xuejiao[(1)]
Ms. Zhang Kun[(2)]
Mr. Hou Xinyi[(3)]
Mr. Wang Qingsong[(4)]
Mr. Lee, Kar Chung Felix

Notes:

(1) Dr. Sun Xuejiao was appointed as an independent non-executive Director with immediate effect on 18 October 2023. Her appointment was made to fill the vacancy left by Ms. Zhang Kun, the previous independent non-executive director of the Company, who resigned on 16 January 2023 due to the consecutive service to the Board for a period exceeding six years.

(2) According to the Rules for Independent Directors of Listed Companies of the CSRC and other relevant regulations, an independent non-executive director shall not serve for a consecutive term of more than six years in the same listed company. Ms. Zhang Kun was appointed as an independent non-executive Director of the Company on 16 January 2017. As Ms. Zhang Kun had served consecutively for six years, she tendered her resignation on 16 January 2023, which became effective on 18 October 2023 upon the election of Dr. Sun Xuejiao as the new independent non-executive Director of the Company.

(3) Mr. Hou Xinyi was appointed as an independent non-executive Director of the Company on 29 February 2024.

(4) Mr. Wang Qingsong was appointed as an independent non-executive Director of the Company on 18 April 2019 and tendered his resignation on 5 February 2024, which became effective on 29 February 2024.

On 30 October 2023 and 27 February 2024, Dr. Sun Xuejiao and Mr. Hou Xinyi obtained legal advice referred to in Rule 3.09D of the Listing Rules, and confirmed that they understood their obligations as directors of a listed issuer. Dr. Sun Xuejiao and Mr. Hou Xinyi both confirmed that they had satisfied the independence criteria as stipulated in Rule 3.13 of the Listing Rules.

The biographies of the Directors are set out in the section headed “Biographies of Directors, Supervisors and Senior Management” of this annual report. The relationships among the Directors are disclosed in the respective Director’s biography.

The Board members, including the independent non-executive Directors, come from a wide range of professional and educational backgrounds, including accounting, management and industry expertise, which brings to the Board a diverse and balanced mix of skills and experience that contributes to the effective development of the Group.

Name of Director	Executive leadership & strategy/ directorship or senior executive experience with other list company(ies)	Capital market expertise	International business	Healthcare Industry Knowledge	Accounting professionals/ financial management expertise	Legal Professionals/ regulatory & compliance/ risk management
Executive Directors						
Dr. Hao Hong	*	*	*	*	*	*
Ms. Yang Rui (楊蕊)	*	*	*	*	*	*
Mr. Zhang Da (張達)	*	*	*	*	*	*
Mr. Hong Liang (洪亮)	*	*	*	*	–	*
Non-Executive Directors						
Dr. Ye Song	*	*	*	*	*	*
Ms. Zhang Ting (張婷)	*	–	*	*	–	*
Independent Non-Executive Directors						
Dr. Sun Xuejiao (孫雪嬌)	*	*	–	*	*	–
Mr. Hou Xinyi (侯欣一)	*	*	–	*	–	*
Mr. Lee, Kar Chung Felix (李家聰)	*	*	*	*	*	*
Coverage (% of entire Board)	**100%**	**89%**	**78%**	**100%**	**67%**	**89%**

Save for the relationships among the Directors as set out in their respective biographies (see the section headed "Biographies of Directors, Supervisors and Senior Management"), none of the Directors has any financial, business, family, or other material/relevant relationships with each other.

V. RESPONSIBILITIES, ACCOUNTABILITIES, EFFECTIVENESS AND CONTRIBUTIONS OF THE BOARD AND MANAGEMENT

Good governance emanates from an effective accountable board. At Asymchem, the Board should assume responsibility for leadership and control of the Company and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board operates under defined terms of reference which set out matters specifically reserved for its decision. The terms of reference are publicly available on both HKEx's and the Company's website.

For effective oversight and leadership, the Board regularly reviews reports from the Chief Executive Officer and senior executives on the progress of the approved strategic plans and budgets and receives updates and advice from the Board committees an external market and industry experts and management the Company's business performance and development, regulatory landscape, ESG, risk management, and human capital management.

All Directors have brought a wide spectrum of valuable business experience, knowledge, and professionalism to the Board for its efficient and effective functioning.

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

Each Director is required to disclose to the Company details of other offices held by him/her on a regular basis to ensure that he/she can devote sufficient time to discharge his/her duties as a Director of the Company.

The Board reserves its decision on all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and coordinating the daily operation and management of the Company are delegated to the management.

The Company has maintained Directors' and senior management's liability insurance to cover any legal actions taken against the Directors and senior management arising out of corporate activities.

VI. CHAIRPERSON AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision C.2.1 of the CG Code as set out in Appendix C1 to the Listing Rules, the roles of chairperson and chief executive officer should be separate and should not be performed by the same individual.

The roles of Chairperson and Chief Executive Officer of the Group are held by Dr. Hao Hong who is the founder of the Group. The Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) a decision to be made by the Board requires approval by at least a majority of the Board members and that the Board comprises three independent non-executive Directors out of nine Directors, thus the Board believes that the checks and balances on the Board are sufficient; (ii) Dr. Hao Hong and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require them (among others) to act in the best interests of the Group and make decisions for the Group accordingly; and (iii) the balance of power and authority in the operation of the Board is ensured by the experienced and high caliber individuals and professionals making up the Board, who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategy and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels. The Board believes that the combined role of the Chairperson and Chief Executive Officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Furthermore, in view of Dr. Hao Hong's industry experience, professional background, personal profile, and his crucial roles in the Company as mentioned above, and due to his deep understanding of the Group for over 20 years, Dr. Hao Hong is the best person to identify strategic opportunities and act as the key figure of the Board. Finally, as Dr. Hao Hong is the founder of the Company, the Board believes that vesting the roles of both Chairperson and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning and communication with the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether the separation of the roles of Chairperson and Chief Executive Officer is necessary.

The Board is committed to achieving high standards of corporate governance. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

VII. INDEPENDENT NON-EXECUTIVE DIRECTORS

During the Relevant Period, the Board at all times met the requirements of the relevant Listing Rules relating to the appointment of at least three independent non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors to be independent.

The Company has maintained Directors' and senior management's liability insurance to cover any legal actions taken against the Directors and senior management arising out of corporate activities.

VIII. APPOINTMENT AND RE-ELECTION OF DIRECTORS

In accordance with the Company's Articles of Association, the Directors (including non-executive Directors and independent non-executive Directors) are appointed for a specific term of three years, subject to re-election upon expiry.

According to the Articles of Association, Directors shall be elected or replaced at general meetings with a term of office of three years. A Director may be re-elected upon expiry of his/her term of office, provided that the consecutive term of office of an independent Director shall not exceed six years. According to the relevant laws, regulations, and regulatory requirements of the place where the Company is listed, if the Board appoints a new director to fill a casual vacancy or as an addition to the Board, the appointed director shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election. All Directors appointed to fill a casual vacancy shall be subject to election by Shareholders at the first general meeting after appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

IX. INDUCTION AND DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

According to code provision C.1.4 of the CG Code, 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.

Every newly appointed Director will receive formal, comprehensive, and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional training to develop and refresh their knowledge and skills. The Company arranges regular internal or external training for Directors as appropriate. Reading materials on relevant topics will be provided to Directors. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2023, all Directors have attended training sessions on the respective responsibilities of the Directors and senior management. In addition, relevant documents including legal and regulatory updates are provided to the Directors for their reference and studying.

For the year ended 31 December 2023 and as at the date of this annual report, the records of continuous professional development relating to duties, regulatory and business development received by the Directors are summarized as follows:

DIRECTORS	Attending courses/seminars related to the duties and responsibilities of directors or corporate governance	Reading regulatory materials
EXECUTIVE DIRECTORS		
Dr. Hao Hong	✔	✔
Ms. Yang Rui	✔	✔
Mr. Zhang Da	✔	✔
Mr. Hong Liang	✔	✔
NON-EXECUTIVE DIRECTORS		
Dr. Ye Song	✔	✔
Ms. Zhang Ting	✔	✔
Independent Non-executive Directors		
Dr. Sun Xuejiao(1)	✔	✔
Ms. Zhang Kun(2)	✔	✔
Mr. Hou Xinyi(3)	N/A	N/A
Mr. Wang Qingsong(4)	✔	✔
Mr. Lee, Kar Chung Felix	✔	✔

Notes:

(1) Dr. Sun Xuejiao was appointed as an independent non-executive Director on 18 October 2023. Her appointment was made to fill the vacancy left by Ms. Zhang Kun, the previous independent non-executive director of the Company, who resigned on 16 January 2023 due to the her consecutive service to the Board for a period exceeding six years.

(2) Ms. Zhang Kun was appointed as an independent non-executive Director of the Company on 16 January 2017 and tendered her resignation on 16 January 2023, which became effective on 18 October 2023.

(3) Mr. Hou Xinyi was appointed as an independent non-executive Director of the Company on 29 February 2024.

(4) Mr. Wang Qingsong was appointed as an independent non-executive Director of the Company on 18 April 2019 and tendered his resignation on 5 February 2024, which became effective on 29 February 2024.

The Company believes that the independence of the Board is an important element of good corporate governance. The Company has in place effective mechanisms, including but not limited to allowing directors and committee members to seek independent professional advice on matters of the Company when required, at the Company's expense, to ensure that the Board receives independent advice. These mechanisms are reviewed annually by the Board to ensure a high degree of independence of the Board.

X. BOARD DIVERSITY POLICY

We have adopted a board diversity policy which sets out the objective and approach for achieving and maintaining diversity of the Board in order to enhance its effectiveness. In accordance with the board diversity policy, the Company seeks to achieve board diversity by taking into account a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The board diversity policy is well implemented as evidenced by the fact that there are four female and five male Directors with experience from different industries and sectors. The Directors are of the view that our Board satisfies the board diversity policy and gender diversity has been achieved in the Board. The Company aims to maintain at least a 20% of female representation in our Board. We will maintain a focus on gender diversity when recruiting staff at mid to senior level so as to develop a pipeline of potential female successors to our Board. Our Group will also identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such female individuals who possess qualities to become our Board members, which will be reviewed by the Nomination Committee periodically to maintain gender diversity of our Board.

The Nomination Committee will annually (i) discuss and agree on expected goals to ensure board diversity, and (ii) review and, where necessary, update the board diversity policy to ensure that the policy remains effective. The Company will disclose (i) the biographical details of each Director and (ii) report on the implementation of the board diversity policy (including whether we have achieved board diversity) in its annual corporate governance report.

XI. DIRECTOR NOMINATION POLICY

The Board has delegated its responsibilities and authority for the selection, nomination and appointment of directors of the Company to the Nomination Committee. Without prejudice to the authority and duties of the Nomination Committee as set out in its terms of reference, the ultimate responsibility for selection and appointment of Directors rests with the entire Board.

The Company has adopted a Director Nomination Policy which sets out the criteria and process in the nomination and appointment of Directors of the Company and sets out the criteria to be considered by the Nomination Committee and/or the Board in evaluating and selecting candidates for directorships.

XII. EMPLOYEE DIVERSITY

As of 31 December 2023, of the Company's 9,788 employees (including senior management), approximately 66.81% were male and 33.19% were female. To ensure gender diversity at the employee level, the Company welcomes people of any gender and is committed to providing equal opportunities in recruitment, training and development, job promotion, compensation, and benefits to employees of all genders. The Company promoted employee diversity, employing employees from six countries, including the US, Germany, and India, in its laboratories, branches and subsidiaries around the world, and 23 ethnic minorities, including Bai, Buyi, Tibetan and Korean, in its domestic workforce.

XIII. CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, the Employees Written Guidelines and the Company's compliance with the CG Code and disclosure in this corporate governance report for the Reporting Period.

i. Board Committees

The Company has established four Board committees, namely the Audit Committee, the Remuneration and Examination Committee, the Nomination Committee, and the Strategy Committee.

All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Board committees are posted on the Company's website and the Hong Kong Stock Exchange's website and are available to Shareholders upon request.

Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with D.3.3 of the CG Code and the relevant laws and regulations of the PRC. The Audit Committee is mainly responsible for reviewing and overseeing the financial reporting procedure and internal control system of the Group.

As of 31 December 2023, the Audit Committee consisted of three members, namely non-executive Director Ms. Zhang Ting, independent non-executive Directors Dr. Sun Xuejiao and Mr. Wang Qingsong with Dr. Sun Xuejiao serving as the chairperson of the Audit Committee since 18 October 2023. Previously, Ms. Zhang Kun, an independent non-executive Director with the appropriate professional experiences, served as the chairperson of the Audit Committee. Ms. Zhang Kun tendered her resignation of the position of chairperson of the Audit Committee on 16 January 2023, which became effective on 18 October 2023. Mr. Wang Qingsong tendered his resignation as the member of the Audit Committee on 5 February 2024, which became effective on 29 February 2024, and Mr. Hou Xinyi filled the vacancy.

The Audit Committee shall include, without limitation the following basic responsibilities:

- To advise the Board on the appointment, renewal, replacement or dismissal of external audit agency;
- To oversee the work of external auditors;
- To oversee the Company's financial control and internal audit policy and the implementation thereof;
- To be in charge of the communications between the Company's internal and external auditors, and supervise the relationship between the Company and external audit;
- To review the Company's financial statements and reports;
- To review the Company's risk management and internal control systems;
- To review the Company's policies and practices on financing and accounting; and
- To perform other duties as required by the Listing Rules.

During the year ended 31 December 2023, the Audit Committee held five meetings to review the annual financial results and report, the interim financial results and report and financial reports, the effectiveness of risk management and internal control policies and internal audit function, the appointment of auditors and arrangements for employees to report potential misconduct.

Remuneration and Examination Committee

The Company has established the Remuneration and Examination Committee with written terms of reference in compliance with E.1.2 of the CG Code and the relevant laws and regulations of the PRC. The Remuneration and Examination Committee is mainly responsible for evaluating the remuneration policies for Directors and senior management of the Group and making recommendations thereon to the Board.

As of 31 December 2023, the Remuneration and Examination Committee consisted of three members, executive Director Mr. Zhang Da, independent non-executive Directors Dr. Sun Xuejiao and Mr. Wang Qingsong, with Mr. Wang Qingsong serving as the Chairperson of the Remuneration and Examination Committee. Dr. Sun Xuejiao an independent non-executive Director with the appropriate professional experiences, was appointed as a member of the Remuneration and Examination Committee on 18 October 2023. Previously, Ms. Zhang Kun, was an independent non-executive Director with the appropriate professional experiences, served as the member of the Remuneration and Examination Committee. Ms. Zhang Kun tendered her resignation of the position of the member of the Committee on 16 January 2023, which became effective on 18 October 2023. Mr. Wang Qingsong tendered his resignation as the Chairperson of the Remuneration and Examination Committee on 5 February 2024, which became effective on 29 February 2024, and Mr. Hou Xinyi filled the vacancy.

The Remuneration and Examination Committee shall include, without limitation the following basic responsibilities:

- To advise the Board on the overall remuneration policy and framework for directors and senior management members, and the establishment of a standardized and transparent remuneration policy formulation procedures;

- To formulate remuneration plans or proposals according to the main scope, responsibilities and importance of the management positions of the Directors and senior management, with reference to the remuneration level of other relevant enterprises and relevant positions, time commitment and responsibilities undertaken, employment conditions of other positions in the Company, etc.;

- To determine, with delegated responsibility by the Board, the remuneration packages of individual executive Directors and senior management; or to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management;

- To examine the performance of duties by directors (non-independent Director) and senior management members of the Company and conduct regular performance appraisals and evaluations, and make recommendations;

- To review and approve the compensation payable to the executive Directors and senior management members for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

- To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

- To perform other duties as required by the Listing Rules.

The Remuneration and Examination Committee held a total of two meetings to review the remuneration policies and structure of the Company, make recommendations to the Board on the remuneration packages of the Directors and senior management, etc.

The remuneration of the senior management of the Group by band during the Reporting Period is set out below:

Remuneration	Number
Less than RMB1,000,000	9
RMB1,000,001 to RMB1,500,000	0
RMB1,500,001 to RMB2,000,000	1
RMB2,000,001 to RMB2,500,000	1
RMB2,500,001 to RMB3,000,000	2
RMB3,000,001 to RMB3,500,000	1
More than RMB3,500,001	7

Nomination Committee

The Company has established the Nomination Committee with written terms of reference in compliance with B.3.1 of the CG Code and the relevant laws and regulations of the PRC. The Nomination Committee is mainly responsible for identifying, screening and recommending to the Board qualified candidates to serve as the Directors and monitoring the procedures for evaluating the performance of the Board.

As of 31 December 2023, the Nomination Committee consisted of three members, namely executive Director Mr. Hong Liang, independent non-executive Directors Mr. Wang Qingsong and Mr. Lee, Kar Chung Felix, with Mr. Lee, Kar Chung Felix serving as the Chairperson of the Nomination Committee. Mr. Wang Qingsong tendered his resignation as the member of the Nomination Committee on 5 February 2024, which became effective on 29 February 2024, and Mr. Hou Xinyi filled the vacancy.

The Nomination Committee shall include, without limitation the following basic responsibilities:

- To review the structure, number and composition (including skills, knowledge and experience) of the board of directors annually and providing recommendations to the board of directors on the scale and composition of the board of directors on the basis of the Company's operations, scale of assets and shareholding structure, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy

- To determine the criteria for identifying, reviewing and assessing the qualifications of Board members and senior management;

- To determine and regularly review measurable objectives for implementing the Board Diversity Policy and oversee the progress on achieving these objectives;

- To identify qualified candidates for the Board members and senior management and make recommendations to the Board on the selection and nomination of personnel nominated for directorships;

- To review the independence of independent non-executive Directors;

- To make recommendations to the Board on the appointment or renewal of Directors and senior management and succession planning for Directors and senior management;

- To determine, review and assess the suitability of corporate governance guidelines of the Company and make recommendations on any proposed changes to the Board for consideration;

- To review and supervise the training and continuous professional development of Directors and senior management;

- To determine, review and oversee the code of conduct and compliance manual (if any) applicable to the Directors and senior management; and

- To perform other duties as required by the Listing Rules.

When performing relevant duties, the Nomination Committee shall consider the diversity policy of the Board specified in these terms of reference. It shall be responsible for monitoring the implementation of the Policy as well as reviewing and revising the Policy to ensure its effectiveness.

In reviewing the size and composition of the Board, identifying and nominating candidates for directors, the Nomination Committee shall consider relevant factors to achieve the diversity of the Board members according to the business model and specific demand of the Company. The Nomination Committee may consider the diversity of the Board members from various aspects, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge, and length of service. After considering the aforesaid relevant factors, the Nomination Committee shall make final recommendation on the appointment to the Board based on the merits of the candidates and contribution they may bring to the Board.

During the year ended 31 December 2023, the Nomination Committee held two meetings to review the structure, size and composition of the Board and the independence of the independent non-executive Directors and Board diversity, as well as to nominate the Company's directors and senior management for appointment.

Strategy Committee

The Company has established the Strategy Committee. The Strategy Committee is mainly responsible for reviewing and advising on long-term strategies and major investment plan of the Company.

As of 31 December 2023, the Strategy Committee consisted of three members, namely executive Directors Dr. Hao Hong and Ms. Yang Rui and an independent non-executive Director Mr. Lee, Kar Chung Felix, with Dr. Hao Hong serving as the Chairperson of the Strategy Committee. The Strategy Committee is mainly responsible for reviewing and advising on long-term strategies and major investment plan of the Company.

The Strategy Committee shall include, without limitation the following basic responsibilities:

- To study and make recommendations on the strategic development plans of the Company;
- To study and make recommendations on major investment decisions which are required to be approved by the Board under the Articles of Association;
- To study and make recommendations on major capital operations and asset management projects which are required to be approved by the Board under the Articles of Association;
- To study and make recommendations on other significant matters affecting the development of the Company;
- To track and inspect the implementation of the above matters; and
- To perform other duties as required by the Listing Rules.

During the year ended 31 December 2023, the Strategy Committee held one meeting to discuss and formula the development strategy and forward planning of the group in 2023.

ii. Attendance Record of Directors and Committee Members

The attendance record of each Director at the Board meetings, Board Committee meetings and the general meetings of the Company held during their tenure of office during the Reporting Period is set out in the table below:

Name of Director	Board	Audit Committee	Remuneration and Examination Committee	Nomination Committee	Strategy Committee	Shareholders' Annual General Meeting	Extraordinary General Meeting
Dr. Hao Hong	10/10	–	–	–	1/1	0/1	0/1
Ms. Yang Rui (楊蕊)	10/10	–	–	–	1/1	1/1	1/1
Mr. Zhang Da (張達)	10/10	–	2/2	–	–	1/1	1/1
Mr. Hong Liang (洪亮)	10/10	–	–	2/2	–	1/1	1/1
Dr. Ye Song	10/10	–	–	–	–	1/1	0/1
Ms. Zhang Ting (張婷)	10/10	5/5	–	–	–	1/1	1/1
Dr. Sun Xuejiao (孫雪嬌)(1)	3/10	2/5	0/2	–	–	0/1	–
Ms. Zhang Kun (張昆)(2)	7/10	3/5	2/2	–	–	0/1	0/1
Mr. Hou Xinyi (侯欣一)(3)	–	–	–	–	–	–	–
Mr. Wang Qingsong (王青松)(4)	10/10	5/5	2/2	2/2	–	1/1	0/1
Mr. Lee, Kar Chung Felix (李家聰)	10/10	–	–	2/2	1/1	1/1	0/1

Notes:

(1) Dr. Sun Xuejiao was appointed as an independent non-executive Director on 18 October 2023. Her appointment was made to fill the vacancy left by Ms. Zhang Kun, the previous independent non-executive director of the Company, whose resignation became effective on 18 October 2023.

(2) Ms. Zhang Kun was appointed as an independent non-executive Director of the Company on 16 January 2017 and tendered her resignation on 16 January 2023, which became effective on 18 October 2023.

(3) Mr. Hou Xinyi was appointed as an independent non-executive Director on 29 February 2024. His appointment was made to fill the vacancy left by Mr. Wang Qingsong, the previous independent non-executive director of the Company, whose resignation became effective on 29 February 2024.

(4) Mr. Wang Qingsong was appointed as an independent non-executive Director of the Company on 18 April 2019 and tendered his resignation on 5 February 2024, which became effective on 29 February 2024.

During the Reporting Period, in addition to the regular Board meetings, the Chairperson also held meetings with the independent non-executive Directors without other directors present.

XIV. JOINT COMPANY SECRETARIES

During the Reporting Period, Mr. Xu Xiangke is the Deputy General Manager of the Company and Secretary to the Board and is responsible for managing day-to-day work of the Board and corporate governance matters. Mr. Cheng Ching Kit, the other joint Company Secretary of the Company, who is an assistant vice president of SWCS Corporate Services Group (Hong Kong) Limited and is responsible for assisting Mr. Xu Xiangke in discharging his duties as a joint company secretary of the Company. Mr. Cheng's primary corporate contact person at the Company is Mr. Xu Xiangke.

For the year ended 31 December 2023, Mr. Xu Xiangke and Mr. Cheng Ching Kit had undertaken not less than 15 hours of relevant professional training during the Reporting Period in accordance with Rule 3.29 of the Listing Rules.

XV. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code under Appendix C3 to the Listing Rules. Specific enquiry has been made of all the Directors and all the Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2023 and as of the date of this annual report.

XVI. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules. Specific enquiries have been made of all the Directors and they have confirmed that they have complied with the Model Code during the year ended 31 December 2023. The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company during the year ended 31 December 2023.

XVII. MATERIAL LITIGATION

During the Reporting Period, the Company was not engaged in any material litigation or arbitration of material importance, or the Directors were not aware of any material litigation or claim pending or threatened against the Group.

XVIII. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee oversees and manages the overall risks associated with our business operations from time to time. The Audit Committee is mainly responsible for reviewing and overseeing financial reporting procedure, risk management system and internal control system of the Group.

The senior management is responsible for (i) formulating and updating our risk management policy and objectives; (ii) conducting risk assessment, including the identification, prioritization, measurement and categorization of all major risks which may have potential impacts on our operations; (iii) making action plans to mitigate potential risks; and (iv) reporting significant risks to our audit committee.

The Company's internal audit department and other relevant departments are responsible for implementing our risk management policy and the Company's day-to-day risk management practices. They are responsible for (i) collecting data on risks related to all departments' operation and function; (ii) preparing auditing reports for the review of our chief operating officer and our audit committee; (iii) proposing appropriate measures in response to our risk exposure where necessary; and (iv) continuously monitoring major risks related to our operations. The internal audit department will conduct an annual comprehensive review of the company's risk management and internal control system at the end of each year, covering the past 12 months.

The Company provides regular anti-corruption and anti-bribery compliance training for senior management and employees in order to enhance their knowledge of and compliance with applicable laws and regulations. The Company also adopted and optimized a set of internal policies against bribery and corrupt activities, which strictly prohibit all employees and other personnel acting on behalf of us from making, proposing or promising improper payments, directly or indirectly, in any form of cash, physical assets, loans, gifts, luxury trips, entertainment, donations, other valuables or benefits to anyone, including government officers and healthcare professionals, for the purposes of acquiring or securing any business or improper advantage, regardless of whether we benefit from such improper payments. Employees who violate such policies are subject to penalties, including termination of employment.

The Company has engaged an internal control consultant to perform certain agreed-upon procedures in connection with our internal control and our major operating subsidiaries and to report factual findings on our Group's entity-level controls and internal controls of various processes, including financial reporting and disclosure controls, sales, accounts receivable and collection, procurement, accounts payable and payment, fixed assets and assets under construction, human resources and payroll management, cash and treasury management, inventory management, general controls of IT system, taxation management, production and costing, insurance management, R&D and intangible assets.

The Company has adopted a series of internal control policies, measures and procedures designed to provide reasonable assurance for achieving objectives, including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Below is a summary of the internal control policies, measures, and procedures we have implemented or plan to implement:

- The Company has set up an internal audit department, which are responsible for our overall internal control development and assessment.

- The internal audit department is responsible for reviewing and overseeing financial reporting procedure, risk management system and internal control system of the Group.

- The internal audit department organizes periodic inspections relating to the implementation of and adherence to the internal controls of each business department. The Company conducts internal control inspections through on-site inspection, sampling method, document review, and walk-through test. Upon completion of the inspections, internal audit department delivers to the head of the relevant business department information and statistics related to the risks discovered during the visits and any suggested remedial action. The head of the relevant business department is then required to carry out the relevant remedies.

- The head of each business department is responsible for implementing relevant internal control policies, measures and procedures and conducting regular review regarding the implementation of such policies, measures and procedures.

- The Company has adopted various measures and procedures for all of our business operations, including project management, quality assurance, intellectual property protection, environmental protection and occupational health and safety. The Company provides our employees with regular training on these measures and procedures.

- The internal audit department has established a mechanism to deal with the complaints against inappropriate behaviors under our internal control policies. The internal audit department has established a specific email for our employees to report their complaints and inquiries and employees can also report their complaints and inquiries through a specific application. Our internal audit department removes the identifying information of the reporting employees and sends the complaints to the reported personnel or departments for further adjustment and improvement.

- With the approval of the Board and in accordance with the requirements of domestic and foreign laws and regulations, the Listing Rules, the Articles of Association and taking into account the actual situation of the Company, the Company has formulated the information disclosure management system, which specifies the division of responsibilities for information disclosure, the procedures for handling and publishing inside information and other information to be disclosed. Pursuant to the system, the Company shall disclose inside information to the public to the reasonable and practicable extent after any inside information has come to its knowledge or a false market may exist. During the Reporting Period, the Company disclosed information in a true, accurate, legal and timely manner in strict compliance with the requirements of domestic and foreign laws and regulations, the Listing Rules, the Articles of Association and the information disclosure management system of the Company, and there were no false representations, misleading statements or material omissions, to ensure that investors could have an equal, timely and effective understanding of the information disclosed.

The Board, through the Audit Committee, has reviewed the effectiveness of the Group's internal audit system and risk management and internal control systems, including the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting and financial reporting function. For the year ended 31 December 2023, the Audit Committee and the Board considered that the Group's internal audit system and risk management and internal control systems were effective and adequate.

The Company has also established an anti-corruption policy and anti-bribery policy and system to promote and support applicable anti-corruption laws and regulations in jurisdictions where the Company operates its business.

i. Whistleblowing Policies

A whistleblowing policy has been established to deal with concerns relating to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal, or reputational impacts on the Company. Such policy applies to all employees (including secondees), officers and directors of the Group (together, the "**Relevant Persons**") and external third parties who deal with the Group (including but not limited to customers and suppliers) ("**External Parties**"). The whistleblowing channels are available to all staff, parties who deal with the Company as well as the public. The Company has thoughtfully considered the protection for whistleblowers, confidentiality, malicious allegations, and false reports, etc., which the investigation procedure, anonymous report, and reporting channels have been put in place. For the details, please refer to the Whistleblowing Policy, which is available on the HKEXnews website.

ii. Anti-Corruption and Anti-Bribery Policies

Practicing integrity and responsible business ethics is paramount to the Company's continued success. The anti-corruption and anti-bribery policy was adopted previously and lays down the requirements of the Company in term of ethical practices and obliges staff to operate transparently and under the highest principles of professional, fairness, impartiality, and integrity in all of the places where the Company does business. The anti-corruption and anti-bribery policies are reviewed and will be updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements.

To ensure our staff live up to the highest ethical standards, the Company encourages the staff to report existing or perceived violations of the policy as well as malpractices. Proper procedures related to the Whistleblowing Policy of the Company are in place, enabling staff to raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about any wrongdoings. To assist new staff in embracing the Company's values and ethical commitments, briefing on the anti-corruption and anti-bribery policy is introduced during the staff orientation program. For the details, please refer to the anti-corruption and anti-bribery policy, which is available on the HKEXnews website.

During the year ended 31 December 2023, the Company held anti-corruption and anti-bribery trainings to all employees. There were no non-compliance cases in relation to bribery and corruption.

XIX. DIRECTORS' RESPONSIBILITY FOR PREPARING FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023.

The Directors are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

XX. AUDITOR'S REMUNERATION

For the year ended 31 December 2023, the remuneration paid or payable to the external auditor of the Group in respect of auditing services and non-auditing services is summarized as follows:

Scope of services	Amount paid/ payable RMB'000
Auditing services	5,730
Total	**5,730**

XXI. SHAREHOLDERS' RIGHTS

The Company considers that effective communication with Shareholders is essential for enhancing Shareholders and investor relations, and investors' understanding of the Group's business performance and strategies. Therefore, The Company engages with the Shareholders through various communication channels. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

i. Convene a General Meeting

The annual Shareholders' general meeting shall be convened once a year and be held within six months of the end of the previous fiscal year. The Company shall convene an extraordinary general meeting within two months from the occurrence of any of the following circumstances:

- when the number of Directors is less than the statutory minimum number of five persons stipulated in the Company Law of the People's Republic of China or two-thirds of the number specified in the Articles of Association;
- when the unrecovered losses of the Company amount to one-third of the total paid-in share capital;
- when the Shareholders individually or jointly holding more than 10% of the Company's shares request in writing to do so;
- when the Board considers it necessary;

- when proposed to hold by the board of supervisors; and
- any other circumstances stipulated in the laws, administrative regulations, departmental rules, securities regulatory rules of the place where the Company's Shares are listed or the Articles of Association.

Shareholders' general meetings shall be convened by the Board and presided over by the Chairperson of the Board. In the event that the Chairperson is incapable of performing or does not perform his duties, a Director nominated by more than half of the Directors shall preside over the meeting. Where the Board is incapable of performing or not performing its duties of convening the Shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the Company's shares for over 90 days consecutively may unilaterally convene and preside over such meeting.

ii. Putting Forward Proposals at Shareholders' General Meetings

The Shareholders individually or jointly holding more than 3% of the Shares may raise provisional proposal and submit it to the convener in writing 10 days before the general meeting is held. Upon the satisfaction that the proposal complies with the provisions in Article 78 of the Articles of Association, the convener shall, within 2 days after the receipt of the proposal, issue a supplementary notice of general meeting and announce the contents of the provisional proposal.

Means and procedures for nomination of directors are set out in article 137 of the Articles of Association. Shareholders individually or jointly holding more than 1% of issued Shares may nominate candidates for independent non-executive Directors. The nominator shall not nominate persons with interests or other close associates who may affect the performance of their duties as independent non-executive Director candidates. Candidates for other directors shall be nominated by the Board or the Shareholders individually or jointly holding more than 3% of shares of the Company. A written commitment shall be made by the candidate prior to the notice of a general meeting is issued, expressing his/her willingness to accept the nomination, promising to publicly disclose his/her information truthfully and completely and warranting to faithfully fulfill his/her obligations as a director after election; the nominator for independent non-executive Directors shall obtain the consent of the nominee before nomination. The nominator shall be fully aware of the nominee's occupation, education background, professional title, detailed working experience, all part-time jobs, whether there are any bad records such as major dishonesty, etc., and shall give opinions on his/her independence and other conditions for serving as an independent director. The nominee shall make a public declaration as to his/her independence and other conditions for serving as an independent director. A notice on the intention to nominate a director candidate and the candidate's presentation of being willing to accept the nomination shall be issued to the Company at least seven days prior to the meeting. The period for giving such a notice shall commence from the despatch of the notice on the election and end not later than seven days prior to the date of such meeting (or earlier).

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Hong Kong Stock Exchange after each general meeting.

iii. Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries. Please refer to "Investor Relations Contact Details" in the following paragraph for the contact details.

XXII. SHAREHOLDERS' COMMUNICATION POLICY

The Company has established a shareholders' communication policy with the objective of ensuring that the Shareholders have timely access to comprehensive, equal and easily understandable information about the Company (including its financial performance, strategic objectives and plans, material developments, governance and risk profile), in order to enable the Shareholders to exercise their rights in an informed manner, and to allow the Shareholders and the investors to engage actively with the Company.

In accordance with the Company's Shareholder Communication Policy, the Directors (or their designated representatives, as the case may be) shall meet with Shareholders and answer Shareholders' questions at the annual general meeting and other general meetings held each year. The Company has also established a website (www.asymchem.com) where the public can obtain relevant and up-to-date information, updates on the Company's business operations and development, financial information and corporate governance practices and other information. If Shareholders have any enquiries, they can send their written enquiries to the Company by mail, fax or email and the Company will handle the enquiries in a timely and appropriate manner. Please refer to "Investor Relations Contact Details" in the following paragraph for the contact details.

XXIII. INVESTOR RELATIONS AND SHAREHOLDERS' COMMUNICATION

The Company gives high priority to maintaining proactive, balanced, clear, and transparent communications with Shareholders and investors to facilitate their understanding of the Company's performance and prospects, as well as the market environment in which it operates. Asymchem has an ongoing dialogue with Shareholders and investors through various communication channels set out in the Shareholders Communication Policy and takes any areas of concern into consideration when formulating its business strategies. The effectiveness of Asymchem engagements with shareholders and investors is assessed during the annual evaluation of the Board's performance as set out in the "Board Effectiveness" paragraph.

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. Therefore, the Company has in the progress of overhauling the original Company website (www.asymchem.com) in the purpose of making the most of the Investor Relations Webpages, from which the public can access the latest information, updates on the Company's business operations and development, financial information and corporate governance practices and Shareholders, investors and stakeholders relevant information.

The Company endeavors to maintain an on-going dialogue with Shareholders, in particular through annual general meetings and other Shareholders' general meetings. At the annual general meeting, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The two-way relationship communication policy is reviewed by the Company on an annual basis to ensure its continued effectiveness. The Company's proactive approach to investor relations has significantly widened and expanded the coverage of the Company by global funds in and outside Hong Kong and Mainland China in 2023 for more than 50 sell-sides and over 40 sell-sides are actively holding investor group meetings and conferences for us. A number of local and international sell-side firms and brokers published research reports on the Company, often on a regular basis, and the Company attracts attention of a wide range of institutional investors. Throughout 2023, the Company made a concerted effort to enhance the attention of global and overseas named funds, resulting in several successful engagements.

The Company's management and investor relations function take significant efforts to foster an open and transparent ongoing dialogue with the investment community to ensure a thorough understanding of the Company's business development, core strategies, and corporate governance principles. In 2023, the Company actively engaged in various investor conferences, non-deal roadshows, healthcare summits, both virtual basis and in person. A total of approximately 400 investors meetings took place, including over 290 one-on-one meetings with institutional investors and research analysts, as well as more than 110 group meetings. These meetings were conducted in Hong Kong and internationally and attracted participation from more than 1,400 individuals.

Investor Relations Activities in 2023:

- Group/1 on 1 meetings
- On-site visiting
- Non-deal roadshows
- Analyst briefings
- Global investor conferences/healthcare summits

Investor Relations Contact Details:

Shareholders and investors may send their enquiries or requests as mentioned above to the following:

Attention: Board of Directors/Company Secretary/Investor Relations
Address: Board of Directors Office
No. 71, 7th Street, Economic – Technological Development Area Tianjin, PRC
Fax: +86 22 66252777
Email: ir@asymchem.com.cn

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

XXIV. ANNUAL GENERAL MEETING

The forthcoming annual general meeting ("**AGM**") of the Company will be held on 6 June 2024. A notice convening the AGM will be published on the Company's website and website of the Hong Kong Stock Exchange or dispatched to the Shareholders (if requested) in accordance with the requirements of the Listing Rules in due course.

Corporate communications will be accessible electronically on both the Company's website at www.asymchem.com and the HKEXnews website at www.hkexnews.hk. Shareholders will receive Actionable Corporate Communications either via email, using the address they provided, or in printed form.

If a shareholder prefers to receive printed communications, they may send an email to asymchem.ecom@computershare.com.hk, specifying their name, address, and language preference (English or Chinese) for printed materials. Any instructions to receive future communications in printed form will remain valid for one year from the date of the shareholder's initial request.

XXV. CLOSURE OF REGISTER OF MEMBERS

In order to determine the rights of H Shareholders to attend and vote at the AGM of the Company to be held on Thursday, 6 June 2024, the register of members of H shares of the Company will be closed from Monday, 3 June 2024 to Thursday, 6 June 2024 (both days inclusive), during which period no transfer of H Shares of the Company will be registered. Members whose names appear on the register of members of the Company on Thursday, 6 June 2024 will be entitled to attend and vote at the AGM. In order to be eligible for attending the AGM, all completed transfer forms accomplished by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 31 May 2024.

XXVI. AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

In view of (i) the changes of the registered capital of the Company as a result of the repurchase and cancellation of restricted A shares of the Company, details of which were set out in the announcements of the Company dated 18 July 2023, 13 September 2023 and 22 December 2023; (ii) the updates on requirements and interpretation of applicable PRC laws, administrative regulations and normative documents (including Guidelines on the Bylaws of Listed Companies (2022 Revision) 《上市公司章程指引(2022年修訂)》, the Measures for the Administration of Independent Directors of Listed Companies 《上市公司獨立董事管理辦法》, the Guidance No. 1 of Shenzhen Stock Exchange on Self-regulation by Listed Companies – the Standardized Operation of Listed Companies on the Main Board (2023 Revision) 《深圳證券交易所上市公司自律監管指引第1號 — 主板上市公司規範運作(2023年修訂)》 and the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (August 2023 Revision) 《深圳證券交易所股票上市規則(2023年8月修訂)》 and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Regulation Updates**"), and for the purpose of improving the corporate governance of the Company, the Board proposed to amend the Articles of Association (the "**Proposed Amendments to the Articles of Association**") on 22 December 2023. The Proposed Amendments to the Articles of Association were approved at the first extraordinary general meeting of 2024, the first A Shares class meeting of 2024 and the first H Shares class meeting of 2024 held on 22 January 2024 with immediate effect. As a result, the amended and restated memorandum and articles of association of the Company became effective on 22 January 2024. For details, please refer to the Company's circular dated 2 January 2024 and announcements dated 22 December 2023 and 22 January 2024, respectively.

XXVII. DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to code provision F.1.1 of the CG Code. The Company will implement a reasonable dividend policy based on the Company's operating conditions and market environment, and fully consider the interests of shareholders.

In considering the declaration of dividends, the Board will take into account various factors, including but not limited to, the Group's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits, market conditions, the Company's business strategies and forecasts, cash requirements and availability.

INDEPENDENT AUDITOR'S REPORT

Ernst & Young
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979 King's Road
Quarry Bay, Hong Kong

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To the shareholders of Asymchem Laboratories (Tianjin) Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of Asymchem Laboratories (Tianjin) Co., Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 121 to 210, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of 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 (the "HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT 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.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of sale of goods	
The Group's revenue for the year ended 31 December 2023 amounted to RMB7,781 million, of which, sale of goods accounted for 83% of the Group's revenue. The Company's revenue for the year ended 31 December 2023 amounted to RMB1,404 million, of which sale of goods accounted for 80% of the Company's revenue. Sale of goods is a performance obligation satisfied at a point in time and, accordingly, revenue is recognised when the control of the goods is transferred to the customer. As most of the customer groups of the Group are overseas pharmaceutical companies, overseas sales accounted for a significant proportion of the Group's total revenue. In addition, revenue is one of the key performance indicators of the Group. Therefore, revenue from sale of goods is considered a key audit matter. The disclosures of revenue from sale of goods are included in notes 2.4, 4 and 5 to the financial statements.	The audit procedures we performed include: (1) discussed with management and obtained an understanding the revenue recognition policy; (2) performed tests of controls and substantive procedures on sampling basis; (3) on sampling basis, checked the contract terms, and evaluated whether revenue recognised at a point in time complies with the Group's accounting policies; (4) performed analytical procedures, including analysed and corroborated the fluctuation of selling prices and the gross margin in different periods;

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of sale of goods	
	(5) for export sales, selected key items and representative samples and checked customers' declarations and shipping orders, corroboration of the relevant information with available external information such as information on websites of the customs, information published by shipping companies and airlines to evaluate the validity of the carriers in the shipping documents; (6) circulated and obtained confirmations from key items and representative samples of customers on sales revenue and trade and bills receivables. For the non-replies, carried out alternative tests by checking the original documents such as sales contracts, sales orders, invoices, warehouse release lists, shipping documents and acknowledgement receipts; and (7) examined sales transactions close to the balance sheet date to determine whether sales revenue has been recorded in the correct accounting period.

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 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.

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.

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

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.

- 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.

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

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 Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong
28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	**7,781,436**	10,230,186
Cost of sales		**(3,821,800)**	(5,397,598)
Gross profit		**3,959,636**	4,832,588
Other income and gains	5	**409,854**	653,942
Selling and distribution expenses		**(196,424)**	(150,190)
Administrative expenses		**(819,580)**	(837,687)
Research and development expenses		**(707,863)**	(708,891)
Impairment losses on financial and contract assets, net		**(9,904)**	(25,789)
Other expenses		**(70,508)**	(61,551)
Finance costs	7	**(5,912)**	(10,529)
Share of profits of associates		**(2,169)**	33,052
PROFIT BEFORE TAX	6	**2,557,130**	3,724,945
Income tax expense	10	**(306,310)**	(430,314)
PROFIT FOR THE YEAR		**2,250,820**	3,294,631
Attributable to:			
Owners of the parent		**2,268,811**	3,301,635
Non-controlling interests		**(17,991)**	(7,004)
		2,250,820	3,294,631
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic (expressed in RMB per share)	12	**6.26**	9.02
Diluted (expressed in RMB per share)	12	**6.26**	9.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
PROFIT FOR THE YEAR	**2,250,820**	3,294,631
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**5,908**	25,690
Equity investments at fair value through other comprehensive income:		
Changes in fair value Income tax effect	**415**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**6,323**	25,690
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,257,143**	3,320,321
Attributable to:		
Owners of the parent	**2,275,134**	3,327,325
Non-controlling interests	**(17,991)**	(7,004)
	2,257,143	3,320,321

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**5,366,081**	4,829,924
Right-of-use assets	14	**526,467**	539,716
Goodwill	15	**146,183**	146,183
Other intangible assets	16	**53,568**	57,679
Deferred tax assets	28	**213,215**	177,858
Investments in associates	17	**260,144**	277,256
Prepayments, other receivables and other assets	21	**688,479**	237,124
Financial assets at fair value through profit or loss	23	**130,476**	113,076
Equity investments at fair value through other comprehensive income	18	**30,488**	–
Total non-current assets		**7,415,101**	6,378,816
CURRENT ASSETS			
Inventories	19	**945,347**	1,510,413
Trade and bills receivables	20	**2,010,989**	2,451,148
Contract assets	22	**80,829**	63,976
Prepayments, other receivables and other assets	21	**296,573**	376,398
Tax recoverable		**2,554**	17,866
Financial assets at fair value through profit or loss	23	**1,905,779**	2,151,062
Cash and bank balances	24	**7,109,987**	5,289,594
Total current assets		**12,352,058**	11,860,457
CURRENT LIABILITIES			
Trade payables	25	**452,365**	568,892
Other payables and accruals	26	**1,275,184**	1,511,198
Interest-bearing bank borrowings	27	**12,228**	–
Lease liabilities	14	**28,535**	28,487
Tax payable		**31,235**	67,422
Amounts due to related party	36	**1,256**	1,096
Total current liabilities		**1,800,803**	2,177,095
NET CURRENT ASSETS		**10,551,255**	9,683,362
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,966,356**	16,062,178

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	26	**232,599**	168,121
Lease liabilities	14	**106,486**	109,859
Deferred tax liabilities	28	**117,292**	89,195
Total non-current liabilities		**456,377**	367,175
Net assets		**17,509,979**	15,695,003
EQUITY			
Equity attributable to owners of the parent			
Share capital	29	**369,472**	369,917
Treasury shares	30	**(494,010)**	(1,246,560)
Other reserves	31	**17,604,255**	16,524,071
		17,479,717	15,647,428
Non-controlling interests		**30,262**	47,575
Total equity		**17,509,979**	15,695,003

The consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 28 March 2024 and were signed on its behalf by:

Hao Hong
Chief Executive Director

Da Zhang
Chief Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent								
	Share capital RMB'000 (note 29)	Restricted shares under share-based payment RMB'000 (note 30)	Capital reserve RMB'000 (note 31)	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	263,044	(481,820)	9,564,304	103,351	(9,132)	3,170,265	12,610,012	–	12,610,012
Profit for the year	–	–	–	–	–	3,301,635	3,301,635	(7,004)	3,294,631
Other comprehensive income for the year:	–	–	–	–	–	–	–	–	–
Exchange differences related to foreign operations	–	–	–	–	25,690	–	25,690	–	25,690
Total comprehensive income for the year	–	–	–	–	25,690	3,301,635	3,327,325	(7,004)	3,320,321
Final 2021 dividend declared and paid	–	–	–	–	–	(211,273)	(211,273)	–	(211,273)
Issue of H shares under the over-allotment option	1,265	–	386,466	–	–	–	387,731	–	387,731
Cancellation of restricted shares	(102)	13,044	(13,089)	–	–	–	(147)	–	(147)
Vesting of restricted shares	–	21,898	–	–	–	–	21,898	–	21,898
Equity-settled share option arrangements	–	–	52,870	–	–	–	52,870	–	52,870
Share premium transferred to share capital	105,710	–	(105,710)	–	–	–	–	–	–
Transfer to statutory surplus reserve	–	–	–	105,619	–	(105,619)	–	–	–
Repurchase of A shares	–	(799,682)	–	–	–	–	(799,682)	–	(799,682)
Capital contribution by non-controlling interests	–	–	258,694	–	–	–	258,694	54,579	313,273
At 31 December 2022	369,917	(1,246,560)	10,143,535*	208,970*	16,558*	6,155,008*	15,647,428	47,575	15,695,003

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent									
	Share capital RMB'000 (note 29)	Treasury shares RMB'000 (note 30)	Capital reserve RMB'000 (note 31)	Statutory surplus reserve RMB'000	Fair value reserve of financial assets at fair value through other comprehensive income RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2022	369,917	(1,246,560)	10,143,535	208,970	–	16,558	6,155,008	15,647,428	47,575	15,695,003
Profit for the year	–	–	–	–	–	–	2,268,811	2,268,811	(17,991)	2,250,820
Other comprehensive income for the year:										
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	415	–	–	415	–	415
Exchange differences on translation of foreign operations	–	–	–	–	–	5,908	–	5,908	–	5,908
Total comprehensive income for the year	–	–	–	–	415	5,908	2,268,811	2,275,134	(17,991)	2,257,143
Final 2022 dividend declared	–	–	–	–	–	–	(663,897)	(663,897)	–	(663,897)
Issue of ESOP	–	522,381	(522,381)	–	–	–	–	–	–	–
Cancellation of restricted shares	(184)	22,530	(22,861)	–	–	–		(515)	–	(515)
Vesting of restricted shares	–	167,655	–	–	–	–	–	167,655	–	167,655
Equity-settled share option arrangements	–	–	53,912	–	–	–	–	53,912	678	54,590
Cancellation of repurchased A Shares	(261)	39,984	(39,723)	–	–	–	–	–	–	–
At 31 December 2023	369,472	(494,010)	9,612,482*	208,970*	415*	22,466*	7,759,922*	17,479,717	30,262	17,509,979

* These reserve accounts comprise the consolidated other reserves of RMB17,604,255,000 (2022: RMB16,524,071,000) 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:		2,557,130	3,724,945
Adjustments for:			
Finance costs	7	5,912	10,529
Share of profits of associates		2,169	(33,052)
Interest income	5	(67,454)	(17,747)
Investment (gain)/loss		(107,209)	20,491
Fair value gain on financial assets at fair value through profit or loss		(17,306)	(83,206)
Loss on disposal of items of property, plant and equipment		12,056	6,146
Gain on disposal of right-of-use assets		(14)	(621)
(Gain)/Loss on disposal of a associate		(32,556)	5,692
Depreciation of property, plant and equipment	13	431,998	319,573
Depreciation of right-of-use assets	14	45,512	31,100
Amortisation of other intangible assets	16	9,349	11,304
Losses on impairment of trade receivables and contract assets, net		9,904	25,789
Loss on impairment of property, plant and equipment		7,245	–
Loss on impairment of inventories		10,811	–
Equity-settled share option expense	32	54,590	52,870
		2,922,137	4,073,813
Decrease/(Increase) in restricted deposits		6,666	(4,253)
Decrease/(Increase) in inventories		554,255	(114,298)
Decrease/(Increase) in trade receivables		437,144	(654,660)
Increase in contract assets		(19,514)	(66,598)
(Increase)/decrease in prepayments, deposits and other receivables		(1,432)	278,130
(Decrease)/Increase in trade payables		(116,367)	18,122
Increase in other payables and accruals		101,356	428,355
Cash generated from operations		3,884,245	3,958,611
Tax paid		(334,517)	(671,700)
Net cash flows from operating activities		3,549,728	3,286,911

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**51,553**	17,747
Purchases of items of property, plant and equipment and other intangible assets		**(1,241,610)**	(2,150,640)
Proceeds from disposal of items of property, plant and equipment		**38,917**	12
Proceeds from disposal of items of right-of-use assets		**–**	70,000
Acquisition of a subsidiary		**(11,506)**	(30,000)
Purchases of investments at fair value through profit or loss		**(25,149,381)**	(7,647,589)
Purchases of investments at fair value through other comprehensive income		**(30,000)**	–
Proceeds from disposal of investments at fair value through profit or loss		**25,455,704**	5,951,132
Proceeds from disposal of investments in associates		**71,458**	–
Increase in investments in associates		**–**	–
Dividends received from associates		**14,943**	–
Purchases of fixed deposits		**(4,098,286)**	(2,310,913)
Proceeds from fixed deposits upon maturity		**2,203,261**	1,439,996
Decrease/(Increase) in cash deposits		**3,719**	(11,160)
Net cash flows used in investing activities		**(2,691,228)**	(4,671,415)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	370,960
Proceeds from issue of employee stock option program		**155,043**	–
Share repurchase payment		**(9,317)**	(814,580)
New bank loans		**12,228**	–
Repayment of bank loans		**–**	(374,570)
Capital injections from non-controlling shareholders of subsidiaries		**–**	313,273
Principal portion of lease payments		**(29,660)**	(14,840)
Dividends paid to shareholders		**(664,411)**	(211,273)
Interest paid		**(5,912)**	(11,498)
Net cash flows used in financing activities		**(542,029)**	(742,528)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**316,471**	(2,127,032)
Cash and cash equivalents at beginning of year		**4,418,177**	6,232,033
Effect of foreign exchange rate changes, net		**36,963**	313,176
CASH AND CASH EQUIVALENTS AT END OF YEAR		**4,771,611**	4,418,177
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the statement of financial position	24	**7,109,987**	5,289,594
Less: Time deposits with original maturity of more than three months,	24	**(2,329,419)**	(853,581)
Pledged deposits, letters of credit and others		**(8,957)**	(17,836)
Cash and cash equivalents as stated in the statement of cash flows	24	**4,771,611**	4,418,177

1. CORPORATE AND GROUP INFORMATION

Asymchem Laboratories (Tianjin) Co., Ltd. is a limited liability company incorporated in Tianjin, the People's Republic of China (the "PRC"). The registered office of the Company is located at No. 6 Dongting 3rd Street, Economic-Technological Development Area, Tianjin, the PRC.

The Group is a world-leading, technology-driven provider of one-stop Contract Development Manufacture Organization (hereinafter referred to as "CDMO") solutions throughout the drug development and manufacturing process. The Group provides clinical stage CDMO solutions, commercial stage CDMO solutions and emerging services.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 10 December 2021.

The directors of the Company consider the controlling shareholders of the Company are Asymchem Laboratories, Incorporated ("ALAB") and Dr. Hao Hong and Dr. Ye Song, who are spouses and also controlling shareholders of ALAB. Through ALAB and their direct holdings, they held and controlled 35.02% of the equity shares of the Company.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Asymchem Life Science (Tianjin) Co., Ltd. (note a)	PRC Chinese Mainland 30 December 2005	RMB70,000	100	–	Development and drug product manufacturing
Tianjin Asymchem Pharmaceuticals Co., Ltd. (note a)	PRC Chinese Mainland 19 July 2010	RMB224,830	97	3	Development and drug product manufacturing
Tianjin Asymchem Pharmaceutical Analysis, Testing and Evaluation Co., Ltd. (note a)	PRC Chinese Mainland 29 July 2013	RMB1,000	100	–	Pharmaceutical analysis and testing
Asymchem Laboratories (Fuxin) Co., Ltd. (note a)	PRC Chinese Mainland 1 April 2002	RMB3,310	100	–	R&D and drug product manufacturing
Jilin Asymchem Laboratories Co., Ltd. (note a)	PRC Chinese Mainland 17 August 2007	RMB291,490	100	–	Development and drug product manufacturing

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Liaoning Asymchem Laboratories Co., Ltd. (note a)	PRC Chinese Mainland 2 December 2013	RMB9,200	100	–	Manufacturing, sale and development of medicine raw materials and relevant products
Asymchem Inc. (note b)	United States 12 October 2010	Not applicable	100	–	Sale of drug products
Jilin Asymchem Pharmaceutical Co., Ltd. (note a)	PRC Chinese Mainland 29 September 2017	RMB300,000	100	–	Pharmaceuticals and chemical manufacturing
Tianjin Clin-nov Medical Technology Co., Ltd. (note a)	PRC Chinese Mainland 10 August 2017	RMB40,000	100	–	Wholesaling and retailing drugs
Shanghai Asymchem Biotechnology Co., Ltd. (note a)	PRC Chinese Mainland 28 January 2019	RMB250,880	–	100	Pharmaceutical science and technology
Asymchem Limited (note c)	United Kingdom 13 February 2017	EUR0.001	100	–	Sale, import and export trade
Asymchem Laboratories (Jilin) Co., Ltd. (note a)	PRC Chinese Mainland 25 May 2020	RMB300,000	100	–	Pharmaceutical and chemical manufacturing
Asymchem Pharmaceuticals (Jiangsu) Co., Ltd. (note a)	PRC Chinese Mainland 29 September 2020	RMB300,000	100	–	Pharmaceutical and chemical manufacturing
Tianjin GoalGen Biotechnology Co., Ltd. (note a)	PRC Chinese Mainland 28 November 2007	RMB10,000	–	100	Pharmaceutical research and manufacturing
Shanghai Xinzhuo Pharmaceutical Research and Development Co., Ltd. (note a)	PRC Chinese Mainland 5 December 2019	RMB10,000	–	100	Pharmaceutical research and development
Tianjin Baibosheng Pharmtech Co., Ltd. (note a)	PRC Chinese Mainland 21 November 2018	RMB5,000	–	100	Pharmaceutical research and development

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Tianjin Yinuo Qinkang Medical Technology Co., Ltd. (note a)	PRC Chinese Mainland 29 July 2020	RMB2,000	–	100	Medical research and development
Asymchem Boston Corporation (note b)	United States 14 December 2020	Not applicable	100	–	Pharmaceutical research and wholesale
Asymchem Life Science (Jiangsu) Co., Ltd. (note a)	PRC Chinese Mainland 18 March 2021	RMB100,000	100	–	Drug import and export
Shanghai Nuoxin Yingke Information Technology Co., Ltd. (note a)	PRC Chinese Mainland 15 June 2021	RMB5,000	–	100	Information technology
Tianjin Kaixiang Pharmaceutical Technology Co., Ltd. (note a)	PRC Chinese Mainland 10 December 2021	RMB1,000	100	–	Pharmaceutical and chemical manufacturing
Asymchem Pharmaceutical (Jiangsu) Co., Ltd. (note a)	PRC Chinese Mainland 7 September 2021	RMB300,000	100	–	Pharmaceutical and chemical manufacturing
Tianjin Asymchem Pharmaceutical Technology Development Co., Ltd. (note a)	PRC Chinese Mainland 9 August 2021	RMB30,000	100	–	Pharmaceutical science and technology
Beijing Improve-Quality Technology Co., Ltd. (note a)	PRC Chinese Mainland 1 April 2015	RMB1,000	–	100	Technology development
Shanghai Yipu Pharmaceutical Technology Co., Ltd. (note a)	PRC Chinese Mainland 4 June 2018	RMB1,000	–	100	Pharmaceutical science and technology
Qingdao Alpu Technology Co., Ltd. (note a)	PRC Chinese Mainland 1 February 2019	RMB1,000	–	100	Medical research and development

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Particulars of the Company's subsidiaries are as follows: (continued)

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital '000	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Asymchem Biological Pharmaceutical Co., Ltd. (notes a)	PRC Chinese Mainland 29 January 2022	RMB10,000	–	100	Research and experimental development
Shanghai Asymchem Biological Pharmaceutical Co., Ltd. (notes a)	PRC Chinese Mainland 22 March 2022	RMB100,000	–	100	Pharmaceutical manufacturing
Shanghai Asymchem Biotechnology Development Co., Ltd. (notes a)	PRC Chinese Mainland 23 March 2022	RMB228,916	86.46	–	Research and experimental development
Clin-nov Medical Corporation (notes b)	United States May 2022	Not applicable	–	100	Clinical CRO
Tianjin Asymchem Pharmaceutical Technology. Co., Ltd. (notes a)	PRC Chinese Mainland 25 July 2022	RMB100,000	–	100	Medical research and development
Shanghai Asymchem Pharmaceutical Research and Development Co., Ltd (notes a)	PRC Chinese Mainland 27 June 2022	RMB10,000	100	–	Research and experimental development
Asymchem Ireland Holding, Limited. (notes d and notes e)	Ireland 15 June 2023	Not applicable	100	–	Sale, import and export trade
Tianjin Kainuo Clinical Research Co., Ltd. (notes a and notes e)	PRC Chinese Mainland 24 November 2023	RMB5,000	–	100	Research and experimental development
Zhejiang Kainuo Pharmaceutical Technology. Development Co., Ltd (notes a and notes e)	PRC Chinese Mainland 28 September 2023	RMB10,000	–	100	Research and experimental development

Notes:

(a) The English names of the companies registered in the PRC represent the best efforts made by management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

(b) The entity is registered as a limited liability company under United States law.

(c) The entity is registered as a limited liability company under United Kingdom law.

(d) The entity is registered as a limited liability company under Ireland law.

(e) The entity was registered in 2023.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, wealth management products and equity investments which have been measured at fair value. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) 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, directly or indirectly, 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 PREPARATION (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; 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.

(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.

2. ACCOUNTING POLICIES (continued)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(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. 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.

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 28 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 HKAS 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.

2.3 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

2. ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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 IASB. 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.

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.

2. ACCOUNTING POLICIES (continued)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

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.

2.4 MATERIAL ACCOUNTING POLICIES

Investments in associates 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.

The Group's investments in associates 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 ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate 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 ventures are eliminated to the extent of the Group's investments in the associates ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates ventures is included as part of the Group's investments in associates ventures.

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.

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 that 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.

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.

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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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 investment properties, derivative financial instruments and 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.

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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, contract assets, deferred tax assets, financial assets, investment properties 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 the statement of 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 the statement of profit or loss in the period in which it arises.

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.

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.

Cost may also includes transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of 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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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 its estimated useful life. The estimated useful lives of other intangible assets as follows:

Category	Estimated useful life	Estimated residual value
Buildings	20 years	3%
Manufacturing and R&D equipment	5-10 years	1%
Office equipment	3-5 years	1%
Motor vehicles	5-10 years	1%
Leasehold improvements	19 months-10 years	0%
Others	3 years	0%

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 the statement of 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.

Other intangible assets (other than goodwill)

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

The principal estimated useful lives of other intangible assets as follows:

Category	Estimated useful life	Estimated residual value
Software and others	10 years	0%
Customer relationship	10 years	0%
Patents and licences	5 years	0%

(i) Software and others have an amortisation period of ten years based on the estimated useful lives.

(ii) Customer relationship has an amortisation period of ten years based on estimated beneficial period considering industry experience, the customer retention rate and others.

(iii) Patents and licences have an amortisation period of five years based on the period covered by their licenses.

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.

(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 any 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
Land use rights	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.

(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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) Lease liabilities (continued)

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.

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (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).

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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, 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 and bills 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 and bills 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, 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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

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. 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.

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 the statement of profit or loss when the asset is derecognised, modified or impaired.

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 the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss 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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 the statement of profit or loss.

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

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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.

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 90 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be 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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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 and bills receivables and contract assets 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

Simplified approach

For trade and bills receivables and contract assets 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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables, 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, lease liabilities, other payables and accruals, and interest-bearing bank and other borrowings.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

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

After initial recognition, trade and other payables, 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 the statement of 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 the statement of 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 the statement of 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.

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the 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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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 the statement of 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 the statement of profit or loss.

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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Income tax (continued)

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, associates and joint ventures, 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, associates and joint ventures, 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.

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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

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.

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.

The Group has satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

(a) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs

(b) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced

(c) The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date

If none of the above conditions is met, the Group recognises revenue at the point in time when the customer obtains control of the distinct good or service.

If control of the service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at the point in time when the customer obtains control of the service.

Contracts with multiple performance obligation (including allocation of transaction price)

For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Contracts with multiple performance obligation (including allocation of transaction price) (continued)

The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using the cost-to-cost method (input method). The Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, generally related to fixed fee service contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

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.

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade receivables when the right to the consideration becomes unconditional.

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).

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Contract costs

Other than the costs which are capitalised as inventories, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

The Company operates several restricted A share incentive schemes. 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"). 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 binomial model, further details of which are given in note 32 to the consolidated 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 the statement of 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.

2. ACCOUNTING POLICIES (continued)

2.4 MATERIAL ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

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.

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 subsidiary which operates in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 16% to -20% of its payroll costs to the central pension scheme. The contributions are charged to the statement of 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. 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)

Foreign currencies

These consolidated 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 the statement of profit or loss.

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).

The functional currencies of certain overseas subsidiaries and associates 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 interest. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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:

Measurement of progress toward complete satisfaction of construction services

The Group uses the input method to measure the progress toward satisfaction of the performance obligations, and specifically, the proportion of actual construction costs incurred relative to the estimated total costs. Actual construction costs incurred include direct and indirect costs in the process of transferring goods from the Group to customers. The Group believes that contract price is based on construction costs. Therefore, the proportion of actual construction costs incurred relative to the total expected costs can reflect the progress toward satisfaction of construction service. Since the duration of construction is relatively long that it may cover more than one accounting period, the Group will review and revise the budget as the contract carries forward, and adjust revenue accordingly.

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 flows. 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.

Provision for expected credit losses on trade and bills receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade and bills receivables and contract assets. The provision rates are based on 90 days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade and bills receivables and contract assets (continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables and contract assets are disclosed in note 20 to the consolidated financial statements.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each of the reporting periods. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value-in-use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of goodwill

The Group determines whether goodwill is 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 is 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 amount of goodwill at 31 December 2023 was RMB146,183,000 (2022: RMB146,183,000). Further details are given in note 15.

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 38 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 31 December 2023 was RMB130,476,000 (2022: RMB113,076,000). Further details are included in note 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets relating to recognised tax losses as at 31 December 2023 was RMB282,767,000 (2022: RMB233,035,000). The amounts of unrecognised tax losses and unrecognised temporary difference as at 31 December 2023 were RMB222,504,000 (2022:RMB110,956,000). Further details are contained in note 28 to the consolidated financial statements.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

Operating segments are identified on the basis of internal reporting about components of the Group that are regularly reviewed by the Group's executive committee and the Company's board of directors for the purpose of resource allocation and performance assessment.

Operating segment

During the year, there is only one operating segment as the Group's operations relate to contract development and manufacturing which focuses on innovation and commercial application of global pharmaceutical technology.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2023 RMB'000	2022 RMB'000
Chinese Mainland	1,437,274	1,560,199
Overseas	6,344,162	8,669,987
Total revenue	7,781,436	10,230,186

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

(b) Non-current assets

	2023 RMB'000	2022 RMB'000
Chinese Mainland	6,986,387	6,055,433
United States	54,535	32,449
Total non-current assets	7,040,922	6,087,882

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

Information about a major customer

In 2023, revenue of approximately RMB3,255,341,000 (2022: RMB6,359,922,000) was derived from a single customer, including a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

Clinical stage CDMO solutions:

The Group provides process development and optimization, analytical services and scale-up services for small molecule drug products throughout the pre-clinical and clinical stage. The revenue generated from clinical stage CDMO solutions is derived from the transfer of goods and the provision of services under Full-time-equivalent (or "FTE") and Fee-for-service (or "FFS") arrangements. The Group recognises revenue over-time and at a point in time for services under FTE and FFS arrangements, respectively.

Commercial stage CDMO solutions:

The Group provides ton-scale manufacturing services for registered starting materials (RSMs), advanced intermediates, and active pharmaceutical ingredients (APIs) with high quality. All of the revenue generated from commercial stage CDMO solutions is derived from the transfer of goods and services, which is recognised at a point in time.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Emerging services:

The revenue generated form emerging services is mainly derived from the transfer of goods and services,including (i) pre-formulation and formulation development, (ii) Chemical Macromolecule CDMO solutions for polypeptides, oligonucleotides, glycans, toxins-linkers and other macromolecules, (iii) biosynthesis solutions, (iv) biologics CDMO solutions for monoclonal antibodies (mAbs) and antibody-drug conjugates (ADCs), (v) Contract Research Organization (or “CRO”) solutions and (vi) messenger RNA (mRNA) solutions. For CRO solutions, the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date, and the Group recognises revenue over time. While for other revenue from emerging services, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis if the contracts have multiple deliverable units, except for the allocation of discounts and variable consideration, and the Group recognises revenue at a points in time since it did not meet the conditions of the revenue recognition over time. Therefore, the Group recognises revenue over time and at a point in time for services of CRO solutions and FFS arrangements, respectively.

Others:

Others mainly include the sales of raw materials and sales of scrap materials.

An analysis of revenue is as follows:

	2023 **RMB’000**	2022 RMB’000
Revenue from contracts with customers		
Transfer of goods and services	**7,775,344**	10,223,928
Others	**6,092**	6,258
Total	**7,781,436**	10,230,186

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(a) Disaggregated revenue information

	2023 RMB'000	2022 RMB'000
Types of goods or services		
Commercial stage CDMO solutions	**5,107,487**	7,568,209
Clinical stage CDMO solutions	**1,497,658**	1,662,241
Emerging services	**1,170,199**	993,478
Others	**6,092**	6,258
Total revenue from contracts with customers	**7,781,436**	10,230,186
Geographical markets		
Chinese Mainland	**1,437,274**	1,560,199
Overseas	**6,344,162**	8,669,987
Total revenue from contracts with customers	**7,781,436**	10,230,186
Timing of revenue recognition		
Goods and services transferred at a point in time	**7,457,986**	9,783,333
– Commercial stage CDMO solutions	**5,107,487**	7,568,209
– Clinical stage CDMO solutions	**1,411,641**	1,479,073
– Emerging services	**932,766**	729,793
– Others	**6,092**	6,258
Services transferred over time	**323,450**	446,853
– Clinical stage CDMO solutions	**86,017**	183,168
– Emerging services	**237,433**	263,685
Total revenue from contracts with customers	**7,781,436**	10,230,186

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	**277,330**	131,046
Total	**277,330**	131,046

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(b) Performance obligation

Information about the Group's performance obligation is summarised below:

Sale of goods

The performance obligation is to deliver eligible products to its customers, the Group considers the performance obligations were satisfied upon delivery or obtaining customers' acceptance of such products and payment is generally due within 30 to 90 days from delivery.

Rendering services

The performance obligation of rendering services is to provide services related to pharmaceutical business to its customers, the Group considers the performance obligations were satisfied either over-time or at a point in time for services under FTE and FFS arrangements, respectively.

	2023	2022
	RMB'000	RMB'000
Other income		
Government grants*	**59,286**	35,638
Bank interest income	**160,138**	76,625
Foreign exchange gain	**21,122**	433,605
Others	**146**	1,179
Total other income	**240,692**	547,047
Other gains		
Gain on wealth management products	**107,208**	97,585
Gain on disposal of an associate	**32,556**	–
Gains on financial assets at fair value through profit or loss	**29,398**	9,310
Total gains	**169,162**	106,895
Total other income and gains	**409,854**	653,942

* Government grants of RMB35,638,000 and RMB59,286,000 were granted during the years ended 31 December 2022 and 2023, as incentives to the development and research activities of the Group in the PRC, of which the amounts of government grants related to assets are RMB18,148,000 and RMB15,182,000, and the other government grants are related to income. There were no unfulfilled conditions and other contingencies attached to the receipts of those grants. There is no assurance that the Group will continue to receive such grants in the future.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2023 RMB'000	2022 RMB'000
Cost of sales*		**3,821,800**	5,397,598
Depreciation of property, plant and equipment*	13	**431,998**	319,573
Depreciation of right-of-use assets*	14(a)	**45,512**	31,100
Amortisation of other intangible assets*	16	**9,349**	11,304
Research and development costs:			
Current year expenditure		**707,863**	708,891
Lease payments not included in the measurement of lease liabilities	14(c)	**37,013**	8,138
Auditor's remuneration		**5,730**	5,770
Employee benefit expense (excluding directors' and chief) executive's remuneration (note 8):			
Wages and salaries		**1,655,459**	1,661,640
Share-based payment expense		**54,590**	52,758
Pension scheme contributions		**190,701**	143,514
Bank interest income	5	**(160,138)**	(76,625)
Fair value gain on financial assets at fair value through profit or loss		**(29,398)**	(83,206)
Fair value loss on financial assets at fair value through profit or loss		**12,092**	–
Loss on disposal of items of property, plant and equipment and other intangible assets		**12,056**	5,315
Loss on disposal of right-of-use assets		**–**	210
Gain on disposal of right-of-use assets		**(14)**	–
Impairment losses on fix assets and inventories		**18,057**	–
Impairment losses on financial and contract assets, net		**9,904**	25,789
Foreign exchange differences, net		**5,414**	(432,735)

* Depreciation of property, plant and equipment, depreciation of right-of-use assets, amortisation of other intangible assets and employee benefit expense for the year are mainly included in "Cost of sales" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs as follows:

	2023 RMB'000	2022 RMB'000
Interest expenses on bank borrowings	**94**	6,568
Interest on lease liabilities	**5,818**	3,961
Total	**5,912**	10,529

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors', chief executive's and supervisors' 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	**463**	384
Other emoluments:		
Salaries, allowances and benefits in kind	**13,196**	11,499
Performance related bonuses	**12,026**	16,737
Equity-settled share incentive scheme	**5,325**	112
Pension scheme contributions	**1,063**	874
	31,610	29,222
Total fees and other emoluments	**32,073**	29,606

During the 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 30 to the financial statements. The fair values of such options, which have been recognised in the statement of profit or loss over the vesting period, were 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.

(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
Ms. Zhang Kun*	**125**	128
Ms. Xuejiao Sun**	**38**	–
Mr. Wang Qingsong	**150**	128
Mr. Lee, Kar Chung Felix	**150**	128
Total	**463**	384

* Mr. Zhang Kun retired as an independent non-executive director of the Company in October 2023.

** Ms. Xuejiao Sun was elected as an independent non-executive director of the Company in October 2023.

There were no other emoluments payable to the independent non-executive directors during the year (2022: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors, a non-executive director and the chief executive

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share incentive scheme	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2023						
Executive directors:						
Mr. Hao Hong						
(Chief executive)	–	2,220	3,880	–	181	6,281
Dr. Ye Song	–	703	–	–	141	844
Ms. Yang Rui	–	3,496	2,975	1,452	110	8,033
Mr. Hong Liang	–	1,967	1,960	1,452	110	5,489
Ms. Zhang Ting	–	974	600	484	110	2,168
Ms. Zhang Da	–	2,987	2,460	1,937	110	7,494
Total	–	12,347	11,875	5,325	762	30,309
2022						
Executive directors:						
Mr. Hao Hong						
(Chief executive)	–	2,174	6,880	–	98	9,152
Dr. Ye Song	–	670	–	–	82	752
Ms. Yang Rui	–	2,977	3,560	–	106	6,643
Mr. Hong Liang	–	1,432	2,000	–	107	3,539
Ms. Zhang Ting	–	858	960	–	107	1,925
Ms. Zhang Da	–	2,599	3,060	112	107	5,878
Total	–	10,710	16,460	112	607	27,889

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(c) Supervisors

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2023				
Supervisors:				
Ms. Zhi Xinxin	**315**	**60**	**149**	**524**
Ms. Di Shanshan	**168**	**26**	**57**	**251**
Ms. Hou Jingyi	**366**	**65**	**95**	**526**
Total	**849**	**151**	**301**	**1,301**

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022				
Supervisors:				
Ms. Zhi Xinxin	305	120	122	547
Ms. Di Shanshan	149	36	53	238
Ms. Hou Jingyi	335	121	92	548
Total	789	277	267	1,333

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2022: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2022: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	13,915	7,587
Performance related bonuses	18,016	8,624
Equity-settled share option expense	7,861	5,755
Pension scheme contributions	814	590
Total	40,606	22,556

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2023	2022
Nil to HK$5,000,000	–	–
HK$5,000,001 to HK$8,000,000	1	3
HK$8,000,001 to HK$11,000,000	2	–
Total	3	3

10. INCOME TAX EXPENSE

The provision for Mainland China current income tax is based on a statutory rate of 25% of the assessable profits of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China, that were accredited as "High and New Technology Enterprises" and "Western Development Policy" and entitled to a preferential rate is 15% in 2023.

Taxes on profits assessable elsewhere have been calculated at the tax rates prevailing in the jurisdictions in which the Group operates. The group entities incorporated in U.S. were subject to the federal corporate tax at a rate of 21% for the years ended 31 December, 2022 and 2023. The group entities incorporated in the U.K. were subject to tax at a rate of 19% for the years ended 31 December, 2022 and 2023.

10. INCOME TAX EXPENSE (continued)

	2023 RMB'000	2022 RMB'000
Current	**313,643**	448,600
Deferred (note 28)	**(7,333)**	(18,286)
Total tax charge for the year	**306,310**	430,314

	2023 RMB'000	2022 RMB'000
Profit before tax	**2,557,130**	3,724,945
Tax at the statutory tax rate	**383,569**	560,355
Effect of different tax rates of subsidiaries	**(10,240)**	(16,606)
Adjustments in respect of current tax of previous periods	**(5,467)**	(8,321)
Profit attributable to associates	**1,976**	665
Effect of tax rate changes on opening deferred income tax balances	**19,073**	–
Deductible temporary differences and tax losses not recognised	**28,961**	10,550
Tax losses utilised from previous periods	**(702)**	(1,455)
Impact of tax incentives and reduction including additionally deducted for qualified research and development costs	**(112,280)**	(115,088)
Expenses not deductible for tax	**1,420**	214
Tax charge at the Group's effective rate	**306,310**	430,314
Tax charge at the effective rate	**12%**	12%

Pillar Two income taxes

As stated in note 2.2(d), the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group this year.

11. DIVIDENDS

	2023 RMB'000	2022 RMB'000
Proposed final – RMB1.80 (2022: RMB1.80) per ordinary share	**663,897**	221,273

The board of directors proposed the 2023 profit distribution Plan ("2023 Profit Distribution Plan") as follows: distribution of a cash dividend of RMB1.8 per ordinary share (2022: RMB1.80 per ordinary share). Based on a total of 369,471,533 Shares as at 28 March 2024 and excluding 538,002 Shares repurchased by means of centralized price bidding, the total amount of the proposed final dividend is approximately RMB664,080,355.80 (including tax) (2022: RMB656,437,642 (including tax)).

The proposed 2023 Profit Distribution Plan is subject to the approval of the Company's shareholders at the AGM.

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 362,026,000 (2022: 365,895,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of restricted ordinary shares with a contingent non-market performance condition assumed to have been released upon vesting of all dilutive potential ordinary shares.

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

	2023 RMB'000	2022 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	2,268,810	3,301,635
Less: Cash dividends attributable to the shareholders of restricted shares expected to be unlocked in the future	(3,934)	(2,314)
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	2,264,876	3,299,321

	Number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	362,026	365,895
Effect of dilution – weighted average number of ordinary shares: Restricted A shares	202	796
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	362,228	366,691

The high cash dividend distribution plan for this year and the restricted A shares have an anti-diluting effect and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share and basic earnings per share are the same.

13. PROPERTY, PLANT AND EQUIPMENT

31 December 2023	Buildings RMB'000	Leasehold improvements RMB'000	Manufacturing and R&D equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2023:							
Cost	1,583,060	155,307	3,034,900	107,935	22,495	1,072,482	5,976,179
Accumulated depreciation and impairment	(301,827)	(20,240)	(738,160)	(68,193)	(17,835)	–	(1,146,255)
Net carrying amount	1,281,233	135,067	2,296,740	39,742	4,660	1,072,482	4,829,924
At 1 January 2023, net of accumulated depreciation and impairment	1,281,233	135,067	2,296,740	39,742	4,660	1,072,482	4,829,924
Additions	–	448	164,110	11,562	2,905	808,549	987,574
Disposals	(2,639)	–	(9,340)	(195)	–	–	(12,174)
Reclassification	–	–	–	–	–	–	–
Depreciation provided during the year	(101,998)	(22,918)	(285,935)	(18,809)	(2,338)	–	(431,998)
Transfers	481,979	9,791	58,519	–	–	(550,289)	–
Impairment	–	–	(7,232)	(13)	–	–	(7,245)
At 31 December 2023, net of accumulated depreciation and impairment	1,658,575	122,388	2,216,862	32,287	5,227	1,330,742	5,366,081
At 31 December 2023:							
Cost	2,060,084	166,073	3,183,783	116,184	25,384	1,330,742	6,882,250
Accumulated depreciation and impairment	(401,509)	(43,685)	(966,921)	(83,897)	(20,157)	–	(1,516,169)
Net carrying amount	1,658,575	122,388	2,216,862	32,287	5,227	1,330,742	5,366,081

13. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2022	Buildings RMB'000	Leasehold improvements RMB'000	Manufacturing and R&D equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022:							
Cost	1,148,489	48,179	1,853,675	81,383	23,700	1,047,258	4,202,684
Accumulated depreciation and impairment	(230,825)	(2,418)	(563,991)	(52,046)	(16,550)	–	(865,830)
Net carrying amount	917,664	45,761	1,289,684	29,337	7,150	1,047,258	3,336,854
At 1 January 2022, net of accumulated depreciation and impairment	917,664	45,761	1,289,684	29,337	7,150	1,047,258	3,336,854
Additions	8,277	4,087	246,113	25,395	1,552	1,535,840	1,821,264
Disposals	(95)	–	(8,417)	(82)	(27)	–	(8,621)
Reclassification	(28,475)	–	31,085	(66)	(2,544)	–	–
Depreciation provided during the year	(72,652)	(20,241)	(207,527)	(16,557)	(2,596)	–	(319,573)
Transfers	456,514	105,460	945,802	1,715	1,125	(1,510,616)	–
At 31 December 2022, net of accumulated depreciation and impairment	1,281,233	135,067	2,296,740	39,742	4,660	1,072,482	4,829,924
At 31 December 2022:							
Cost	1,583,060	155,307	3,034,900	107,935	22,495	1,072,482	5,976,179
Accumulated depreciation and impairment	(301,827)	(20,240)	(738,160)	(68,193)	(17,835)	–	(1,146,255)
Net carrying amount	1,281,233	135,067	2,296,740	39,742	4,660	1,072,482	4,829,924

At 31 December 2023, There were no certain of the Group's buildings pledged to secure general banking facilities granted to the Group. At 31 December 2022, certain of the Group's buildings with a net carrying amount of approximately RMB31,846,000 were pledged to secure general banking facilities granted to the Group (note 27).

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of buildings used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 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 are several lease contracts that include extension and termination options, which are further discussed below.

(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:

	Leasehold land RMB'000	**Buildings** RMB'000	**Total** RMB'000
As at 1 January 2022	311,189	51,460	362,649
Additions	219,977	96,893	316,870
Depreciation charge	(9,532)	(21,568)	(31,100)
Disposal	(106,109)	(2,594)	(108,703)
As at 31 December 2022 and 1 January 2023	**415,525**	**124,191**	**539,716**
Additions	**5,915**	**26,423**	**32,338**
Depreciation charge	**(9,394)**	**(36,118)**	**(45,512)**
Derecognition	**–**	**(75)**	**(75)**
As at 31 December 2023	**412,046**	**114,421**	**526,467**

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2023 **RMB'000**	2022 RMB'000
Carrying amount at 1 January	**138,346**	59,094
Additions	**26,423**	96,893
Accretion of interest recognised during the year	**5,818**	3,961
Payments	**(35,476)**	(18,801)
Terminations	**(90)**	(2,801)
Carrying amount at 31 December	**135,021**	138,346
Analysed into:		
Current portion	**28,535**	28,487
Non-current portion	**106,486**	109,859

The maturity analysis of lease liabilities is disclosed in note 39 to the financial statements.

14. LEASES (continued)

The Group as a lessee (continued)

(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	5,818	3,961
Depreciation charge of right-of-use assets	45,512	31,100
Expense relating to short-term leases (included in cost of sales)	34,588	8,138
Variable lease payments not included in the measurement of lease liabilities	2,424	–
Total amount recognised in profit or loss	88,342	43,199

(d) *Extension and termination options*

The Group has several lease contracts that include extension and termination options. However, the Group did not expect to exercise such options as at 31 December 2023.

(e) *Variable lease payments*

The Group has lease contracts for building that contain variable payments based on tax payments generated from buildings. The following summary provides information on the Group's variable lease payments, including the magnitude in relation to fixed payments:

2023	Fixed payments RMB'000	Variable payments RMB'000	Total RMB'000
Variable rent only	–	2,424	2,424
Total	–	2,424	2,424

If the tax payments generated by entity which has the leased building does not reach the amount agreed in the contract, the rental fee for the rent-free period will be charged at RMB0.50 per square meter per day.

The amounts of the fixed and variable lease payments recognized in profit or loss for the current year for these leases are RMB0.00 and RMB2,424,374.28 (2022: Nil), respectively.

(f) The total cash outflow for leases are disclosed in notes 33(c) and 39, respectively, to the financial statements.

15. GOODWILL

	RMB'000
At 1 January 2022:	
Cost	146,183
Acquisition of a subsidiary	–
Cost and net carrying amount at 31 December 2022	146,183
At 31 December 2022:	
Cost	146,183
Accumulated impairment	–
Cost and net carrying amount at 31 December 2023	146,183
At 31 December 2023:	
Cost	**146,183**
Accumulated impairment	**–**
Net carrying amount	**146,183**

Impairment testing of goodwill

Tianjin Clin-nov Medical Technology Development Co., Ltd. ("Clin-nov Medical"), acquired Tianjin GoalGen Biotechnology Co., Ltd. and Beijing Improve-Quality Technology Co., Ltd. in September 2020 and December 2022, respectively, and each company independently generated cash flow from the point of acquisition to July 2023. In August 2023, Clin-nov Medical integrated the business and management resources of the subsidiaries, and adjusted the organisational structure. The integrated Clin-nov Medical consists of clinical research service business segment, clinical system application service segment, clinical data management and statistical service segment and operation guarantee segment. After the integration, Clin-nov Medical and Beijing Improve-Quality Technology Co., Ltd. were assigned to the clinical research service asset group and clinical data management and statistical service asset group respectively. Among them, the operation guarantee sector belongs to the headquarters asset and cannot generate cash flow independently, while the other three sectors generate cash flow independently.

Goodwill acquired through business combinations is allocated to the following CGUs for impairment testing:

- Clinical research service cash-generating unit.
- Clinical data management and statistical service cash-generating unit.

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

Clinical research service CGU

The Clinical research service asset group is mainly composed of the clinical research service business and the shared headquarters assets of Cli-nov Medical and Tianjin GoalGen Biotechnology Co., Ltd. Cash inflows generated by the clinical research services asset group are substantially independent of cash inflows generated by other assets or asset groups.The recoverable amount of the clinical research service CGU has been 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 and future stabilization periods. The pre-tax discount rate applied to the cash flow projections is 15.10%.

Clinical data management and statistical service CGU

The recoverable amount of the statistical analysis service CGU has been 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 pre-tax discount rate applied to the cash flow projections is 16.78%.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	Clinical research service CGU		Statistical analysis service CGU		Total	
	2023	2022	**2023**	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount of goodwill	**43,186**	43,186	**102,997**	102,997	**146,183**	146,183

Assumptions were used in the value in use calculation of the Clinical research service CGU and Statistical analysis service CGU for 31 December 2023 and 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Average revenue growth rate for the forecast period – The growth rate is based on projections of industry-related growth, determined on the basis of no more than the average long-term growth rate of the relevant industry, taking into account the business unit's historical operating conditions prior to the budget year.

Pre-tax discount rate – The pre-tax discount rate used is determined using the capital asset pricing model with reference to the beta coefficient and debt ratio of certain publicly listed companies in the technology industry.

The key assumptions about market developments are consistent with external sources of information.

16. OTHER INTANGIBLE ASSETS

	Customer Relationship RMB'000	Patents and licences RMB'000	Software and others RMB'000	Total RMB'000
31 December 2023				
Cost at 1 January 2023, net of accumulated amortisation	**32,310**	**–**	**25,369**	**57,679**
Additions	**–**	**147**	**5,091**	**5,238**
Disposals	**–**	**–**	**–**	**–**
Amortisation provided during the year	**(3,590)**	**(1)**	**(5,758)**	**(9,349)**
At 31 December 2023	**28,720**	**146**	**24,702**	**53,568**
At 31 December 2023				
Cost	**35,900**	**1,386**	**49,764**	**87,050**
Accumulated amortisation	**(7,180)**	**(1,240)**	**(25,062)**	**(33,482)**
Net carrying amount	**28,720**	**146**	**24,702**	**53,568**

	Customer Relationship RMB'000	Patents and licences RMB'000	Software and others RMB'000	Total RMB'000
31 December 2022				
Cost at 1 January 2022, net of Accumulated amortisation	35,900	–	27,060	62,960
Additions	–	–	8,234	8,234
Disposals	–	–	(2,211)	(2,211)
Amortisation provided during the year	(3,590)	–	(7,714)	(11,304)
At 31 December 2022	32,310	–	25,369	57,679
At 31 December 2022:				
Cost	35,900	1,238	44,673	81,811
Accumulated amortisation	(3,590)	(1,238)	(19,304)	(24,132)
Net carrying amount	32,310	–	25,369	57,679

17. INVESTMENTS IN ASSOCIATES

	2023 RMB'000	2022 RMB'000
Share of net assets		
– Tianjin Haihe Asymchem Biomedical Industry Innovation Investment Fund (Limited Partnership) ("Haihe Asymchem")	237,143	241,081
– Tianjin Yugen Medtech Co., Ltd. ("Yugen Medtech")	23,001	36,175
	260,144	277,256

Particulars of the material associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Haihe Asymchem	Ordinary shares	the PRC	26.40	Corporate investment
Yugen Medtech	Ordinary shares	the PRC	29.08	Medical research and development

The following table illustrates the summarised financial information in respect of Haihe Asymchem adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

Haihe Asymchem

	2023 RMB'000	2022 RMB'000
Current assets	150,414	219,233
Non-current assets	748,114	695,027
Total assets	898,528	914,260
Current liabilities	260	128
Total liabilities	260	128
Net assets	898,268	914,132
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	26.4%	26.4%
Carrying amount of the investment	237,143	241,081
Net profit	37,712	108,280

17. INVESTMENTS IN ASSOCIATES (continued)

Haihe Asymchem (continued)

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

	2023 RMB'000	2022 RMB'000
Share of the associates' loss for the year	(15,227)	(4,434)
Aggregate carrying amount of the Group's investments in the associates	20,948	36,175

18. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 RMB'000
Equity investments at fair value through other comprehensive income	30,488
Unlisted equity investments, at fair value	–
BioLink medicine technology Co., LTD	30,488

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. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	290,600	391,622
Work in progress	490,040	1,118,791
Finished goods	164,707	–
Total	945,347	1,510,413

20. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	**2,116,812**	2,553,958
Impairment	**(105,823)**	(102,810)
Total	**2,010,989**	2,451,148

The Group's trading terms with its customers are mainly on credit. The ordinary credit period is up to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

Details of the concentration of credit risk arising from the customers are set out in note 39 to the consolidated financial statements.

An ageing analysis of the trade 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	**1,970,446**	2,420,627
1 to 2 years	**37,041**	26,089
2 to 3 years	**3,502**	4,432
Total	**2,010,989**	2,451,148

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

	2023 RMB'000	2022 RMB'000
At beginning of year	**102,810**	81,804
Impairment losses recognised	**3,013**	21,006
At end of year	**105,823**	102,810

20. TRADE AND BILLS RECEIVABLES (continued)

	2023				2022			
	Carrying amount		Impairment losses		Carrying amount		Impairment losses	
	RMB'000	Rate %	RMB'000	Rate %	RMB'000	Rate %	RMB'000	Rate %
Provision on a separate basis	10,143	0.48	10,143	100.00	–	-	–	-
Provision according to credit risk characteristics	2,106,669	99.52	95,680	4.54	2,553,958	100.00	102,810	100.00
Total	2,116,812	100.00	105,823	5.00	2,553,958	100.00	102,810	100.00

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). 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. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2023

	Within 1 year	Over 1 year but Within 2 year	Over 2 year but within 3 years	Over 3 years	Total
Expected credit loss rate	3.50%	20.00%	50.00%	100.00%	4.54%
Gross carrying amount (RMB'000)	2,041,837	46,301	7,004	11,527	2,106,669
Expected credit losses (RMB'000)	71,391	9,260	3,502	11,527	95,680

As at 31 December 2022

	Within 1 year	Over 1 year but Within 2 year	Over 2 year but within 3 years	Over 3 years	Total
Expected credit loss rate	3.39%	20.00%	50.00%	100.00%	4.03%
Gross carrying amount (RMB'000)	2,505,668	32,611	8,864	6,815	2,553,958
Expected credit losses (RMB'000)	85,041	6,522	4,432	6,815	102,810

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Prepayments	331,975	347,797
Other tax recoverable	179,525	147,175
Deposits	26,620	36,238
Certificates of deposits	446,079	–
Other receivables	12,856	90,085
Subtotal	997,055	621,295
Impairment allowance	(12,003)	(7,773)
	985,050	613,522
Current portion	296,573	376,398
Non-current portion	688,479	237,124

An ageing analysis of the current portion of prepayments, deposits and other receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2023 RMB'000	2022 RMB'000
Within 1 year	266,590	354,373
1 to 2 years	22,968	19,697
2 to 3 years	6,032	2,312
Over 3 years	983	16
Total	296,573	376,398

The changes in the impairment allowance of other receivables based on 12-month and the entire life expectancy expected credit losses are as follows:

As at 31 December 2023

	Stage 1 12-month ECLs RMB'000	Stage 2 Lifetime ECLs RMB'000	Stage 3 Lifetime ECLs RMB'000	Total RMB'000
At 1 January 2023	7,773	–	–	7,773
Provision for impairment losses for this year	7,530	–	–	7,530
Reversal of impairment losses	(3,300)	–	–	(3,300)
At 31 December 2023	12,003	–	–	12,003

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (continued)

As at 31 December 2022

	Stage 1 12-month ECLs RMB'000	Stage 2 Lifetime ECLs RMB'000	Stage 3 Lifetime ECLs RMB'000	Total RMB'000
At 1 January 2022	4,485	–	1,865	6,350
Provision for impairment losses for this year	3,288	–	(1,865)	1,423
At 31 December 2022	7,773	–	–	7,773

The movements in provision for impairment of other receivables are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	**7,773**	6,350
Impairment losses recognised	**4,230**	1,423
At end of year	**12,003**	7,773

The Group has applied the general approach to providing impairment for ECLs prescribed by IFRS 9, which permits either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

An impairment analysis is performed at the end of the reporting period to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. 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.

22. CONTRACT ASSETS

	2023 RMB'000	2022 RMB'000
Contract assets arising from:		
Technical services	**86,854**	67,340
Impairment	**(6,025)**	(3,364)
Total	**80,829**	63,976

The performance obligation of rendering services is to provide services related to pharmaceutical business to its customers and the Group considers the performance obligations were satisfied over time under FTE and FFS arrangements respectively. The contract assets is primarily relate to the Company's right to consideration for the work completed and not billed. The increase in contract assets in 2023 was the result of the increase in the ongoing sale of services at the end of the year.

The expected timing of recovery or settlement is generally within one year.

The movements in the loss allowance for impairment of contract assets are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	**(3,364)**	–
Impairment losses recognised	**(2,661)**	(3,364)
At end of year	**(6,025)**	(3,364)

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets

	2023 RMB'000	2022 RMB'000
Wealth management products	**1,905,779**	2,151,062
Other unlisted investments, at fair value	**130,476**	113,076
Current portion	**1,905,779**	2,151,062
Non-current portion	**130,476**	113,076

The above financial assets were wealth management products and an unlisted investment in an investment fund in Mainland China. They were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

24. CASH AND CASH BALANCES

	2023 RMB'000	2022 RMB'000
Cash and bank balances	7,109,987	5,289,594
Less:		
Time deposits with original maturity of more than three months	(2,329,419)	(853,581)
Pledged for letters of credit and others	(7,451)	(11,170)
Restricted deposits	(1,506)	(6,666)
Cash and cash equivalents	4,771,611	4,418,177

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks and time deposits earn interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default and no expected credit loss was expected to incur.

The carrying amounts of cash and cash equivalents approximate to their fair values.

	2023 RMB'000	2022 RMB'000
Denominated in RMB	578,175	2,754,842
Denominated in USD	2,773,693	311,596
Denominated in GBP	1,991	1,499
Denominated in HK$	1,416,247	1,350,240
Denominated in JPY¥	1,506	–
Cash and cash equivalents	4,771,612	4,418,177

25. TRADE PAYABLES

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

	2023 RMB'000	2022 RMB'000
Within 1 year	354,539	492,029
1 to 2 years	86,523	61,911
Over 2 years	11,303	14,952
Total	452,365	568,892

The trade payables are non-interest-bearing and have an average term of three months.

The trade payables are measured at amortised cost, and the carrying amounts are reasonably approximate to fair values.

26. OTHER PAYABLES AND ACCRUALS

	Notes	2023 RMB'000	2022 RMB'000
Current portion			
Payroll and welfare payable		295,992	348,803
Other tax payables		45,945	49,930
Contract liabilities	(a)	221,204	277,330
Repurchase obligation of Restricted shares	(c)	424,950	446,879
Other payables	(b)	287,093	388,256
Total		1,275,184	1,511,198
Non-current portion			
Deferred income		232,599	168,121

26. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

(a) Details of contract liabilities are as follows:

	31 December 2023 RMB'000	31 December 2022 RMB'000
Advances received from customers		
Transfer of goods and services	**221,204**	277,330

Contract liabilities include advances received to deliver products and warranty services.

(b) Other payables are non-interest-bearing and have an average term of three months.

Other payables are measured at amortised cost, and the carrying amounts reasonably approximate to fair values.

(c) The payable represents the repurchase obligations associated with the restricted shares issued to employees. Pursuant to the shareholders resolutions on 8 January 2022, 23 September 2021 and 28 April 2023 for incentive schemes, the Group shall repurchase the restricted A shares at an agreed price if the profitability of the Group or performance of granted eligible employees is not fulfilled, or if the eligible employees leave the Group. Given the vesting of the tranche relating to profitability of the Group and that the performance of eligible employees had not occurred at the end of the reporting period, the consideration received for the restricted share repurchase is then accounted for as a deposit received. Details are disclosed in note 30 to the consolidated financial statements.

27. INTEREST-BEARING BANK BORROWINGS

	2023			2022		
	Effective interest rate	Maturity	RMB'000	Effective interest rate	Maturity	RMB'000
Bank loans – unsecured	**N/A**	**N/A**	**12,228**	N/A	N/A	–

	2023 RMB'000	2022 RMB'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**12,228**	–

Notes:

(a) As at 31 December 2023, the Group had recourse bankers' acceptances discounted in the amount of RMB12,228.

(b) At 31 December 2023, there were no certain of the Group's buildings pledged to secure general banking facilities granted to the Group (2022: RMB31,846,000).

28. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Depreciation allowance in excess of related depreciation	Fair value adjustments arising from assets at fair value through other comprehensive income	Fair value adjustments arising from Acquisitions of subsidiaries	Total taxable temporary differences corresponding to right-of-use assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Gross deferred tax liabilities at 31 December 2022 and 1 January 2023	108,480	2,665	5,409	–	116,554
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	91,912	9,350	(562)	–	100,700
Gross deferred tax liabilities at 31 December 2022 and 1 January 2023	**200,392**	**12,015**	**4,847**	**–**	**217,254**
Deferred tax charged/(credited) to the statement of profit or loss during the year (note 10)	**54,831**	**(3,018)**	**(539)**	**19,552**	**70,826**
Gross deferred tax liabilities at 31 December 2023	**255,223**	**8,997**	**4,308**	**19,552**	**288,080**

28. DEFERRED TAX (continued)

Deferred tax assets

	Provision for impairment of assets RMB'000	Elimination of unrealised profits RMB'000	Losses available for offsetting against future taxable profits RMB'000	Deferred income RMB'000	Lease RMB'000	Others RMB'000	Total RMB'000
Gross deferred tax assets at 31 December 2021 and 1 January 2022	14,810	3,750	142,080	17,681	–	8,609	186,930
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	2,800	16,131	90,955	546	–	8,554	118,986
Gross deferred tax assets at 31 December 2022 and 1 January 2023	**17,610**	**19,881**	**233,035**	**18,227**	**–**	**17,163**	**305,916**
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	**5,352**	**(5,060)**	**49,732**	**9,784**	**22,525**	**(4,246)**	**78,087**
Gross deferred tax assets at 31 December 2023	**22,962**	**14,821**	**282,767**	**28,011**	**22,525**	**12,917**	**384,003**

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	**213,215**	177,858
Net deferred tax liabilities recognised in the consolidated statement of financial position	**117,292**	89,195

Deferred tax assets have not been recognised in respect of these losses as they have arisen in 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.

28. DEFERRED TAX (continued)

Deferred tax assets (continued)

	2023 RMB'000	2022 RMB'000
Tax losses	222,504	110,956
Deductible temporary differences	–	–
Total	222,504	110,956

The Group has tax losses of approximately RMB222,504,000 (2022: RMB110,956,000) arising in Mainland China that will expire in one to ten years for offsetting against future taxable profits. The Group has tax losses arising in UK and US of approximately RMB83,467,000 (2022: RMB43,026,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. There are deductible temporary differences approximately RMB13,462,000 (2022: Nil).

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.

29. SHARE CAPITAL

Shares

	2023 RMB'000	2022 RMB'000
Issued and fully paid:		
369,471,533 (2022: 369,916,845) ordinary shares	369,472	369,917

A summary of movements in the Company's share capital is as follows:

	Number of Shares in issue	Share capital RMB'000
At 1 January 2023	369,916,845	369,917
Cancellation of restricted shares (Note (a))	(183,848)	(184)
Cancellation of A shares (Note (b))	(261,464)	(261)
At 31 December 2023	369,471,533	369,472

Notes:

(a) During the year ended 31 December 2023, the Company repurchased and cancelled the restricted shares due to the employee turnover, lead to a reduction in the registered share capital.

(b) On 28 April 2023, the company has completed the purchase and non transaction transfer of shares of employees participating in the employee stock ownership plan. Considering the actual progress of the company's employee stock ownership plan and the remaining repurchase of shares, the company cancelled 261,464 A shares.

30. RESTRICTED SHARES UNDER SHARE-BASED PAYMENT

	RMB'000
At 31 December 2022 and 1 January 2023	**1,246,560**
Issue of restricted A-shares under A-Share Incentive Scheme 2023	**–**
Vesting of restricted A-shares	**(167,655)**
Cancellation of restricted A-shares	**(39,984)**
Cancellation of restricted shares	**(22,530)**
Issue of ESOP	**(522,381)**
At 31 December 2023	**494,010**

31. 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 125 to 126 of the financial statements.

Capital reserve

The capital reserve represents the aggregate amount of share-based payment and share issue expense. Details of the movements are set out in the consolidated statement of changes in equity.

Statutory surplus reserve

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

Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the consolidated financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

32. SHARE-BASED PAYMENTS

Restricted A-share incentive schemes

The Group adopted share incentive schemes (the "Restricted A-share Incentive Schemes") for the purpose of further refining the corporate governance structure of the Group, facilitating the establishment of the restricted incentive mechanism, fully motivating the directors and key personnel of the Group, as well as balancing the interests of the shareholders, the Group and management for the long-term development of the Group.

The Restricted A-share Incentive Scheme 2020 was approved by the shareholders of the Company. On 12 August 2020, the relevant resolutions were considered and passed at the Company's 41st meeting of the 3rd session of the board of directors and the 35th meeting of the 3rd session of the board of supervisors, pursuant to which the date of grant for the Restricted Share Incentive Scheme 2020 of the Company was set on 9 July 2020. On 12 August 2020 (the date of grant), pursuant to the Restricted A-share Incentive Scheme 2020, 1,018,000 A-shares were granted to 215 eligible participants of the Restricted A-share Incentive Scheme 2020 (the share incentive participants) at a grant price of RMB116.57 per share. The share incentive participants include executive directors and the members of senior management of the Company and core technical and management personnel of the Company and its subsidiaries.

Restricted A-share Incentive Scheme 2021 was approved by the shareholders of the Company on 8 January 2021, whereby the relevant resolution was considered and passed at the Company's 52nd meeting of the 3rd session of the board of directors and the 42nd meeting of the 3rd session of the board of supervisors, pursuant to which the date of grant for the Restricted Share Incentive Scheme 2021 of the Company was set on 8 January 2021. On 8 January 2021 (the date of grant), pursuant to the Restricted A-share Incentive Scheme 2021, 176,000 A-shares of the Company were granted to 35 eligible participants of the Restricted A-share Incentive Scheme 2021 (the share incentive participants) at a grant price of RMB149.88 per share. The share incentive participants include executive directors and the members of senior management of the Company and core technical and management personnel of the Company and its subsidiaries.

The restricted A-share shall be locked up immediately upon grant. All of the restricted A-shares granted to the A-shares incentive participants shall be subject to various lock-up periods of 1 year, 2 years and 3 years, immediately from the date of grant. The restricted A-share held by the A-shares incentive participants shall be unlocked in three tranches in the proportions of 40%, 30% and 30% of the total number of the restricted A-shares granted upon the expiry of each lock-up period. Should the market conditions not be met, the additional lock-up period shall be prolonged by 3 to 9 months accordingly. Where the performance target at company level has been achieved, share incentive participants are only entitled to unlock the restricted A-shares upon achieving the benchmarks of "Pass" or above in their performance target for the preceding year according to the Company's administrative measures in respect of the remuneration and performance appraisal.

32. SHARE-BASED PAYMENTS (continued)

Restricted A-share incentive schemes (continued)

On 23 September 2021, the Company granted 2,048,200 restricted A-share to 263 eligible participants at a grant price of RMB185.52 per share (the closing price of the share on the grant date was RMB340.85 per share). According to the incentive plan formulated by the Company, the restricted A-shares granted to senior management shall be subject to various lock-up periods of 1 year, 2 years and 3 years, immediately from the date of grant, and the restricted A-share granted to the core technical personnel will be unlocked in three phases.

Based on the performance indicators of the Group, the restricted A-shares held by the senior management shall be unlocked in four tranches in the proportion of 30%, 20%,20% and 30% of the total number of the restricted A-shares granted upon the expiry of each lock-up period. Also, the restricted A-shares held by the core technical personnel shall be unlocked in three tranches in the proportions of 40%, 30% and 30% of the total number of the restricted A-shares granted upon the expiry of each lock-up period. The banned conditions after unlocking are mainly related to the Company's market value. In addition, if all or part of the shares are not to be unlocked, the Company will repurchase and cancel them. The repurchase price is the same as the grant price, unless the repurchase price needs to be adjusted.

Details of the corresponding unlock rate for different performance levels are summarised as follows:

Performance	Outstanding	Good	Pass
Unlocking coefficient	1.0	0.8	0.6

A-share Employee Stock Ownership Plan

On 18 November 2022, the relevant resolutions of A-share Employee Stock Ownership Plan 2022 (or "ESOP 2022") were considered and passed at the Company's 32nd meeting of the 4th session of the board of directors. On 17 December 2022, the ESOP 2022 was approved by the shareholders of the Company, pursuant to which the date of grant for the ESOP 2022 of the Company was set on 28 April 2023.

From September to November 2022, the Company repurchased a total of 5,229,266 A shares through centralised auction transactions to implement the ESOP 2022. The Company granted 4,429,800 restricted A-shares to 588 eligible participants at a grant price of RMB35 per share (the closing price of the share on the grant date was RMB126.45 per share).

32. SHARE-BASED PAYMENTS (continued)

A-share Employee Stock Ownership Plan (continued)

The ESOP 2022 shall be locked up immediately upon grant. All of shares of the ESOP 2022 granted to the A-shares incentive participants shall be subject to various lock-up periods of 1 year, 2 years and 3 years, immediately from the date of grant. The restricted A-shares held by the A-shares incentive participants shall be unlocked in three tranches in the proportions of 40%, 30% and 30% of the total number of shares of the ESOP 2022 granted upon the expiry of each lock-up period. Should the market conditions not be met, the additional lock-up period shall be prolonged by 3 months accordingly. Where the performance target at company level has been achieved, share incentive participants are only entitled to unlock the restricted A-shares upon achieving the benchmarks of "Pass" or above in their performance target for the preceding year according to the Company's administrative measures in respect of the remuneration and performance appraisal.

	Number of RSU & ESOP	**Weighted average grant date fair value per RSU & ESOP**
		RMB
Outstanding as of 1 January 2022	2,997,700	42.06
Granted during the year	1,157,160	41.20
Vested during the year	(338,360)	26.75
Cancelled during the year	(102,020)	41.67
Outstanding as of 31 December 2022	3,714,480	43.19
Granted during the year	**4,429,800**	**51.57**
Vested during the year	**(1,344,812)**	**48.57**
Cancelled during the year	**(183,848)**	**23.53**
Outstanding as of 31 December 2023	**6,615,620**	**31.15**

The fair value of each RSU and ESOP on the grant date is determined by reference to the fair value of the underlying ordinary shares on the date of grant. The effect of a lock-up discount for selling restriction over a period after all vesting conditions are fulfilled was reflected in the fair value on the grant date.

During the years ended 31 December 2023 and 2022, the Group has recognised amounts of RMB54,590,000 and RMB52,870,000 as expenses, respectively.

In 2023, the Group failed to meet the vesting conditions, resulting in the failure to unlock the shares of the first ESOP 2022, which is the "void" of share-based payment. Therefore, the Group should reverse the previously recognised equity incentive expenses related to the first period, so that the cumulative recognition of equity incentive expenses related to this part in 2023 is nil.

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB26,423,000 (2022: RMB96,893,000), in respect of lease arrangements for building.

(b) Changes in liabilities arising from financing activities

2023

	Interest-bearing bank borrowings RMB'000	**Lease liabilities RMB'000**
At 1 January 2023	**–**	**138,346**
Changes from financing cash flows	**12,134**	**(35,478)**
New leases	**–**	**26,423**
Interest expense (note 7)	**94**	**5,818**
Terminations	**–**	**(88)**
At 31 December 2023	**12,228**	**135,021**

2022

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2022	375,392	59,094
Changes from financing cash flows	(385,921)	(18,801)
New leases	–	96,893
Interest expense (note 7)	10,529	3,961
Terminations	–	(2,801)
At 31 December 2022	–	138,346

(c) 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	**37,013**	8,138
Within financing activities	**35,478**	18,801
Total	**72,491**	26,939

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans in notes 24 and 27 to the consolidated financial statements.

35. COMMITMENTS

(a) The Group had the following capital commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Contracted, but not provided for:		
Buildings	**310,392**	165,862
Plant and machinery	**241,617**	306,611
Investments in financial assets at fair value through profit or loss	**27,000**	54,000
Total	**579,009**	526,473

36. RELATED PARTY TRANSACTIONS

(a) Names and relationships of related parties:

Name	**Relationship**
上海凱萊英檢測技術有限公司 Shanghai Asymchem Laboratories Testing Technology Co., Ltd ("Shanghai Asymchem Technology")	Subsidiary of an associate of the Group
有濟(天津)醫藥科技有限公司 Youji (Tianjin) Pharmaceutical Technology Co., Ltd	Subsidiary of an associate of the Group
天津有濟醫藥科技發展有限公司 Yugen Medtech	Associate
天津海河凱萊英生物醫藥產業創新投資基金(有限合夥) Tianjin Haihe Asymchem Biomedical Industry Innovation Investment Fund (Limited Partnership) ("Haihe Asymchem")	Associate
HAO HONG	Executive director

(b) Outstanding balances with related parties:

The Group had outstanding balances due to related parties at 31 December 2022 and 2023.

(i) Amount due to a related party included in other payables

	2023 RMB'000	2022 RMB'000
Yugen Medtech	**–**	1,096
Youji (Tianjin) Pharmaceutical Technology Co., Ltd	**1,173**	–
Shanghai Asymchem Technology	**83**	–
Total	**1,256**	1,096

The amount due to a related party is unsecured, interest-free and repayable on demand.

36. RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with related parties:

(i) Purchases from related parties

	2023 RMB'000	2022 RMB'000
Youji (Tianjin) Pharmaceutical Technology Co., Ltd	2,250	1,556
Shanghai Asymchem Technology	83	678
Total	2,333	2,234

The purchases from related parties were made according to the published prices and conditions similar to those offered to the independent third party customers of the suppliers.

(ii) Other transactions with related parties

The subsidiary of the company, Shanghai Asymchem Biotechnology Co., Ltd. ("Asymchem Biotechnology"), brings in external investors by injecting and increasing the capital.

(d) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Short term employee benefits	49,804	52,641
Pension scheme contributions	2,176	2,112
Equity-settled share incentive scheme	12,934	1,973
Total compensation paid to key management personnel	64,914	56,726

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

37. 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 fair value through profit or loss	Financial assets at fair value through other comprehensive income		
	Mandatorily designated as such RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through other comprehensive income	–	30,488	–	30,488
Trade and bills receivables	–	–	2,010,989	2,010,989
Financial assets included in prepayments, other receivables and other assets	–	–	554,379	554,379
Financial assets at fair value through profit or loss	2,036,255	–	–	2,036,255
Cash and cash balances	–	–	7,109,987	7,109,987
Total	2,036,255	30,488	9,675,355	11,742,098

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	452,365
Financial liabilities included in other payables and accruals	287,093
Interest-bearing bank and other borrowings	12,228
Lease liabilities	135,021
Total	886,707

37. 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 fair value through profit or loss		
	Mandatorily designated as such RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade receivables	–	2,451,148	2,451,148
Financial assets included in prepayments, other receivables and other assets	–	126,323	126,323
Financial assets at fair value through profit or loss	2,264,138	–	2,264,138
Cash and cash balances	–	5,289,594	5,289,594
Total	2,264,138	7,867,065	10,131,203

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade payables	568,892
Financial liabilities included in other payables and accruals	835,045
Lease liabilities	138,346
Total	1,542,283

38. 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	2022	**2023**	2022
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Financial assets at fair value through profit or loss	**1,905,779**	2,151,062	**1,905,779**	2,151,062
Equity investments at fair value through other comprehensive income	**30,488**	–	**30,488**	–
An unlisted investment fund	**130,476**	113,076	**130,476**	113,076
Total	**2,066,743**	2,264,138	**2,066,743**	2,264,138
Financial liabilities				
Interest-bearing bank borrowings	**12,228**	–	**12,228**	–
Total	**12,228**	–	**12,228**	–

Management has assessed that the fair values of cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals and interest-bearing bank borrowings are approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At reporting date, the finance department 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 chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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. The following methods and assumptions were used to estimate the fair values:

The Group invests in unlisted non-principal-protected wealth management products issued by banks in Mainland China. The Group has estimated the fair values of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

For the unlisted investment fund measured at fair value through profit or loss, management assessed the fair value based on the net asset value of the investment fund. Since the underlying unlisted equity portfolio was diversified and each underlying equity investment was immaterial to the Group, no fair value disclosure has been made for the underlying equity investments in the investment fund. Management has estimated the potential effect of using reasonably possible alternatives to be immaterial.

The carrying amounts of all the Group's financial instruments are equal to or reasonably approximate to fair values.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

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	–	1,905,779	–	1,905,779
Equity investments at fair value through other comprehensive income	–	–	30,488	30,488
– An unlisted investment fund	–	–	130,476	130,476
Total	–	1,905,779	160,964	2,066,743

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

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	–	2,151,062	–	2,151,062
– An unlisted investment fund	–	–	113,076	113,076
Total	–	2,151,062	113,076	2,264,138

The Group did not have any financial liabilities measured at fair value as at 31 December 2023 and 2022.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2022: Nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	2023 RMB'000	2022 RMB'000
Equity investments at fair value through profit or loss		
At 1 January	**113,076**	103,766
Changes in fair value	**(9,600)**	9,310
Purchases	**27,000**	–
At 31 December	**130,476**	113,076

	2023 RMB'000	2022 RMB'000
Equity investments at fair value through other comprehensive income		
At 1 January	**–**	–
Changes in fair value	**488**	–
Purchases	**30,000**	–
At 31 December	**30,488**	–

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise lease liabilities, interest-bearing bank borrowing, 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 receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.3 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank borrowings. Some of these interest-bearing bank borrowings were obtained at floating interest rates, which have exposed the Group to interest rate risk. The interest rates and terms of repayment of borrowings are disclosed in note 27 above, and the possible reasonable changes in interest rates do not have a significant impact to the Group's profit or loss and equity.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units and investing and financing activities by investment holding units in currencies other than the units' functional currencies. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the major foreign currency exchange rate, with all other variables held constant, of the Group's profit for the year due to differences arising on settlement or translation of monetary assets and liabilities and the Group's equity due to the changes of exchange fluctuation reserves of certain overseas subsidiaries of which the functional currencies are currencies other than RMB.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit for the year RMB'000	Increase/ (decrease) in equity RMB'000
2023			
If USD strengthens against RMB	**10%**	**363,950**	**363,950**
If USD weakens against RMB	**(10%)**	**(363,950)**	**(363,950)**
If HK$ strengthens against RMB	**10%**	**120,341**	**120,341**
If HK$ weakens against RMB	**(10%)**	**(120,341)**	**(120,341)**
2022			
If USD strengthens against RMB	10%	198,300	198,300
If USD weakens against RMB	(10%)	(198,300)	(198,300)
If HK$ strengthens against RMB	10%	114,977	114,977
If HK$ weakens against RMB	(10%)	(114,977)	(114,977)

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	86,854	86,854
Trade receivables*	–	–	–	2,116,812	2,116,812
Financial assets included in prepayments, other receivables and other assets	575,128	–	–	–	575,128
Cash and cash equivalents – Not yet past due	7,109,987	–	–	–	7,109,987
Total	7,685,115	–	–	2,203,666	9,888,781

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Contract assets*	–	–	–	67,340	67,340
Trade receivables*	–	–	–	2,553,958	2,553,958
Financial assets included in prepayments, other receivables and other assets	126,323	–	–	–	126,323
Cash and cash equivalents – Not yet past due	5,289,594	–	–	–	5,289,594
Total	5,415,917	–	–	2,621,298	8,037,215

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 20 and 22 to the financial statements.

The credit risk of the Group's other financial assets, which comprise cash and cash balances and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the consolidated financial statements.

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. At the end of the reporting period, the Group had certain concentrations of credit risk as 28.50% (2022: 55.50%) and 53.65% (2022: 70.34%) of the Group's trade receivables and contract assets were due from the Group's largest combined balance of accounts receivable and contract assets and the top five customers, respectively.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing borrowings. As at 31 December 2023, none (31 December 2022: None) of the Group's borrowing would mature in less than one year based on the carrying values of the borrowings.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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:

2023

	On demand RMB'000	Less than 1 years RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	12,228	–	–	–	12,228
Lease liabilities	–	42,832	84,938	28,838	156,608
Restricted share repurchase	424,950	–	–	–	424,950
Financial liabilities included in other payables and accruals	287,093	–	–	–	287,093
Trade payables	452,365	–	–	–	452,365
Total	1,176,636	42,832	84,938	28,838	1,333,244

2022

	On demand RMB'000	Less than 1 years RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Lease liabilities	–	31,180	105,613	28,911	165,704
Restricted share repurchase	446,879	–	–	–	446,879
Financial liabilities included in other payables and accruals	388,166	–	–	–	388,166
Trade payables	568,892	–	–	–	568,892
Total	1,403,937	31,180	105,613	28,911	1,569,641

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 and the risk characteristics of the underlying assets. 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt includes interest-bearing bank borrowings, trade payables, other payables and accruals, lease liabilities and less cash and cash balances. Total equity includes equity attributable to owners of the parent and non-controlling interests. The gearing ratios as at the end of the reporting periods were as follows:

	2023 **RMB'000**	2022 RMB'000
Interest-bearing bank borrowings (note 27)	**12,228**	–
Trade payables (note 25)	**452,365**	568,892
Other payables and accruals (note 26)	**1,275,184**	1,511,198
Lease liabilities (note 14)	**135,021**	138,346
Less: Cash and cash balances (note 24)	**7,109,987**	5,289,594
Net debt	**N/A**	N/A
Total equity	**17,509,979**	15,695,003
Total equity and net debt	**N/A**	N/A
Gearing ratio	**N/A**	N/A

40. EVENTS AFTER THE REPORTING PERIOD

Proposed profit distribution of 2023

Subsequent to the end of the reporting period, the board of directors proposed the 2023 Profit Distribution Plan as follows: a cash dividend of RMB1.80 (before tax) per share. Based on a total of 369,471,533 Shares as at 28 March 2024 and excluding 538,002 Shares repurchased by means of centralized price bidding. The total amount of the proposed final dividend is approximately RMB664,080,355.80 (before tax).

The proposed 2023 Profit Distribution Plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Repurchase of A-Shares through Centralized Competitive Bidding

On 7 March 2024, the Company implemented a share repurchase through centralized competitive bidding, purchasing a total of 517,246 shares. The highest repurchase price was RMB97.07 per share, and the lowest repurchase price was RMB95.67 per share. The average repurchase price was RMB96.659 per share, and the total amount of funds used was RMB49,996,539.36 (excluding transaction costs). The Company's 2024 Second Extraordinary General Meeting, 2024 Second A-Share Class General Meeting, and 2024 Second H-Share Class General Meeting, held on 29 February 2024, deliberated and approved the "Proposal on the Plan for Repurchasing the Company's Shares."

41. 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	**421,354**	568,500
Right-of-use assets	**36,485**	111,772
Other intangible assets	**11,859**	14,401
Investments in subsidiaries	**2,090,910**	2,037,006
Investments in associates	**260,144**	277,256
Equity investments at fair value through other comprehensive income	**30,488**	–
Prepayments, deposits and other receivables	**123,666**	57,325
Financial assets at fair value through profit or loss	**70,816**	78,660
Deferred tax assets	**3,702**	–
Total non-current assets	**3,049,424**	3,144,920
CURRENT ASSETS		
Inventories	**111,226**	51,043
Trade and bills receivables	**599,165**	457,888
Prepayments, deposits and other receivables	**2,068,215**	2,115,607
Financial assets at fair value through profit or loss	**1,755,347**	1,599,309
Cash and cash balances	**4,329,386**	3,974,568
Total current assets	**8,863,339**	8,198,415
CURRENT LIABILITIES		
Trade payables	**3,717**	746
Other payables and accruals	**1,739,076**	1,018,930
Interest-bearing bank borrowings	**12,228**	–
Lease liabilities	**8,169**	7,308
Tax payable	**11,986**	16
Total current liabilities	**1,775,176**	1,027,000
NET CURRENT ASSETS	**7,088,163**	7,171,415
TOTAL ASSETS LESS CURRENT LIABILITIES	**10,137,587**	10,316,335
NON-CURRENT LIABILITIES		
Deferred income	**98,848**	23,163
Lease liabilities	**23,426**	15,313
Deferred tax liabilities	**–**	11,101
Interest-bearing bank and other borrowings	**–**	–
Total non-current liabilities	**122,274**	49,577
Net assets	**10,015,313**	10,266,758
EQUITY		
Share capital	**369,472**	369,917
Treasury shares	**(494,010)**	(1,246,560)
Other reserves	**10,139,436**	11,143,401
Other Comprehensive Income	**415**	–
Total equity	**10,015,313**	10,266,758

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Attributable to owners of the parent						
	Share capital RMB'000	Restricted shares under share-based payment RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000	Total equity RMB'000
At 1 January 2022	263,044	(481,820)	9,525,337	103,351	349,255	9,759,167	9,759,167
Profit for the year	–	–	–	–	1,056,194	1,056,194	1,056,194
Total comprehensive income for the year	–	–	–	–	1,056,194	1,056,194	1,056,194
Final 2021 dividend declared and paid	–	–	–	–	(211,273)	(211,273)	(211,273)
Issue of H-shares under the Over-allotment option	1,265	–	386,466	–	–	387,731	387,731
Cancellation of restricted shares	(102)	13,044	(13,089)	–	–	(147)	(147)
Vesting of restricted shares	–	21,898	–	–	–	21,898	21,898
Equity-settled share option arrangements	–	–	52,870	–	–	52,870	52,870
Share premium transferred to Share capital	105,710	–	(105,710)	–	–	–	–
Transfer to statutory surplus reserve	–	–	–	105,619	(105,619)	–	–
Repurchase of A-shares	–	(799,682)	–	–	–	(799,682)	(799,682)
At 31 December 2022	369,917	(1,246,560)	9,845,874	208,970	1,088,557	10,266,758	10,266,758

	Attributable to owners of the parent							
	Share capital RMB'000	**Restricted shares under share-based payment RMB'000**	**Capital reserve RMB'000**	**Statutory surplus reserve RMB'000**	**Fair value reserve of financial assets at fair value through OCI RMB'000**	**Retained profits RMB'000**	**Total RMB'000**	**Total equity RMB'000**
At 1 January 2023	**369,917**	**(1,246,560)**	**9,845,874**	**208,970**	**–**	**1,088,557**	**10,266,758**	**10,266,758**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**718,265**	**718,265**	**718,265**
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**415**	**–**	**415**	**415**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**415**	**718,265**	**718,680**	**718,680**
Final 2022 dividend declared and paid	**–**	**–**	**–**	**–**	**–**	**(663,897)**	**(663,897)**	**(663,897)**
Issue of ESOP	**–**	**522,381**	**(522,381)**	**–**	**–**	**–**	**–**	**–**
Cancellation of restricted shares	**(184)**	**22,530**	**(22,861)**	**–**	**–**	**–**	**(515)**	**(515)**
Non-compensatory acquisition of subsidiary equity	**–**	**–**	**34**	**–**	**–**	**–**	**34**	**34**
Non-compensatory transfer of assets to subsidiaries	**–**	**–**	**(527,993)**	**–**	**–**	**–**	**(527,993)**	**(527,993)**
Vesting of restricted shares	**–**	**167,655**	**–**	**–**	**–**	**–**	**167,655**	**167,655**
Equity-settled share option arrangements	**–**	**–**	**54,591**	**–**	**–**	**–**	**54,591**	**54,591**
Share premium transferred to Share capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfer to statutory surplus reserve	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Cancellation of repurchased A Shares	**(261)**	**39,984**	**(39,723)**	**–**	**–**	**–**	**–**	**–**
At 31 December 2023	**369,472**	**(494,010)**	**8,787,541**	**208,970**	**415**	**1,142,925**	**10,015,313**	**10,015,313**

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2024.

DEFINITIONS

In this annual report, the following expressions have the meanings set out below unless the context otherwise requires.

"2023 Profit Distribution Plan"	profit distribution plan for the year ended 31 December 2023
"Actionable Corporate Communications"	any corporate communication that seeks instructions from the Company's shareholders on how they wish to exercise their rights or make an election as the Company's shareholders
"AGM" or "Annual General Meeting"	The annual general meeting of the Company to be held on 6 June 2024
"ALAB"	Asymchem Laboratories, Incorporated, a limited liability company incorporated in the United States on November 27, 1995, which is a controlling shareholder and owned as to 71.39% and 19.57% by Dr. Hao Hong and Dr. Ye Song, respectively, as of the date of this annual report.
"API"	active pharmaceutical ingredient
"ATMP"	advanced therapy medicinal products
"ATMP Projects"	projects to build up our capabilities related to advanced therapy medicinal products (ATMPs)
"Articles of Association"	the articles of association of the Company, as amended from time to time
"Asymchem Biotechnology Development"	Shanghai Asymchem Biotechnology Development Co., Ltd. (上海凱萊英生物技術發展有限公司), a limited liability company incorporated in the PRC
"AsymCore"	AsymCore Management Consulting Partnership (Limited Partnership) (凱萊同心(天津)企業管理諮詢合夥企業(有限合夥)), a limited partnership incorporated in the PRC
"Asymchem Life Science"	Asymchem Life Science (Tianjin) Co., Ltd. (凱萊英生命科學技術(天津)有限公司)
"A Share(s)"	ordinary share(s) in the share capital of our Company, with a nominal value of RMB1.00 per share, which are listed for trading on the Shenzhen Stock Exchange and traded in Renminbi

DEFINITIONS

"Audit Committee"	the audit committee of the Board
"BLA"	Biologics License Applications, a request made to the USFDA for permission to introduce, or deliver for introduction, of a biological product into interstate commerce in the United States
"Board"	the board of directors of the Company
"BRD4"	Bromodomain-containing protein 4
"BTK"	Bruton's Tyrosine Kinase
"CAGR"	compound annual growth rate
"CDE"	Center for Drug Evaluation
"CDK4"	Cyclin-Dependent Kinase 4
"CDK6"	Cyclin-Dependent Kinase 6
"CDMO"	Contract Development Manufacturing Organization, a company that mainly provides CMC, drug development and drug manufacturing services in the pharmaceutical industry
"CEO" or "Chief Executive Officer"	the chief executive officer of the Company
"CFO" or "Chief Financial Officer"	the chief financial officer of the Company
"CFTR"	Cystic Fibrosis Transmembrane Conductance Regulator
"CG Code"	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"Chairperson"	the Chairperson of the Board
"China" or the "PRC"	the People's Republic of China, but for the purpose of this annual report and for geographical reference only, references herein to "China" and the "PRC" do not apply to Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Clin-nov Medical"	Tianjin Clin-nov Medical Technology Development Co., Ltd. (天津凱諾醫藥科技發展有限公司) (formerly known as Tianjin Asymchem Medical Technology Development Co., Ltd. (天津凱萊英醫藥科技有限公司) with the name changed in August 2020), a wholly-owned subsidiary of the Company

"CMC"	Chemistry, Manufacturing and Controls, an important and detailed section detailing the characteristics of a therapeutic and its manufacturing and quality testing process in a dossier used to support clinical studies and marketing applications
"Company," "our Company," "the Company," "Asymchem", or "Asymchem Laboratories (Tianjin) Co., Ltd. (凱萊英醫藥集團(天津)股份有限公司)"	Asymchem Laboratories (Tianjin) Co., Ltd. (凱萊英醫藥集團(天津)股份有限公司), was established under the laws of the PRC as an enterprise legal person on October 8, 1998, the A Shares of which are listed on the Shenzhen Stock Exchange and the H Shares of which are listed on the Hong Kong Stock Exchange
"Corresponding Period"	for the year ended 31 December 2022
"CSRC"	China Securities Regulatory Commission
"Director(s)"	the director(s) of the Company
"EGFR/Her3"	epidermal Growth Factor Receptor/Human Epidermal Growth Factor Receptor 3
"Employee Share Ownership Plan"	the 2022 Employee Share Ownership Plan of the Company adopted at the fifth extraordinary general meeting of 2022
"Global Offering"	the Hong Kong public offering and the international offering of the Shares
"GLP-1"	glucagon-like peptide-1 agonists are a class of medications utilized in the treatment of type 2 diabetes and obesity
"GMP"	good manufacturing practice
"Group," "our Group," "we," "us," or "our"	our Company and its subsidiaries
"Haihe Asymchem Fund"	Tianjin Haihe Asymchem Biopharmaceutical Industry Innovation Investment Fund (Limited Partnership) (天津海河凱萊英生物醫藥產業創新投資基金(有限合夥))
"HK$" or "HKD"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

"Hong Kong Stock Exchange" or "Stock Exchange" or "HKEx"	The Stock Exchange of Hong Kong Limited
"HTS"	high throughput screening
"ICH"	International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use
"IND"	investigational new drug or investigational new drug application, also known as clinical trial application in China or clinical trial notification
"IPSC"	induced pluripotent stem cells
"JAK"	Janus tyrosine kinase
"Jihang Tianjin"	Jihang (Tianjin) Enterprise Management Consulting Partnership (Limited Partnership) (濟航(天津)企業管理諮詢合夥企業(有限合夥))
"KRAS"	Kirsten rats arcomaviral oncogene homolog
"Listing Date"	the date, namely 10 December 2021, on which the H Shares were listed and from which dealings in the H Shares were permitted to commence on the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"LNP"	Lipid nanoparticles technology
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
"NDA"	new drug application
"NMPA"	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理局)
"Nomination Committee"	the nomination committee of the Board
"PCSK9"	proprotein Convertase Subtilisin/Kexin Type 9
"PD-1"	programmed cell death protein 1

"Prospectus"	the prospectus of the Company dated 30 November 2021
"R&D"	research and development
"Reporting Period"	for the year ended 31 December 2023
"RMB" or "Renminbi"	the lawful currency of the PRC
"RMB Share Issue"	the Company's initial issue of 2,821,590,000 RMB Shares which have been listed on the Shenzhen Stock Market Main Board since 9 November 2016
"Shanghai Asymchem"	Shanghai Asymchem Biotechnology Co., Ltd. (上海凱萊英生物技術有限公司), a wholly-owned subsidiary of the Company
"Shares"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each
"Shareholder(s)"	holder(s) of Shares(s)
"SPD Bank"	Shanghai Pudong Development Bank
"Strategic Investments and Acquisitions Projects"	to selectively pursue strategic investments and acquisitions
"Strategy Committee"	the strategy committee of the Board
"Subscriptions"	the Company's subscriptions for several wealth management products offered by Shanghai Pudong Development Bank in the first half of 2023, using its idle self-owned funds and, to the extent permitted by applicable laws and regulations, idle funds raised from the non-public offering of A shares to certain institutional investors in 2020
"Teda"	Tianjin Economic-Technological Development Area
"Tianjin Tianhao"	Tianjin Tianhao Management Consulting Partnership (Limited Partnership) (天津天浩管理諮詢合夥企業(有限合夥))
"TIGIT"	T cell immunoreceptor with Ig and ITIM domains
"TYK 2"	non-receptor tyrosine-protein kinase TYK2 is an enzyme that in humans is encoded by the TYK2 gene

DEFINITIONS

"United Kingdom" or "U.K."	the United Kingdom of Great Britain and Northern Ireland, commonly known as the United Kingdom (UK) or Britain, its territories, its possessions, and all areas subject to its jurisdiction
"United States" or "U.S."	the United States of America, its territories, its possessions, and all areas subject to its jurisdiction
"US$" or "USD"	United States dollars, the lawful currency of the United States
"U.S. FDA" or "FDA"	U.S. Food and Drug Administration
"Yugen Medtech"	Tianjin Yugen Medtech Co., Ltd. (天津有濟醫藥科技發展有限公司)
"Zhenjiang Project"	project to construct phase II of the comprehensive small molecule R&D and manufacturing site in Zhenjiang, and purchase relevant equipment and machinery

In this annual report, unless otherwise indicated, the terms "affiliate", "associate", "associated corporation", "connected person", "controlling shareholder", "subsidiary" and "substantial Shareholder" shall have the meanings given to such terms in the Listing Rules.

Unless otherwise defined herein, capitalized terms used in this annual report shall have the same meanings as those defined in the Prospectus.

This annual report is conducted in English. In case of any divergence of interpretations, the original English version shall prevail.