遠大健康
CGE HEALTHCARE
遠大醫藥集團
GRAND PHARMACEUTICAL GROUP

遠大醫藥集團有限公司
GRAND PHARMACEUTICAL GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(Stock Code: 00512)

2023
ANNUAL REPORT

Contents

Corporate Information

EXECUTIVE DIRECTORS

Dr. Tang Weikun *(Chairman)*
Mr. Zhou Chao *(CEO)*
Dr. Shi Lin
Mr. Yang Guang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie
Dr. Pei Geng
Mr. Hu Yebi

COMPANY SECRETARY

Mr. Foo Tin Chung, Victor

AUTHORISED REPRESENTATIVES

Dr. Tang Weikun
Mr. Foo Tin Chung, Victor

AUDIT COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Pei Geng
Mr. Hu Yebi

REMUNERATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Dr. Tang Weikun
Mr. Hu Yebi

NOMINATION COMMITTEE

Ms. So Tosi Wan, Winnie *(Chairwoman)*
Mr. Zhou Chao *(CEO)*
Mr. Hu Yebi

WEBSITE

www.grandpharma.cn

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

LEGAL ADVISERS

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Conyers & Dill Pearman

As to Hong Kong Law:
Loeb & Loeb LLP

PRINCIPAL SHARE REGISTRAR

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69 Pitts Bay Road
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HONG KONG BRANCH SHARE REGISTRAR

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Shops 1712–1716, Hopewell Centre
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PRINCIPAL BANKERS

HSBC
Bank of China
Bank of Communications

REGISTERED OFFICE

Clarendon House, 2 Church Street
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PRINCIPAL OFFICE

Units 3302, The Center
99 Queen's Road Central, Hong Kong

Chairman's Statement

INDUSTRY REVIEW

In 2023, macro economy of China has stabilized and rebounded, and various business activities in the pharmaceutical industry have gradually returned to the right track. However, since the global economic trend is weak and the international situation is complex, the development of various industries in China still under certain pressures. Since the third quarter, China has vigorously initiated a campaign to comprehensively curb corruption in the healthcare sector, which has further promote the high-quality development of the pharmaceutical industry. In this context, with accelerated changes in prescription structure and clearing out of low-quality capacity, it is crucial for enterprises to step up innovation and actively explore new business models, while productivity and commercialization capability has become the determining factors in their development. Further, national policies continue to lead the research and development of pharmaceutical products to place more emphasis on clinical value with stricter approval process for homogeneous research and development, supporting accelerated admission of innovative drugs to hospitals, and putting forward higher requirements for the operation and quality supervision and management of pharmaceutical products.

The global biopharmaceutical market has been volatile recently amidst a transitional period. Correspondingly, China's pharmaceutical industry has been upgrading and evolving on the basis of conventional medical insurance negotiations, resulting in a faster access to new drugs and improving regulations, as well as the acceleration of overseas sales of local innovative pharmaceutical products, which provides a first glimpse of the value and resilience of China's pharmaceutical innovations. Meanwhile, given the impact of multiple factors such as sluggish demand in the international market and intensified competition in Chinese market, enterprises were confronted with polarization in their operation as the trend of structural differentiation intensified in the market, which has accelerated the mergers and acquisitions and integration of the industry and further optimized the allocation of resources with more prevalent division of labour and co-operation.

BUSINESS REVIEW

In 2023 in the face of the complex and uncertain macro-environment and changes in the industry ecology, the Group has always maintained strategic focus and promoted the operational integration and efficiency enhancement of its business divisions, which has contributed to the steady growth of its operating results. By adopting a multi-pronged approach, the Group has deepened its presence in the cerebro-cardiovascular sector and other fields of strengths, seizing the opportunity of industry consolidation to expand the its scale through investment as well as merger and acquisition. This has put the Group on the fast track of innovation and transformation, with research and development results rolling out one after another, highlighting its resilience for business growth.

During the year, riding on the ongoing momentum of efficient "growth", the Group achieved new highs in terms of both performance and industrial scale with continuous improvement in its profitability. For the first time, the Group ranked among top 20 on the list of the "Top 100 Companies in China's Pharmaceutical Industry". During the year, a total of 30 products were approved for commercialization and 3 major mergers and acquisitions were completed. Currently, the Group has more than 10,000 employees globally, more than 30 subsidiaries at home and abroad, 5 technology platforms and 8 research and development centers, more than 200 products on the National Reimbursement Drug List, and 16 products which worth over 100 million dollars each. The Company has been committed to three major business segments, namely pharmaceutical technology, technologies on nuclear medicine anti-tumor as well as cerebro-cardiovascular precision interventional diagnosis and treatment, and biotechnology, with its business coverage across various sectors such as, among others, cerebro-cardiovascular, Eye, Nose & Throat ("**ENT**") respiratory and critical and severe diseases and oncology. In the nuclear medicine anti-tumor field, the Group remained as a national leader in terms of pipeline layout and commercialization, and has been continuously improving and optimizing its industrial chain and global business network, with partners spanning major medical markets in Asia, the Americas, Europe, Oceania, and so on.

During the year, the Group released the momentum of high-quality "innovation" and strengthened its capabilities of independent research and development. Our innovative drugs were successively approved to conduct clinical trials in China, our research progressed smoothly, and our innovation and transformation achieved remarkable results. The Company has a rich pipeline of products, including 46 innovative projects out of a total of 138 projects under research. With the progress made in the past few

Chairman's Statement

years, our innovation strategy has gradually started to yield results. In 2023, a total of 77 significant milestones were achieved, 1 new R&D center was established, 17 new core patents were added, and 118 patents were granted. During the year, 5 innovative products were commercialized as scheduled, 5 products entered the new drug application ("**NDA**") stage, and 8 new products entered the clinical trial stage. In the nuclear medicine segment, 4 radionuclide-drug conjugates ("**RDCs**") are steadily advancing into clinical trials. Among which, TLX591-CDx for prostate cancer diagnosis is in phase III clinical research in China, and it has become a new standard for clinical diagnosis in overseas markets, achieving excellent commercialization results, while TLX250-CDx for kidney cancer diagnosis has also entered the confirmatory clinical stage in China. In the respiratory and critical and severe disease segment, the NDA for Ryaltris Compound Nasal Spray, a global innovative drug for allergic rhinitis, was accepted in China, while APAD and STC3141, global innovative products for the treatment of severe diseases such as sepsis, have been approved to conduct phase I and phase II clinical trials in China. In the ENT segment, GPN00833 for anti-inflammatory and analgesic and CBT001 for the treatment of pterygium have both entered phase III clinical trials, GPN00136 for dry eye syndrome has entered phase II clinical trial, and Investigational New Drug Applications ("**IND**") was approved in China for GPN00884, a drug used to prevent and treat myopia. In addition, IND was accepted in China for ARC01, a mRNA therapeutic vaccine, making it the first mRNA tumor vaccine for HPV-positive related tumors approved for clinical research in China.

During the year, the Group efficiently "upgraded" its development, and driven by the dual impetus of "independent research + investment", it achieved significant breakthroughs in the business segments of its core strength. Through the strategic acquisition of Tianjin Tanabe and Chongqing Duoputai Pharmaceutical Technology, we acquired more than 10 products in the field of chronic diseases including cerebro-cardiovascular diseases and gastrointestinal diseases, achieving a wide coverage from emergency rescue to chronic disease management. In addition, eplerenone, our new mineralocorticoid receptor antagonist ("**MRA**") drug, and carglumic acid tablets, our rare disease drug, have been approved for commercialization. Both of them rank among the first generic products in China, filling the gaps in treatment in related fields in China. In the nuclear medicine anti-tumor segment, the market attention and penetration of our core product, Yttrium-90 microsphere injections, continued to rise, whereby it has been officially used in operations in more than 40 hospitals across 17 provinces and cities, and has been accepted for the Supplementary Medical Insurance for Serious Diseases (惠民保) in 36 provinces and cities. The annual revenue growth of the segment has approached 300%. Through the acquisition of Black Swan, two innovative liquid embolic agents, Lava™ and Kona™, were introduced to expand the product pipeline of tumor intervention. The construction project for the nuclear drug R&D and production base in Wenjiang, Chengdu is progressing smoothly. In the cerebro-cardiovascular precision interventional diagnosis and treatment segment, Novasight, the world's first intravascular dual-mode imaging system, has been approved for commercialization in China. HeartLight X3, the world's only laser ablation product for the treatment of atrial fibrillation, has submitted an application for commercialization in China and has been accepted, and has completed its first specially-granted adoption in Boao, Hainan, bringing to China a new treatment option for atrial fibrillation that is internationally adopted. CardioNavi's R&D center in Shanghai, dedicated to the research and development of structural heart disease product, was officially unveiled, making it the Company's third R&D center for high-end medical device in addition to those in Wuhan and Changzhou.

Steady development leads to long-term success, and innovation paths the way to pioneer. Always adhering to its mission to quality, the Group will fulfill its responsibilities through actions and made firm steps towards its corporate vision of "becoming a pharmaceutical company respected by doctors and patients, and making significant contribution to the society".

PROSPECTS

In 2024, China's pharmaceutical industry will remain in a critical period of changes, reform and upgrade, approaching a new development stage characterized by compliance, quality and innovation. In addition to strict regulation, the state will also encourage and support innovative medicines. The Healthcare Security Administration will explore the implementation of a first-time pricing mechanism for newly commercialized chemical drugs based on independent quantitative evaluation, which means that the higher the innovation value, the more relaxed the market pricing policy and the more efficient the commercialization process will be.

Chairman's Statement

The "14th Five-Year Plan" period is a critical period for the innovation and high-quality development of China's pharmaceutical industry. According the Ministry of Industry and Information Technology, since the "14th Five-Year Plan", the average annual growth of the Chinese pharmaceutical industry's main business revenue has been 9.3%, and the average annual growth of total profits has been 11.3%. The average annual growth of R&D investment in the entire industry exceeds 20%. Under the premise of Healthy China, citizen' attention to life and health has been raised to an unprecedented high following the improvement of their income and living standards. At the same time, as the population structure ages, the number of patients with chronic diseases such as cerebro-cardiovascular diseases, cancer, ENT diseases, and chronic respiratory illnesses has been rising in recent years, ramping up the public's long-term demand for medical care on a continuous basis.

The Group will continue to focus on its areas of strength and conduct in-depth research on the clinical pain points of its niches such as cerebro-cardiovascular diseases, ENT, and respiratory, so as to meet the disease management needs of chronic patient groups. Further, we will continue to consolidate and expand the Company's influence in the industry, enhance its industrial chain and increase its industrial scale and profitability through various methods, such as strengthening of independent research and development, investments and mergers and acquisitions.

The Group will put more emphasis on technological innovation and strategic leadership to further consolidate the effectiveness of its innovation and transformation. We are speeding up the clinical research process in the fields of nuclear medicine, critical and severe disease, and cerebro-cardiovascular devices. We will strengthen R&D cooperation with leading medical institutions at home and abroad to further enhance the Company's R&D strength in terms of R&D teams and platform construction. In 2024, based on its significant clinical efficacy and the rollout of preliminary hospital admission and doctor training, the sales of Yttrium-90 microsphere injections is expected to keep increasing and benefit more patients. At the same time, the Group will deepen its presence in the field of nuclear drugs and continuously promote the construction of Class A nuclide production platform, to strengthen its edges in industrial chain, striving to become a leading enterprise in the field of nuclear medicine anti-tumor diagnosis and treatment in China and even globally. In the field of respiratory and critical and severe disease, we will be full steam ahead with the phase II sepsis clinical research of STC3141 and strive to fill the gap in the industry as soon as possible. In the field of cerebro-cardiovascular devices, the Company has created a profile of high-end medical device products with considerable advantages and successfully commercialized a number of them. In the future, we will remain focus on the three fronts of channel management, structural heart disease, electrophysiology and heart failure, optimizing their product structure and resource allocation, increasing pipeline synergy, and conducting product commercialization in stages and batches. In the field of biotechnology, with synthetic biology as the core, we will focus on technological improvement and optimization to enhance our quality and efficiency, and diversify amino acid development based on high quality amino acids, which will contribute steady increments to the Company's performance growth.

To travel far and wide, health is of the utmost importance. The Group has always been committed to the development of life and health related businesses, focusing on cutting-edge technologies and differentiated development paths, constantly pursuing technological breakthroughs, and adhering to high-quality research and development. We strive for the well-being of people's health, add impetus to the development of enterprises, and create a healthy society while realizing the long-term sustainable development of the Company.

I would like to express my sincere gratitude to every shareholder, board member, partner, management and staff for their great support and contribution.

Dr. Tang Weikun
Chairman

Corporate Profile

GROUP POSITIONING

The Group is an international pharmaceutical company of technological innovation. Its core businesses cover three major areas, namely pharmaceutical technology, nuclear medicine anti-tumor diagnosis and treatment and cerebro-cardiovascular precision interventional diagnosis and treatment technology and biotechnology. Based on the pharmaceutical and biological industries, the Group focuses on the needs of patients, and take technological innovation as the driving force. In response to the unmet clinical needs, the Group will increase its investment in global innovative products and advanced technologies, enrich and improve its product pipelines, consolidate and strengthen its industrial chain layout, and fully leverage the Group's industrial strengths and R&D capabilities to provide more advanced and diverse treatment solutions to patients worldwide.

With unremitting efforts in recent years, the Group has laid a more solid foundation for development, consolidated its operation scale, gradually optimized its business structure, continued to improve its operation mode, accelerated its pace of transformation and upgrading, and made various achievements in innovative layout. The Group's profitability continues to improve and help facilitate R&D and innovation; its good ability in mergers and acquisitions and integration continues to consolidate the scale of development; the integration of raw materials and preparations improves the structure of the industrial chain; and the diversification of business and entities has effectively enhanced the comprehensive advantages.

"Maintain stable growth, strive in innovation and strategic planning", the Group will stick with the development concept of "comprehensive strengths, innovation leading and global expansion" and the strategy of "dual-wheel driving development of independent R&D, global expansion and dual-cycle operation", the Group has formed a new pattern of domestic and international cycles that synergize with each other, and is committed to becoming an international pharmaceutical company of technological innovation, delivering on its promises for doctors and patients, and making significant contribution to the society.

Corporate Profile

RESEARCH AND DEVELOPMENT

138
Projects under research

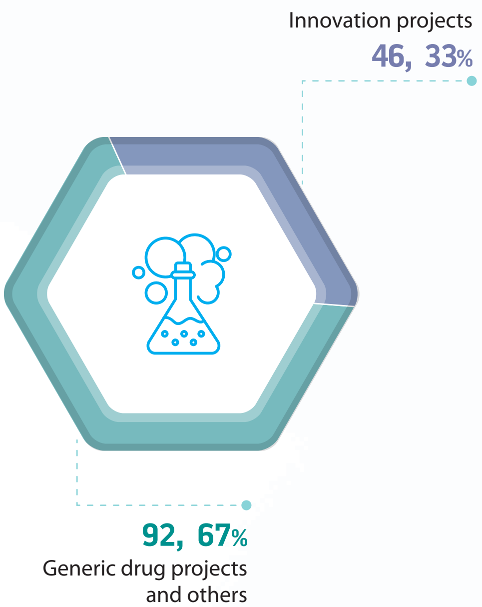
Approximately HK$ **1.4** billion investment in R&D and new projects

8
R&D centers

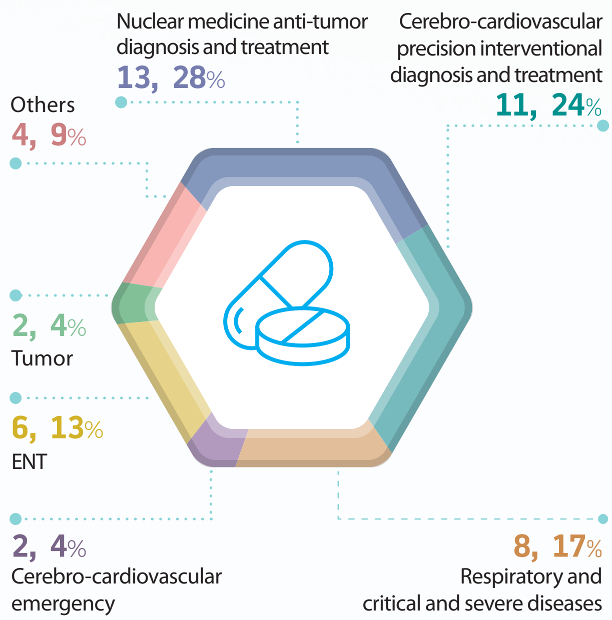
Achieved **77** significant milesontes

5
Technology platforms

OVERVIEW OF 138 R&D PROJECTS



OVERVIEW OF 46 INNOVATIVE PROJECTS BY THERAPEUTIC AREAS



Corporate Profile

INNOVATIVE PRODUCT PIPELINE STRATEGIC PLAN

As of 22 March 2023, the R&D progress of the Group's innovative product pipelines is as follows:

Field	Sector	Direction	Product	Indication	Preclinical	IND/Model Inspection	Phase I	Phase II	Phase III	NDA/ Registration	Launch
					R&D progress						
Pharmaceutical Technology	ENT	Ophthalmology	GPN00136 (BRM421)	Dry eye				🟠	🔵		
			GPN00153 (CBT-001)	Pterygium					🟠🔵		
			GPN00833	Anti-inflammatory and analgesic					🟠		🔵
			GPN00884	Myopia prevention and control			🟠				
	Respiratory and severe disease	Respiratory	Ryaltris	Allergic rhinitis						🟠	🔵
		Severe disease	STC3141	Sepsis				🟠			
			APAD	Sepsis			🟠				
	Cerebro-cardiovascular	Emergency	GPN00816	Anaphylaxis		🟠					🔵
	mRNA platform	Tumor	ARC01 (A002)	HPV-16 positive solid tumors			🟠	🔵			
Technologies on nuclear medicine and anti-tumor diagnosis and treatment as well as cerebro-cardiovascular precision interventional diagnosis and treatment	Nuclear medicine and anti-tumor diagnosis and treatment	Interventional treatment	Y-90 microsphere injection	Primary liver cancer					🔵		
			Thermosensitive embolic agent product	Vascular-rich solid organ tumors		🟠					
			Lava	Peripheral vascular arterial hemorrhage							🔵
			Kona	Cerebral arteriovenous malformations						🔵	
			AuroLase*	Prostate cancer						🔵	
		Radionuclide-drug conjugate (RDC)	TLX591 (177Lu-rosapatumab)	Prostate cancer	🟠				🔵		
			TLX591-CDx (68Ga-PSMA-11)	Prostate cancer - diagnosis					🟠		🔵
			TLX599-CDx (99mTc-EDDA/HYNIC-iPSMA)	Prostate cancer - diagnosis	🟠				🔵		
			TLX250 (177Lu-girentuximab)	Clear cell renal cell carcinoma	🟠			🔵			
			TLX250-CDx (89Zr-girentuximab)	Clear cell renal cell carcinoma - diagnosis					🟠	🔵	
			TLX101 (131I-IPA)	Glioblastoma			🟠	🔵			
			TOCscan®	Gastroenteropancreatic neuroendocrine tumor - diagnosis	🟠						🔵
			ITM-11	Gastroenteropancreatic neuroendocrine tumor			🟠		🔵		
			ITM-41	Malignant tumor bone metastases	🟠		🔵				
		Access management / Coronary artery vascular intervention	IVL CAD	Moderate/ severe coronary artery/peripheral arterial calcification	🟠						
		Access management / Peripheral vascular intervention	IAL PAD		🟠						
			aXess	Hemodialysis	🟠		🔵				
			LEGFLOW DCB	Peripheral vascular disease					🟠		🔵
		Access management / Neurointer-vention	Stent retriever	Ischemic stroke						🟠	
			DCB	Intracranial stenosis	🟠						
		Structural heart disease / Structural heart disease	Saturn	Mitral regurgitation	🟠🔵						
		Electrophysiology and heart failure / Electrophysiology	Heartlight X3	Atrial fibrillation						🟠	🔵
		Electrophysiology and heart failure / Heart failure	CoRisma	Heart failure	🟠🔵						

🟠 Mainland China 🔵 Overseas

* AuroLase: The Group owns the right of first negotiation for that product

Corporate Profile

MAJOR EVENTS

As of the end of 2023, the Group's major product development and corporate development are as follows:

DECEMBER

- The Group entered into an equity investment agreement with Chongqing Duoputai Pharmaceutical Co., LTD. ("**Duoputai Pharmaceutical**") to acquire 90% equity interest of Chongqing Duoputai Pharmaceutical Technology Co., Ltd.* ("**Duoputai Pharmaceutical Technology**") at a total consideration of approximately RMB631.8 million. The layout of Maixuekang capsule/enteric-coated tablet series products (National Reimbursement Drug and Essential Drugs List) will further consolidate the Group's market position in the field of cardiovascular and cerebrovascular disease treatment.
- The Group's IND application in China for GPN00884, a globally innovative ophthalmic drug used to delay the progression of myopia in children, was accepted by NMPA.
- The Group entered into an equity acquisition agreement with Mitsubishi Tanabe Pharma Corporation ("**MTPC**"), Japan, pursuant to which the Group acquired the equity interest of Tianjin Tanabe Seiyaku Co, Ltd. ("**Tianjin Tanabe**") with approximately HKD400 million (equivalent to approximately RMB367.7 million). The Group can rapidly enter into the chronic disease market through Tianjin Tanabe, achieving the Group's full coverage in the field of cerebro-cardiovascular disease treatment, from emergency rescue to chronic disease management, from injection preparations to oral preparations. It also significantly expanded and improved the product portfolio of the Group's cerebro-cardiovascular emergency segment.

NOVEMBER

- The Group's global innovative drug STC3141's Phase II clinical study for the treatment of sepsis in China completed the enrollment of the first patient.
- The IND application of ARC01 (A002), a therapeutic tumor vaccine for human papillomavirus type 16 ("**HPV-16**")-positive late-stage unresectable or recurrent/metastatic solid tumors, was accepted by NMPA.

OCTOBER

- LavaTM, the Group's innovative liquid embolic agent was commercialized in the U.S.. It is the first and only innovative liquid embolic agent approved by the U.S. Food and Drug Administration ("**FDA**") for the treatment of peripheral vascular arterial hemorrhage.
- GPN00833, the Group's improved new drug hormone nano-suspension eye drops for anti-inflammatory and pain relief completed the first patient enrolment and dosing in the Phase III clinical trial in China.

SEPTEMBER

- Ryaltris® compound nasal spray, the Group's innovative product for the treatment of allergic rhinitis ("**GSP 301 NS**") completed the phase III clinical study in China and reached the clinical endpoint.
- The Carglumic Acid Dispersible Tablets independently developed by the Group for the treatment of hyperammonemia in adults or children caused by N-acetylglutamate synthetase (NAGS) deficiency, Isovaleric acidemia (IVA), methylmalonic acidemia (MMA), or propionic acidemia (PA), was granted a drug registration certificate by NMPA. It is the first generic drug commercialized in China.

AUGUST

- APAD, a global innovative drug independently developed by the Group for the treatment of sepsis, completed the first patient enrolment and dosing in the Phase I clinical trial in China.
- TLX591-CDx, the Group's global innovative radionuclide-drug conjugate ("**RDC**") for the diagnosis of prostate cancer, completed the first patient enrollment and dosing in the Phase III clinical trial in China.
- The new selective mineralocorticoid receptor antagonist ("**MRA**") eplerenone tablets were granted a certificate of drug registration by NMPA. Eplerenone Tablets, as an exclusive product available in China, were successfully approved to fill the gap of domestic second-generation MRA drugs.

JULY

- The Group's global innovative drug STC3141 was approved by NMPA to conduct Phase II clinical studies for the treatment of sepsis.

Corporate Profile

JUNE

- The first patient was enrolled and dosed in the Phase I clinical study of TLX250-CDx, the Group's global innovative RDC for the treatment of clear cell renal cell carcinoma ("**ccRCC**") in China.
- The Phase Ib clinical trial of the Group's global innovative drug STC3141 for the treatment of sepsis in Australia and Belgium reached the clinical study endpoint.

MAY

- Novasight Hybrid System the Group's global innovative intravascular dual-mode imaging device for coronary artery imaging, was granted registration certificate for medical device by NMPA.
- The Group submitted a new drug application ("**NDA**") to the FDA for GPN00833 (APP13007), an anti-inflammatory and analgesic hormone nanosuspension eye drop.
- The Group's global innovative product Ryaltris® Compound Nasal Spray (GSP 301 NS) completed the subject enrolment in its Phase III clinical study in China.
- ITM-11, a global innovative RDC of the Group for the treatment of gastroenteropancreatic neuroendocrine tumors, was officially approved by NMPA to commence Phase I clinical study.

APRIL

- The Group acquired 87.5% equity interests of BlackSwan Vascular, Inc. ("**BlackSwan**") with not more than US$37.5 million. It also laid out two embolic agent products, which can form a product combination with Yttrium-90 microsphere injections, or form a new drug-device combination with other chemical drugs or radioactive drugs, expanding the Group's product pipeline in the field of tumor intervention.
- The application of Phase II clinical study of the Group's global innovative product STC3141 for the treatment of sepsis was accepted by NMPA.
- The Phase II clinical trial application of the Group's GPN00136 (BRM421), a small molecule peptide drug for the treatment of dry eye, was accepted by NMPA.
- The Group's GPN00833 (APP13007), an anti-inflammatory and analgesic hormone nano-suspension eye drop, was approved by NMPA to commence Phase III clinical study in China.
- The Phase II clinical study and two Phase III clinical studies of the Group's anti-inflammatory and analgesic hormone nano-suspension eye drops APP13007 successfully reached the clinical endpoints.
- TLX101, a global innovative RDC of the Group for the treatment of glioblastoma, obtained approval from NMPA to conduct Phase I clinical study in China.
- APAD, a global innovative drug of the Group for the treatment of sepsis obtained approval from NMPA to conduct Phase I clinical study in China.

FEBRUARY

- HeartLight X3 laser ablation platform, the Group's global innovative medical device for the treatment of AF completed the first licensed clinical treatment of laser ablation of AF in China at Ruijin-Hainan Hospital.
- The Group's global innovative drug STC3141 for the treatment of sepsis completed full patient enrolment in its phase Ib clinical trial in Australia and Belgium.

JANUARY

- The Jext® pre-filled epinephrine automatic injection pen of the Group for the treatment of severe allergic reactions was officially approved by the Drug Administration of Guangdong Province in China, and was granted the approval for the importation of Hong Kong and Macao drugs for clinical urgency in the mainland of the Greater Bay Area.
- Two global innovative compound preparations of the Group, Enerzair® Breezhaler® (indacaterol acetate, glycopyrronium bromide and mometasone furoate powder for inhalation II) and Atectura® Breezhaler® (indacaterol acetate and mometasone furoate powder for inhalation II, III), with a total of three product specifications, successfully passed the national medical insurance negotiation in China and were formally included in the category-B medicines management scope in China's National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022 version) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2022年版)》).

Corporate Profile

THE GLOBAL LAYOUT OF THE GROUP

Cardionovum GmbH
ITM Isotope Technologies Munich SE
GERMANY

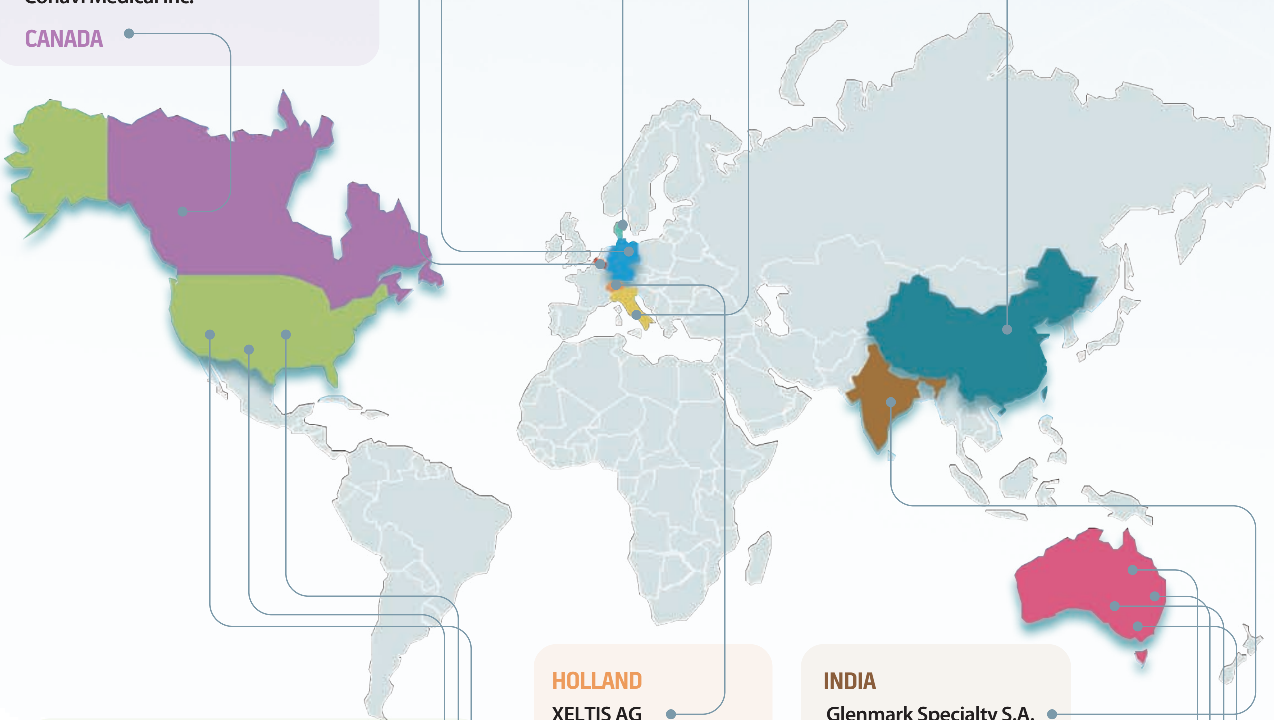
eTheRNA Immunotherapies NV
BELGIUM

Conavi Medical Inc.
CANADA

InnovHeart S.r.l
ITALY

ALK-Abelló A/S
DENMARK

Cloudbreak Bio-Pharmaceutical Science and Technology (Guangzhou) Co., Ltd.
Chongqing AnTi New Bio-technology Limited
BRIM Biotechnology, Inc.
Shanghai RevoImmune Therapeutics Biotechnology Limited
Formosa Pharmaceuticals, Inc.
CHINA



HOLLAND
XELTIS AG

INDIA
Glenmark Specialty S.A.

AMERICA
Sirtex Medical US Holdings, Inc.
CardioFocus, Inc.
Nanospectra Biosciences, Inc.
CoRISMA MCS Systems, Inc.
FastWave Medical Inc.
BlackSwan Vascular, Inc.

AUSTRALIA
Sirtex Medical Pty Ltd
Gri˜th University
The Australian National University
Telix Pharmaceuticals Limited
Grand Medical Pty Ltd

Corporate Profile

SUBSIDIARIES

The Group's principal subsidiaries are as follows:

Company name and percentage of equity interest	Positioning and functions
Grand Pharma (China) Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Pharmaceutical Co., Ltd. 99.18%	Manufacture of pharmaceutical raw materials
Wuhan Grand Hoyo Co., Ltd. 97.67%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Life Science & Technology Co., Ltd. 97.43%	Research and development, manufacture and sales of taurine products
Hubei Grand Biotechnology Co., Ltd. 65.04%	Research and development, manufacture and sales of amino acid series products
Hubei Grand Fuchi Pharmaceutical & Chemicals Co., Ltd. 89.60%	Research and development, manufacture and sales of agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Pharmaceutical Company Limited 99.84%	Manufacture and sales of ophthalmic pharmaceutical products
Wuhan Kernel Bio-tech Co., Ltd. 91.56%	Research and development, manufacture and sales of bio-technology products series
Hubei Wellness Pharmaceutical Co., Ltd. 99.84%	Manufacture and sales of pharmaceutical products
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. 59.90%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Grandpharma Group Sales Co., Ltd. 99.84%	Sales of pharmaceutical products
Beijing Huajin Pharmaceutical Co., Ltd. 71.88%	Research and development, manufacture and sales of pharmaceutical products
Beijing Grand Jiuhe Pharmaceutical Co., Ltd. 96.84%	Research and development, manufacture and sales of pharmaceutical products
Tianjin Jingming New Technology Development Co., Ltd. 73.18%	Research and development, manufacture and sales of pharmaceutical products
Zhu Hai Cardionovum Medical Device Co. Ltd. 77.89%	Sales of medical devices
Xi'an Beilin Pharmaceutical Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Wuhan Wuyao Technology Co., Ltd. 99.84%	Research and development
Grand Medical Pty Ltd 100%	Research and development
Hubei Bafeng Pharmaceuticals & Chemicals Share Co., Ltd. 99.84%	Research and development, manufacture and sales of pharmaceutical products
Nanjing AuroRNA Biotech Co., Ltd. 74.88%	Research and development
BlackSwan Vascular Inc. 87.50%	Research and development, manufacture and sales of pharmaceutical products

Corporate Profile

The principal associates of the Group are as follows:

Company name and percentage of equity interest	Positioning and functions
Sirtex Medical Pty Ltd 57.98%	Research and development, manufacture and sales of pharmaceutical product
Shanghai Xudong Haipu Pharmaceutical Co., Ltd. 55.00%	Research and development, manufacture and sales of pharmaceutical products
Cardionovum GmbH 33.33%	Research and development, manufacture and sales of devices

Corporate Profile

4. DEFINITIONS

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below:

"AF"	Atrial Fibrillation
"APERTO® OTW"	Paclitaxel Releasing Hemodialysis Shunt Balloon Dilatation Catheter
"ARDS"	Acute Respiratory Distress Syndrome
"BlackSwan"	BlackSwan Vascular, Inc.
"ccRCC"	Clear cell renal cell carcinoma
"CDH Genetech"	CDH Genetech Limited, a company incorporated in the Cayman Islands with limited liability
"COVID-19"	2019 novel coronavirus disease
"EMA"	European Medicines Agency
"FDA"	United States Food and Drug Administration
"GEP-NETs"	Gastroenteropancreatic neuroendocrine tumors
"HPV-16"	Human papillomavirus type 16
"ICS"	Inhaled Glucocorticoid
"IND"	Investigational New Drug Applications
"ITM"	ITM Isotope Technologies Munich SE
"IVUS"	Intravascular ultrasound
"LABA"	Long-acting ß2 agonist
"LAMA"	Long-acting muscarinic antagonist
"LEGFLOW® OTW"	Paclitaxel Releasing Peripheral Balloon Dilatation Catheter
"LNP"	Liposomal nanoparticles

Corporate Profile

"MR"	Mineralocorticoid receptor
"MRA"	Mineralocorticoid receptor antagonist
"mRNA"	messenger RNA
"NDA"	New drug application
"NMPA"	National Medical Products Administration
"Novasight"	Novasight Hybrid System
"OCT"	Optical coherence tomography
"PCI"	Percutaneous coronary intervention
"RDC"	Radionuclide-drug conjugate
"RESTORE DEB®"	Paclitaxel Releasing Coronary Balloon Dilatation Catheter
"SARS-CoV-2"	COVID-19 virus
"Sirtex"	Sirtex Medical Pty Ltd
"Sirtex Medical"	Sirtex Medical Singapore Pte Ltd.
"Telix"	Telix Pharmaceuticals Limited
"TAVO™"	Tavokinogene Telseplasmid
"XELTIS"	XELTIS AG
"Beijing Purevalley"	Beijing Purevalley Biotechnology Co., Ltd (北京普爾偉業生物科技有限公司), a limited liability company established in the PRC and an indirect non wholly-owned subsidiary of the Company
"Greater Bay Area"	The Guangdong-Hong Kong-Macao Greater Bay Are
"Greater China Region"	Mainland China, the Hong Kong Special Administrative Region of the PRC, the Macao Special Administrative Region of the PRC, Taiwan of the PRC

Corporate Profile

"Duoputai Technology"	Chongqing Duoputai Pharmaceutical Technology Co., Ltd.
"Duoputai Pharmaceutical"	Chongqing Duoputai Pharmaceutical Co., LTD.
"Natixis"	Natixis, a company incorporated in France, whose members have limited liability
"Grand Decade"	Grand Decade Developments Limited, a limited company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company
"Hubei Bafeng"	Hubei Provincial Bafeng Pharmaceuticals and Chemicals Share Co., Ltd.
"Novartis"	Novartis AG.
"Ruijin-Hainan Hospital"	Ruijin-Hainan Hospital Shanghai Jiao Tong University School of Medicine (Boao Research Hospital) (上海交通大學醫學院附屬瑞金醫院海南醫院暨博鰲研究型醫院)
"Shanghai Shetai"	Shanghai Shetai Medical Technology Limited, a company established in the PRC with limited liability
"Tianjin Jingming"	Tianjin Jingming New Technology Development Co., Ltd.
"Tianjin Tanabe"	Tianjin Tanabe Seiyaku Co., Ltd.
"MTPC"	Mitsubishi Tanabe Pharma Corporation
"WMU"	WenZhou Medical University
"Wuhan Shetai Medical"	Wuhan Shetai Medical Technology Co., Ltd, a company established in the PRC with limited liability and the shares of which are owned as to 33% by Grand Pharma (China) and 67% by Shanghai Shetai
"Xudong Haipu"	Shanghai Xudong Haipu Pharmaceutical Company Limited
"Grand Pharm (China)"	Grand Pharma (China) Co., Ltd., a company incorporated in the PRC, being a subsidiary of the Company owned as to 99.84%

Financial Summary

RESULTS

	Year ended 31 December				
	2023	2022	2021	2020	2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**10,529,590**	9,562,285	8,597,975	6,352,919	6,590,635
Profit before tax	**2,344,197**	2,516,893	2,785,832	2,073,583	1,355,973
Income tax	**(448,755)**	(418,642)	(380,800)	(292,374)	(230,485)
Profit for the year	**1,895,442**	2,098,251	2,405,032	1,781,209	1,125,488

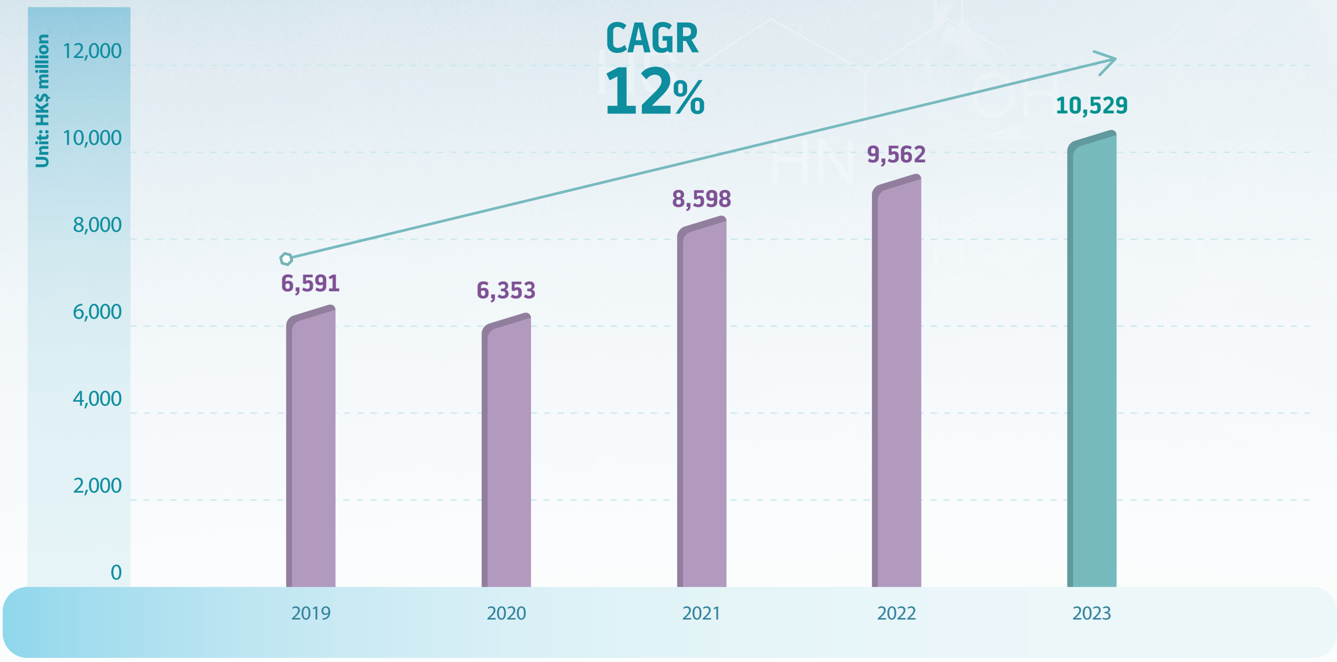
ASSETS AND LIABILITIES

	Year ended 31 December				
	2023	2022	2021	2020	2019
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**22,515,326**	22,371,061	21,057,030	16,984,345	13,813,307
Total liabilities	**(7,244,810)**	(8,162,401)	(7,614,168)	(5,640,136)	(5,302,300)
Net assets	**15,270,516**	14,208,660	13,442,862	11,344,209	8,511,007

Financial Summary

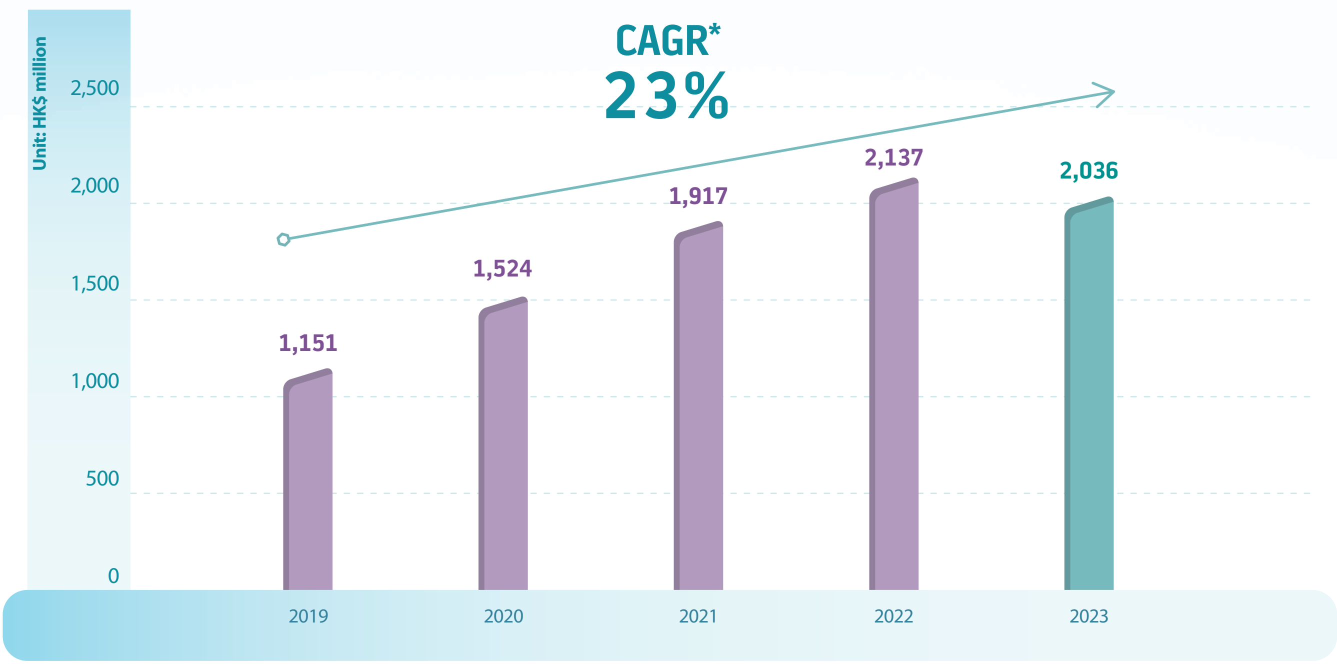
Revenue growth

Table 1.1



Increase rate of net profit attributable to the owners of the Company

Table 1.2



* Excluding the effect of from fair value change of investment in Telix and a one-off administrative fine

Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECT

As at 20 March 2024, the Group had a total of 75 significant milestones, including 40 innovative products, 16 generic products, 9 functional foods, 4 API products with international certification, 3 major merger and acquisition and 3 significant construction projects.

Innovative products

Nuclear medicine anti-tumor diagnosis and treatment:

— The phase III clinical study of TLX591-CDx, an innovative nuclear medicine product for the diagnosis of prostate cancer completed the enrolment of the first patient in China;

— TLX250-CDx, an innovative nuclear medicine product for the diagnosis of clear cell renal cell carcinoma ("**ccRCC**") completed the phase I clinical study in China and successfully entered a confirmatory clinical study;

— TLX101, an innovative nuclear medicine product for the treatment of glioblastoma, was approved to commence a phase I clinical study in China;

— ITM-11, an innovative nuclear medicine product for the treatment of gastroenteropancreatic neuroendocrine tumors ("**GEP-NETs**"), was approved to commence a phase I clinical study in China;

— Lava™, an innovative liquid embolic agent for the treatment of peripheral vascular arterial hemorrhage, was approved for commercialization by the U.S. Food and Drug Administration ("**FDA**") and was successfully commercialized;

— Kona™, a preoperative embolic agent for the treatment of cerebral arteriovenous malformations, submitted a Premarket Approval (PMA) application to the FDA.

— AuroLase®, a global innovative therapeutic technology for prostate cancer tissue ablation, submitted a PMA application to the FDA.

Cerebro-cardiovascular precision interventional diagnosis and treatment:

— The application for the commercialization of HeartLight X3 laser ablation platform, a global innovative medical device, has been submitted in China;

— HeartLight X3 laser ablation platform, an innovative medical device, completed the first chartered access laser ablation operation for the treatment of atrial fibrillation in China at Ruijin-Hainan Hospital of Shanghai Jiaotong University School of Medicine and Boao Research Hospital ("**Ruijin-Hainan Hospital**");

— NOVASIGHT Hybrid, a new medical imaging system for intracavity diagnosis, has been approved for commercialization in China;

— Distal access catheter Pilu® (琵鹭®), a neurointerventional product, has been approved for commercialization in China;

— Microcatheter Sheti® (蛇鹈®), a neurointerventional product, has been approved for commercialization in China;

— The registered clinical trial of the adjustable stent retriever GPN00493, an innovative neurointerventional device, has successfully reached clinical endpoint and the application for commercialization was submitted to and was accepted by the National Medical Products Administration of China ("**NMPA**").

Management Discussion and Analysis

Respiratory and severe disease:

— Enerzair® Breezhaler® and Atectura® Breezhaler®, the two global innovative compound preparations for the treatment of asthma, were successfully included in the National Reimbursement Drug List (2022 edition);

— Ryaltris® compound nasal spray, an innovative product for the treatment of allergic rhinitis ("**GSP 301 NS**") completed the phase III clinical study in China and reached the clinical endpoint, and the application for commercialization was submitted to and was accepted by the NMPA;

— STC3141, a global innovative drug for the treatment of sepsis, completed the phase Ib clinical study in Australia and Belgium and successfully reached the clinical endpoint;

— STC3141, a global innovative drug for the treatment of sepsis, was approved to commence a phase II clinical study in China and the first patient was enrolled;

— APAD, a global innovative drug for the treatment of sepsis, was approved to commence a phase I clinical study in China and the first patient was enrolled;

ENT:

— GPN00833, an improved new drug for anti-inflammatory and pain relief after ophthalmology surgery, was approved to commence a phase III clinical study in China and the first patient was enrolled;

— CBT-001, an innovative and improved new drug for the treatment of pterygium, was approved to commence a phase III clinical study;

— BRM421, an innovative drug for the treatment of dry eye, was approved to commence a phase II clinical research in China;

— The IND submitted for GPN00884, an innovative drug for delaying the progression of myopia in children, was accepted by the NMPA in China.

Cerebro-cardiovascular:

— Jext®, a pre-filled epinephrine auto-injector for the treatment of severe allergic reactions, was granted approval for Guangdong-Hong Kong-Macao Greater Bay Area Imported Pharmaceuticals for Urgent Clinical Needs in Mainland China;

mRNA platform:

— ARC01, a therapeutic tumor vaccine for human papillomavirus type 16 ("**HPV-16**")-positive late-stage unresectable or recurrent/metastatic solid tumors, was approved to commence a phase I clinical study in China;

Management Discussion and Analysis

Generic products

16 products have been approved for commercialization, among which eplerenone tablets and carglumic acid dispersible tablets are the first generic products being approved for commercialization in China, and the ophthalmic balanced salt solution (15ml) is the first generic product of this specification being approved for commercialization in China.

Functional foods:

There were 9 functional foods commercialized in China.

API products

There were 4 API products passed the REACH registration of the European Union.

Merger and acquisition

For the nuclear medicine anti-tumor diagnosis and treatment segment, the Group has completed the acquisition of 87.5% equity interests in BlackSwan Vascular, Inc. ("**BlackSwan**") in the United States, which has become a non-wholly owned subsidiary of the Group. This acquisition was another industrial deployment by the Group in the field of tumor intervention after the acquisition of Sirtex Medical Limited ("**Sirtex**") in 2018.

For the cerebro-cardiovascular segment, the Group conducted two major mergers and acquisitions, including the acquisition of 75.35% equity interest of Tianjin Tanabe Seiyaku Co., Ltd. ("**Tianjin Tanabe**") and 90% equity interest of Chongqing Duoputai Pharmaceutical Technology Co., Ltd. ("**Duoputai Technology**"). Upon completion of the acquisitions, Tianjin Tanabe and Duoputai Technology will become non-wholly owned subsidiaries of the Group. On the one hand, they further consolidate the Group's leading position in the cerebro-cardiovascular emergency market. On the other hand, they also accelerate the Group's entry into the cerebro-cardiovascular chronic disease market, which is conducive to quickly establishing market advantages.

In addition, the Group has also made significant progress in the construction of its R&D centers and production bases.

R&D center:

The Shanghai R&D Center of Kainowei Medical Technology was officially inaugurated, which mainly focuses on the research and development of mitral valve replacement products in the field of structural heart disease medical devices. The entire R&D center has a flow dynamics-fatigue testing area, mechanical performance testing area, valve processing and chemical testing area, equipped with imported advanced equipment such as stent laser cutting machine, valve laser cutting machine, valve accelerated fatigue testing machine, steady flow performance testing machine, and pulsating flow performance testing machine. It is the third international high-end medical device R&D center under the cerebro-cardiovascular precision interventional diagnosis and treatment segment, in addition to Wuhan Optics Valley Innovative Device R&D Center and Changzhou Innovative Device R&D Center, with "international technology to serve China" as its strategic core.

Production bases:

The amino acid production base in Xiantao City, Hubei Province, China, has officially completed construction, and has fully entered the trial production stage. The operation of the production base will further expand the production capacity of a number of high-quality amino acid varieties of the Group and provide sustainable momentum for the Group's amino acid segment to grow profitably in the future. Also located in Xiantao City, the second phase of construction of the biopesticides production base has officially commenced, which will further expand the production capacity of high-end biopesticides and increase its market share.

Management Discussion and Analysis

BUSINESS INTRODUCTION

The Group has strong technological innovation strength, outstanding internationalization strength, solid industrial foundation, complete industrial chain and significant comprehensive advantages in the integration of raw materials and preparations. The Group has more than 90 products included in the National Essential Drug List (2018 version) and more than 200 products included in the National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022 version). In June 2023, the Group ranked 19th on the list of Top 100 Chemical Pharmaceutical Enterprises of China 2022.

PHARMACEUTICAL TECHNOLOGY

With years of experience in the ENT, respiratory and severe disease, as well as cerebro-cardiovascular fields, the Group currently has a number of products with high entry barrier and exclusive products with leading market shares, a strong brand name and a solid market position, and also reserves a number of innovative products.

Through an innovation model combining global technology cooperation and independent R&D, the Group has established the International R&D Center in Optics Valley, Wuhan, the Glycomics R&D Center in Australia and the mRNA R&D Center in Aoluo, Nanjing in the field of pharmaceutical technology. These R&D centers and technology platforms will continue to empower and provide continuous technological support for the Group's R&D and innovation in the field of pharmaceutical technology.

ENT segment

The Group ranks among the top in the industry in terms of the number of product pipelines on sale in the ENT segment, and its treatment areas include diseases in multiple fields such as ophthalmology, otolaryngology, and stomatology, covering chemical preparations, Chinese drug preparations and health products, including prescription drugs, OTC drugs, medical devices, consumer goods and other major categories. With full coverage inside and outside of the hospital, we created a "ENT ecosystem" by integrating "prevention + treatment + health care". In terms of innovation and R&D, the Group has reserved a few world-wide innovative products for the treatment of "myopia", "dry eye", "pterygium" and "anti-inflammatory and analgesic after ophthalmology surgery". In the future, the segment will adhere to the development strategy of combining Chinese and Western medicine as well as utilizing both medicine and medical devices in treatments, so as to continuously strengthen the influence of the industry, and achieve new breakthroughs in the business field.

ENT products

The ENT core products of the Group include Rui Zhu (polyvinyl alcohol eye drop), He Xue Ming Mu tablets, Jinsang Series (Jinsang Kaiyin Tablet/Capsule/Pill/Granules, Jinsang Qingyin Tablet/Capsule/Pill/Granules, Jinsang Liyan Tablet/Capsule/Pill/Granules, Jinsang Sanjie Tablet/Capsule/Pill/Granules) and Nuo Tong (Xylometazoline Hydrochloride) etc.

Rui Zhu (polyvinyl alcohol eye drop):

is a single-piece preservative-free artificial tear and currently the first-line drug for the treatment of dry eye. It is recommended by experts such as the Expert Consensus on Prevention and Control of Cataract Surgery in China (2021) (《中國白內障圍手術期乾眼防治專家共識(2021年)》), the Expert Consensus on Sterily Surgery in China (2020) (《中國乾眼專家共識(2020年)》), the Expert Consensus on Refractive Surgery in Laser Corneal Surgery in China (2019) (《中國激光角膜屈光手術圍手術期用藥專家共識(2019年)》), and the Expert Consensus on Diagnosis and Treatment of Functional Disorder of Bleacne in China (2017) (《我國瞼板腺功能障礙診斷與治療專家共識(2017年)》). Rui Zhu has good brand recognition and was awarded the China Wellknown Trademark in 2017; and was awarded the CPEO Gold Award for eight consecutive years from 2016 to 2023, namely the "Healthy China Brand List". The Group achieved good results growth in the product promotion of prescription drugs and non-prescription drugs. At the same time, the Group strengthened the academic driven development of e-commerce platforms to empower sales and maintain the steady growth of Rui Zhu.

Management Discussion and Analysis

He Xue Ming Mu tablet:

which is produced by three classical formulae, namely the Siwutang (四物湯), Erzhiwan (二至丸) and Shengpuhuangtang (生蒲黃湯), has the functions of cooling blood hemostasis, moisturising dryness and removing blood stasis, and nourishing liver and eye-brightening, and is mainly used for the treatment of retinal hemorrhage caused by the cloudy liver and the heat-burn winding. Since He Xue Ming Mu tablet has been the exclusive product in China, the State Protected Chinese Medicine, the National Reimbursement Drug List (2022 edition) and the National Essential Drug List (2018 edition) for the last 20 years since its commercialization, the Group has accumulated a large number of clinical research data and application experience in the field of retinal hemorrhage, which has been included in a number of guidelines/consensus such as the Practical Ophthalmic Medicine and the Expert Consensus on Clinical Application of He Xue Ming Mu Tablets for the Treatment of Wet Age-related Macular Degeneration (《和血明目片治療濕性年齡相關性黃斑變性臨床應用專家共識》) and provides valuable reference for clinical use of the products, and the sales of products continue to grow steadily.

Jinsang Series Products:

They are exclusive products nationwide, covering all the diseases of the throat, among which, Jinsang Sanjie Capsule is used for the treatment of chronic hoarseness disease caused by heat and poisoning storage and airtight blood stasis (vocal nodules, polyp of vocal cords, thickening of mucosa of vocal cords) and the resulting hoarseness. Jinsang Sanjie Capsule has been widely used in clinical application for more than 30 years since its commercialization. Jinsang Liyan Capsule is the only Chinese patent medicine for the treatment of throat diseases caused by intraocular obstruction of liver depression and phlegm and humidification. It is also an ideal medicine for the treatment of pharyngeal symptoms in clinical operation, gastroesophageal reflux pharyngitis, and chronic and thick pharyngitis. Jinsang Kaiyin Capsule is designed for the rapid effect of acute pharyngitis as well as throat redness, swelling, heat, pain and hoarning caused by acute pharyngitis. Several products have been included in the Guidelines for the Diagnosis and Treatment of Common Diseases in Otorhinolaryngology of China (《中國耳鼻咽喉科常見病診療指南》) issued by the Chinese Association of Traditional Chinese Medicine, the Clinical Drug Guidelines (《臨床用藥指南》) for the diagnosis and treatment of clinicians, the authoritative monographs of the Manual for Common Traditional Chinese Medicine of Otorhinolaryngology (《常見眼耳鼻咽喉科中成藥手冊》) and the Practical Otorhinolaryngology Head and Neck Surgery (《實用耳鼻咽喉頭頸外科學》), etc., and are included in a number of clinical pathways and expert diagnosis and treatment guidelines. In January 2022, the Expert Consensus on the Clinical Application of Jinsang Sanjie Capsules for the Treatment of Vocal Nodules and Polyp of Vocal Cords (《金嗓散結膠囊治療聲帶小結、聲帶息肉臨床應用專家共識》) was issued by the Chinese Association of Traditional Chinese Medicine, which has also provided new support for the evidence-based development of Jinsang Sanjie products. Jinsang Sanjie and Jinsang Kaiyin Capsules are products on the National Reimbursement Drug List. Jinsang Kaiyin and Qingyin are dual cross-over products with both prescription and over-the-counter drugs.

Nuo Tong:

It is a nasal decongestant to relieve nasal congestion, and is suitable for relieving nasal congestion caused by acute and chronic rhinitis, sinusitis, allergic rhinitis, hypertrophic rhinitis and other nasal disorders. It does not contain hormones or ephedrine and is suitable for both adults and children. Nuo Tong is divided into two dosage forms: nasal drops and nasal spray, of which the nasal spray is the exclusive domestic dosage form and is the leading product among its generic counterparts. The product has been included in clinical guidelines such as Guidelines for the Diagnosis and Treatment of Allergic Rhinitis in China (Revised Edition 2022) (《中國變應性鼻炎診斷和治療指南(二零二二年，修訂版)》), Guidelines for the Diagnosis and Treatment of Allergic Rhinitis in Children (Revised Edition 2022) (《兒童變應性鼻炎診斷和治療指南(二零二二年，修訂版)》) and Recommendations for the Diagnosis and Treatment of Sinusitis in Children (《兒童鼻 — 鼻竇診斷和治療建議》).

Management Discussion and Analysis

Innovative R&D pipeline

While creating an ENT ecosystem, the Group also reserved four innovative drugs in the direction of clear clinical needs for anti-inflammatory and pain relief after ophthalmology surgery, pterygium, dry eye, myopia, etc.:

GPN00833, an improved new drug hormone nano-suspension eye drops for anti-inflammatory and pain relief after ophthalmology surgery:

It is a potent glucocorticoid and has efficient local anti-inflammatory and strong capillary contraction effect. Its unique nano-preparation technique effectively eliminates the low bioavailability and safety risks caused by low water solubility of hormones products. Two overseas phase III clinical studies of the product have successfully reached the clinical endpoints. According to the clinical results, GPN00833 has significant effectiveness in the treatment of postoperative anti-inflammatory and analgesic effects after ophthalmology, and has a good safety profile. It submitted an NDA to the FDA in May 2023. Currently, the product has been approved for phase III clinical study in China in April 2023, and the first patient was enrolled and has started administration in October during the same year.

GPN00153, an improved new drug for the treatment of pterygium (CBT-001):

It is an innovative and improved product, Nintedanib, which is used for the treatment of pulmonary fibrosis. It inhibits neovascularization and tissue fibrosis. Currently, the phase II clinical trial has been completed in the United States with high safety and significant clinical efficacy, which can inhibit the growth of pterygium and control the aggravation of the disease. The global phase III clinical trial for CBT-001 has commenced in June 2022 and its phase III clinical trial in China has been approved to commence by the NMPA in March 2023.

GPN00136, a world-wide innovative drug for dry eye (BRM421):

It is small molecule peptide eye drops that can accelerate the division and proliferation of limbal stem cells, and in turn stimulate the repair of ocular surface. According to the phase II clinical study data completed in the United States, compared to cyclosporine eye drops currently commercialized for the treatment of dry eye, BRM421 has high safety and low irritation, as well as the potential to quickly alleviate the signs and symptoms of dry eye within two weeks. Currently, the product has commenced phase III clinical studies overseas. In terms of registration in China, it was approved to commence phase II clinical study in April 2023.

Novel ophthalmic preparation GPN00884 for delaying the progression of myopia in children:

It is an innovative drug with a new mechanism jointly developed by the Group and the Eye Hospital of Wenzhou Medical University ("**WMU**"). Compared with low-concentration atropine eye drops, GPN00884 eye drops have no mydriasis effect, no adverse reactions such as photophobia and decreased accommodation, and the dosing period is not limited, which can improve patient compliance. The product submitted a phase I clinical study application in China in December 2023, which was accepted by the NMPA.

Management Discussion and Analysis

Respiratory and Severe Disease Segment

The Group's products on sale in the respiratory and severe disease segment covers a wide range of indications such as rhinitis, bronchitis, pneumonia, asthma and chronic obstructive pulmonary disease, etc. The core products, Qie Nuo (Eucalyptol, Limonene and Pinene Enteric Soft Capsules), Enerzair® Breezhaler® and Atectura® Breezhaler® are exclusive products nationwide. A number of products are in the leading position in their respective segments.

The innovative strategic plan in this field focuses on the unmet significant clinical needs, with a number of products under research, covering allergic rhinitis, sepsis and Acute Respiratory Distress Syndrome ("**ARDS**") etc. In the future, the Group will continue to adopt the R&D concept of independent R&D and global expansion to create a full-cycle management product cluster for chronic airway diseases and a pipeline of products for severe diseases, so as to continuously strengthen the Group's industry position in this field.

Respiratory products

The main products include Qie Nuo, Enerzair® Breezhaler® and Atectura® Breezhaler®, etc.

Qie Nuo:

It is a soluble and phlegm-free drug for viscosity, and is suitable for acute and chronic rhinosinusitis as well as respiratory diseases such as acute and chronic bronchitis, pneumonia, bronchial dilation, pulmonary abscess, chronic obstructive pulmonary disease, bacterial infection in the lungs, tuberculosis, and silica lungs. It can also be used for bronchoscopic angiography to facilitate the discharge of contrast medium. It is an exclusive product in China independently developed by the Group with two separate types of drugs for adult and children's use and was included in China's National Reimbursement Drug List in 2017 and China's National Essential Drug List in 2018 respectively, and was listed in the Top Brands of the Health Industry in 2023 (二零二三年健康產業品牌銳榜). Currently, there are dozens of guidelines and expert consensus recommending the use of viscosity dissolving promotors for clinical use. Among them, more than 10 guidelines and expert consensus explicitly recommend eucalyptol, limonene and pinene enteric soft capsules or its active ingredients for clinical treatment, such as the Expert Consensus on the Diagnosis and Treatment of Adult Bronchiectasis in China (《中國成人支氣管擴張症診斷與治療專家共識》), Expert Consensus on the Diagnosis and Treatment of Adult Bronchiectasis in China (2021) (《中國成人支氣管擴張症診斷與治療專家共識(2021)》), Guidelines for the Diagnosis and Treatment of Secretory Otitis Media in Children (2021) (《兒童分泌性中耳炎診斷和治療指南(2021)》), Diagnosis and Treatment Guidelines for Cough (2021) (《咳嗽的診斷與治療指南(2021)》), the Guidelines for Rational Use of Drugs for Chronic COPD in Primary Care (2020) (《慢性阻塞性肺疾病基層合理用藥指南(2020)》), the Chinese Expert Consensus — Chinese (2015) on High-secretion Management of Gastrointestinal Adhesis for Chronic Gastropic Diseases (《慢性氣道炎症性疾病氣道粘液高分泌管理中國專家共識 — 中文版 (2015)》), etc. Its clinical status is prominent, and the level of recognition among doctors and patients is high, continuing to lead the market of oral cough relieving and phlegm relieving drugs.

Management Discussion and Analysis

Enerzair® Breezhaler® (indacaterol acetate, glycopyrronium bromide and mometasone furoate powder for inhalation II) and Atectura® Breezhaler® (indacaterol acetate and mometasone furoate powder for inhalation II, III):

Enerzair® Breezhaler® is the first triple combination inhalation preparation for asthma indications approved in China for the maintenance treatment of asthma in adults not adequately controlled with the maintenance combination treatment of long-acting beta2 adrenergic agonist (LABA) and inhaled corticosteroid (ICS). The product has clear efficacy, is convenient to use, and has achieved breakthroughs in three aspects: (1) using an optimized drug combination of ICS, LABA and long-acting muscarinic receptor antagonist (LAMA) (i.e. mometasone furoate/indacaterol acetate/glycopyrronium bromide), the three effective ingredients can provide synergy benefit, and compared with the conventional high dose ICS-LABA and high dose ICS-LABA combined with LAMA opened triple combination, Enerzair® Breezhaler® can effectively improve the clinical symptoms and lung function of patients with moderate to severe asthma, and significantly reduce the risk of acute attacks; (2) dosing once a day, which significantly facilitates the patient and is expected to improve the compliance; (3) using the advanced Breezhaler® inhalation device, which is easy to operate, and provides patients with triple confirmation of dosing as audible, tasteable, and visible, enhancing patients' confidence that the complete dose has been taken. The ARGON phase III clinical study of the product shows that, compared with high dose Salmeterol-Fluticasone powder for inhalation combined with Tiotropium Bromide Spray opened triple combination, Enerzair® Breezhaler® significantly reduce the annualized rate of moderate exacerbations (based on 24 weeks data) by 43%. Atectura® Breezhaler® is an innovative combination of ICS mometasone furoate and LABA indacaterol acetate for the maintenance treatment of adult and 12 years old above adolescent patients with asthma. Atectura® Breezhaler® also has the characteristics including "visible and controllable, precise inhalation, once a day" etc. It can significantly improve the lung function of patients and reduce the risk of acute attacks, and is a new choice for optimal treatment of asthma patients. The phase III clinical study of the product shows that, compared with the conventional high dose Salmeterol-Fluticasone powder for inhalation, Atectura® Breezhaler® can significantly improve the risk of acute attack in patients, and the risk of severe, moderately severe and all acute attack categories is reduced by approximately 26%, 22% and 19% respectively. Both products were officially included in the category-B medicines management scope in China's National Reimbursement Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2022 version) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2022年版)》), and provide new treatment method for people receiving long-term asthma treatment.

Innovative R&D pipeline

Based on unmet clinical needs, the Group has reserved a number of global innovative drugs for the indications of seasonal allergic rhinitis, sepsis and ARDS.

GSP 301 NS, a new compound nasal spray for the treatment of seasonal allergic rhinitis:

GSP 301 NS is a new glucocorticoid and antihistamine compound nasal spray. Currently, the product has been approved for commercialization in the United States, Australia, South Korea, Russia, the United Kingdom, the European Union as well as other countries and regions. In terms of registration in China, it was approved to commence a phase III clinical trial for the treatment of allergic rhinitis and rhinoconjunctivitis symptoms in patients aged 12 and above in October 2021, and has successfully met the clinical endpoint in September 2023. According to clinical results, the efficacy scores of GSP 301 NS are better than the monomer originator preparations Patanase® NS and Nesuna® NS. Meanwhile, the safety, tolerability and pharmacokinetic features of GSP 301 NS have also met the preset clinical endpoints. The NDA for the product was accepted by the NMPA in February 2024.

Management Discussion and Analysis

STC3141, a global innovative drug for the treatment of severe diseases:

STC3141 is a small molecule compound with a novel mechanism of action independently developed by the Group, which can be used to reverse organ damage caused by excessive immune responses by neutralizing extracellular free histones and neutrophil traps and is applicable to multiple severe disease indications. The product has a novel mechanism and the results of related preclinical research have been published in "Nature Communications" and "Critical Care", both top academic journal with far-reaching academic influence, in February 2020 and November 2023, respectively. At present, the product has been granted 7 clinical approvals in four indications of sepsis, ARDS, COVID-19, and ARDS caused by COVID-19 in five countries around three continents including China, Australia, Belgium, United Kingdom and Poland. Three patient-specific clinical studies were completed and have successfully met the clinical endpoints. It had been approved to conduct phase Ib clinical studies for the treatment of sepsis in Australia and Belgium in April 2020 and January 2022, respectively, and have successfully met the clinical endpoints in June 2023; it was approved by the NMPA to conduct a phase Ib clinical study for ARDS patients in China in early March 2021, which was completed in October 2022 and has successfully met the clinical endpoints; and it was approved to conduct phase IIa clinical studies for the treatment of severe COVID-19 pneumonia in Belgium, Poland and the United Kingdom in April, September and October 2021, respectively, which were completed in July 2022 and have successfully met the clinical endpoints. All three clinical studies demonstrated good safety profile and potential for clinical benefit in the treatment of severe diseases. Currently, the product was approved to conduct a phase II clinical study in China in July 2023 with the first patient being enrolled in November of the same year.

APAD, a global innovative drug for the treatment of sepsis:

APAD is a small molecule compound with a novel mechanism of action independently developed by the Group, which can antagonize a variety of pathogen-related molecules. The preclinical trial data showed that it can play a therapeutic role in sepsis caused by both bacterial and viral infections, and it is complementary to STC3141's mechanism of antagonizing the body's excessive immune response to treat sepsis, which can form a good product portfolio in the treatment of severe diseases such as sepsis. Currently, the product was approved by the NMPA to conduct a phase I clinical study in April 2023 with the first patient being enrolled in August of the same year.

Cerebro-cardiovascular Segment

The Group's cerebro-cardiovascular segment specializes in both emergency care and chronic disease management. In terms of emergency care, the Group is listed as a "national essential drug production base", an "emergency medicines manufacturer for national ready reserve" and a "national centralized production base and construction unit for minority-variety medicines (drugs in short supply)", etc. with nearly 30 varieties, 14 of which are included in the national emergency drugs catalogue of China, while 16 of which are included in the shortage drugs catalogue, which has ranked the top in the industry in terms of product pipeline. Our products cover three major emergency scenarios, namely in-hospital emergency care, pre-hospital emergency care and civilian emergency care. Through this, we continue to provide cerebro-cardiovascular emergency patients in China with a portfolio of safe and effective products with application in multiple scenarios and various choices. In terms of chronic disease management, eplerenone tablets, the Group's exclusive product, was approved for commercialization by the NMPA in August 2023, bridging the gap of second-generation selective mineralocorticoid receptor antagonist drugs in China.

Currently, there are more than 20 products under research in the cerebro-cardiovascular segment. Among which, Jext®, a pre-filled epinephrine auto-injector, can be used for self or family or social treatment for severe allergic reactions, filling the gap in China, and in January 2023, the product has been granted approval for Guangdong-Hong Kong-Macao Greater Bay Area Imported Pharmaceuticals for Urgent Clinical Needs in Mainland China. In the future, the Group's cerebro-cardiovascular segment will focus on emergency care and chronic disease management, and will continue to invest in and develop products in the fields of cerebro-cardiovascular emergency and chronic disease treatment that are in urgent clinical need through a combination of independent innovation and research and development and making breakthroughs in difficult generic technologies.

Management Discussion and Analysis

Cerebro-cardiovascular products

The products mainly cover the fields of blood pressure control, vascular active drugs, myocardial metabolism, heart failure and anticoagulation. The main products include Li Shu An (norepinephrine bitartrate injection, epinephrine hydrochloride injection), Nuo Fu Kang (methoxamine hydrochloride injection), Neng Qi Lang (coenzyme Q10 tablets), Rui An Ji (fructose sodium diphosphate oral solution), eplerenone tablets, Maixuekang (Maixuekang capsules and Maixuekang enteric-coated tablets), Herbesser (diltiazem hydrochloride tablets/diltiazem hydrochloride extended-release capsule, diltiazem hydrochloride injection) and deslanoside injection, etc.

Li Shu An, the norepinephrine bitartrate injection and epinephrine hydrochloride injection:

It is used for blood pressure control in acute low blood pressure state, and can also be used for blood pressure maintenance after the resuscitation from cardiac arrest. The epinephrine hydrochloride injection is suitable for severe respiratory difficulties caused by bronchospasm, which can quickly relieve the allergic shock caused by drugs, and is a major rescue medication for cardiopulmonary resuscitation of cardiac arrest caused by various reasons. Both products are included in the National Reimbursement Drug List and the National Essential Drug List, and the norepinephrine bitartrate injection passed the consistency evaluation for the first time in China in 2021. As important emergency medicines, the two products are recommended by a number of guidelines and expert consensus, such as the Expert Consensus on the Application of Vasopressors in Emergency Shock (2021) (《血管加壓藥物在急診休克中的應用專家共識(2021)》), the Consensus of Chinese Emergency Medicine Experts on Diagnosis and Treatment of Post-Adult Cardiac Arrest Syndrome (2021) (《成人心臟驟停後綜合徵診斷和治療中國急診專家共識(2021)》), the Expert Consensus on Perioperative Management of Elderly Septic Patients (2021) (《老年膿毒症患者圍術期管理專家共識(2021)》), the European Academy of Allergy and Clinical Immunology Guidelines: Guidelines for Anaphylaxis (2021) (《歐洲變態反應與臨床免疫學會指南：嚴重過敏反應指南(2021版)》), European Resuscitation Council Guidelines (2021) (《歐洲復蘇學會指南(2021)》), the Guidelines for the Treatment of Sepsis/Septic Shock in Emergency in China (2018) (《中國膿毒症/膿毒性休克急診治療指南(2018)》), the Expert Consensus on Diagnosis and Treatment of Cardiogenic Shock in China (2018) (《心源性休克診斷和治療中國專家共識(2018)》), the Consensus of Chinese Emergency Medicine Experts on Diagnosis and Treatment of Traumatic Hemorrhagic Shock in China (2017) (《創傷失血性休克診治中國急診專家共識(2017)》), the Guidelines for Diagnosis and Treatment of ESC Urgent and Chronic Heart Failure in 2016 (《2016 ESC急、慢性心力衰竭診斷和治療指南》), and the Guidelines for Rational Use of Medication for Heart Failure (2nd Edition) (《心力衰竭合理用藥指南(第2版)》), and the clinical status of the products is remarkable.

Epinephrine hydrochloride injection (pre-filled):

In July 2022, the "epinephrine hydrochloride injection (pre-filled)" independently developed by the Group was approved for commercialization. It is currently the first epinephrine pre-filled preparation being commercialized in China. At present, all other epinephrine products for commercialization in China are packaged in ampoule bottles and are required to be prepared on site for use, resulting in wastage of drug solution and inevitable generation of glass chips and causing the risk of secondary contamination. The Group's pre-filled packaging products do not need to be prepared and can be used directly, with the characteristics of convenient operation, accurate medication, avoiding the generation of glass chips, and reducing secondary contamination. While optimizing the quality of the products, it can maximize the precious rescue time for patients and provide a more efficient product portfolio for doctors and patients to cope with more complex clinical emergency scenarios.

Management Discussion and Analysis

Nuo Fu Kang, the methoxamine hydrochloride injection:

It is used for the treatment of low blood pressure during general anesthesia and to prevent the occurrence of abnormal heart rate, to treat low blood pressure induced by the internal obstruction of the vertebral tube and to terminate arrays of ventricular hyperactivity. The product is the first generic drug of the Group in China and has been commercialized for more than 30 years. It has been recommended for use by guidelines and expert consensus, including the Guiding Opinions on the Management of Peripheral Anesthesia in Chinese Geriatric Patients (2014/2017/2020) (《中國老年患者圍術期麻醉管理指導意見(2014/2017/2020)》), the Expert Consensus on Anesthesia Management for Cranial Brain Disease Intervention in China (2016) (《中國顱腦疾病介入治療麻醉管理專家共識(2016)》), the Expert Consensus on Perioperative Use of α1 Adrenergic Receptor Agonists (2017 Edition) (《α1腎上腺素能受體激動劑圍術期應用專家共識(2017版)》), the Expert Consensus on Obstetric Anesthesia in China (2018/2020) (《中國產科麻醉專家共識(2018/2020)》), and the Consensus on the Clinical Management of Chinese Experts in the Peripheral Anesthesia Period of Non-cardiac Surgery in Patients with Cardiac Disease (2020) (《心臟病患者非心臟手術圍麻醉期中國專家臨床管理共識(2020年)》).

Neng Qi Lang, the coenzyme Q10 tablets:

It is used to improve myocardial metabolism and energy supply, with the function of promoting oxidization phosphorylation reaction and protecting structural integrity of biological membranes. For patients with chronic cardiac insufficiency, it can significantly improve the symptoms of shortness of breath and fatigue, effectively combine with regular treatment to improve the prognosis of patients, and improve their quality of life. The product has been commercialized for more than 30 years and has been successively included in 20 guidelines and expert consensus, including the Chinese Practice Guidelines for Diagnosis and Treatment of Migraine (2023 edition) (《中國偏頭痛診斷與治療指南2023版》), the Expert Consensus on Diagnosis and Treatment of Severe Fever with Thrombocytopenia Syndrome (《重症發熱伴血小板減少綜合徵診治專家共識》), the Chinese Expert Consensus on the Clinical Application of Drugs to Improve Myocardial Metabolism (2021) (《改善心肌代謝藥物臨床應用中國專家共識 (2021)》), the Chinese Expert Consensus on Diagnosis and Treatment of Chronic Heart Failure for the Elderly (2021) (《老年人慢性心力衰竭診治中國專家共識(2021)》), the 2020 Expert Consensus on Prevention and Treatment of Heart Failure after Myocardial Infarction (《2020心肌梗死後心力衰竭防治專家共識》) and the Diagnosis and Treatment Advice for Children's Heart Failure (《兒童心力衰竭診斷和治療建議》).

Eplerenone tablets:

It is a new MRA drug. It can block heart disease and vascular damage caused by excessive activation of mineralocorticoid receptor ("MR") by binding to the MR. The Guidelines for Prevention and Treatment of Hypertension in China (2018 Revision) (《中國高血壓防治指南(2018年修訂版)》), The Guidelines for Diagnosis and Treatment of Heart Failure in China (《中國心力衰竭診斷和治療指南》) and The Multidisciplinary Expert Consensus for Clinical Application of Mineralocorticoid Receptor Antagonists in China (2022) (《鹽皮質激素受體拮抗劑臨床應用多學科中國專家共識(2022)》) recommend the clinical use of MRA drugs in the treatment of cardiovascular diseases such as heart failure and hypertension. Compared with the first-generation MRA drug Spironolactone, Eplerenone has higher MR selectivity and lower affinity for androgen receptor and progesterone receptor, so it has less side effects and is a safe and effective new generation of MRA drug.

Management Discussion and Analysis

Rui An Ji, the fructose sodium diphosphate oral solution:

It is mainly used for the treatment of angina pectoris of coronary heart disease, acute myocardial infarction, arrhythmia and myocardial ischemia in heart failure, and viral myocarditis. It is also used for brain ischemic symptoms caused by cerebral infarction and cerebral hemorrhage, and was included in a number of guidelines and expert consensus, such as the Diagnosis and Treatment Suggestions for Children's Heart Failure (2020 Revision) (《兒童心力衰竭診斷和治療建議(2020年修訂版)》), Expert Consensus on Interventional Treatment of Common Congenital Heart Diseases in Children (《兒童常見先天性心臟病介入治療專家共識》), the National Expert Consensus on Prevention and Treatment of Burst and Shock (2020 Edition) (《燒傷休克防治全國專家共識(2020版)》), the Expert Recommendations for the Management of Novel Coronavirus Pneumonia Comorbidity (2020) (《新型冠狀病毒肺炎合併症處置專家建議(2020)》) and the National Prescription Set in China (《中國國家處方集》).

Maixuekang, Maixuekang capsules and Maixuekang enteric-coated tablets:

It has the effects of anticoagulation, antithrombosis, antifibrosis, and improvement of blood circulation, and can be used in the treatment of cerebro-cardiovascular diseases such as coronary heart disease, acute cerebral infarction, ischemic stroke, and unstable angina. It is included in the National Reimbursement Drug List and the Essential Drug List, and is currently the only Chinese patent medicine that is labeled with antithrombin activity units in China (each capsule/tablet is equivalent to 14 units of antithrombin activity). It has been included in many authoritative clinical guidelines, such as the Guideline for the Diagnosis and Treatment of Cerebral Infarction with the Integrated Traditional Chinese and Western Medicine, the Guidelines for Rational Use of Proprietary Chinese Medicines for Promoting Blood Circulation for Removing Blood Stasis, the Clinical Practice Guideline for Chinese Medicine in the Treatment of Idiopathic Membranous Nephropathy, and the Expert Consensus on the Use of Maixuekang Capsule (Enteric-coated Tablet) for Patients with Cardiovascular and Cerebrovascular diseases in Clinical Practice.

Hexinshuang/Hebeishuang (diltiazem hydrochloride tablets/diltiazem hydrochloride extended-release capsule, diltiazem hydrochloride injection):

As a typical calcium channel blocker with clear clinical efficacy and high safety features, it is available in immediate-release oral dosage form, extended-release dosage form and injectable dosage form, which can greatly satisfy the clinical needs of patients with hypertension, coronary heart disease and other cerebro-cardiovascular diseases. It has been included in many authoritative clinical guidelines, such as the Guidelines for Prevention and Treatment of Hypertension in China (《中國高血壓防治指南》), the Guidelines for the Rational Use of Drugs for Hypertension (《高血壓合理用藥指南》), the Guidelines for the rational use of drugs for coronary heart disease (《冠心病合理用藥指南》), the Guidelines for the Diagnosis and Treatment of Stable Coronary Heart Disease (《穩定性冠心病診斷與治療指南》), the Guideline for Rational Medication of Supraventricular Tachycardia in Primary Care (《室上性心動過速基層合理用藥指南》), the Guidelines for the Diagnosis and Treatment for Chinese Adult Patients with Hypertrophic Cardiomyopath (《中國成人肥厚型心肌病診斷與治療指南》) and the Chinese Guidelines on Diagnosis and Management of Atrial Fibrillation (《心房顫動和治療中國指南》).

Deslanoside injection:

It is mainly used in patients with acute cardiac insufficiency or acute exacerbation of chronic cardiac insufficiency, and also used to control ventricular rate in patients with atrial fibrillation and atrial flutter with rapid ventricular rate. It was included in a number of guidelines and expert consensus, such as Guideline for Emergency Management of Acute Heart Failure in China (2022) (《急性心力衰竭中國急診管理指南(2022)》), the China Heart Failure Diagnosis and Treatment Guidelines 2018 (《中國心力衰竭診斷和治療指南2018》), the 2020 China Heart Failure Medical Quality Control Report (《2020中國心力衰竭醫療質量控制報告》), the 2021 European Society of Cardiology Guidelines for Acute Heart Failure (《2021歐洲心臟病學會急性心力衰竭指南》) and the Heart Failure Rational Drug Use Guidelines (2nd Edition) (《心力衰竭合理用藥指南(第2版)》).

Management Discussion and Analysis

Innovative R&D pipeline

GPN00816, Jext® pre-filled epinephrine auto-injector:

GPN00816 is a one-off automatic syringe embedded with the sterile solution of epinephrine. By injecting single-dose epinephrine to the outside of the leg muscle (muscle injection), the product can urgently treat sudden and life-threatening anaphylaxis caused by insect bites, food, drugs or exercise. The product has been approved for commercialization in 21 countries or regions such as Spain, the United Kingdom, France, Germany, Korea and Hong Kong, China, etc., and has been launched worldwide for more than 10 years. Its safety and efficacy have been fully verified. At present, the product has been granted approval for Guangdong-Hong Kong-Macao Greater Bay Area Imported Pharmaceuticals for Urgent Clinical Needs in Mainland China in January 2023, and patients can purchase the product in designated medical institutions in the Guangdong-Hong Kong-Macao Greater Bay Area ("**Greater Bay Area**") of China.

Pharmaceutical Raw Materials Segment

The Group's pharmaceutical raw materials segment has a rich product pipeline and significant advantages in terms of product concentration. As an important link in the front-end of the integrated supply chain of raw materials and preparations, the Group owns a series of modernized production bases of pharmaceutical raw materials with complete equipment, superb technique, outstanding industrialization capability and standardized quality control, and has already constructed a comprehensive industrial system for integrated raw materials and preparations. With the strategy of "focusing on its advantages, pursuing steady improvements, and combining imitation and innovation", the Group focuses on four major areas, namely cerebro-cardiovascular, anti-infection, antipyretic analgestic and the digestive system, and fully supports the production of preparations in the field of pharmaceutical technology, so as to ensure high quality standard and consistency of the Company's preparations at the source, and truly realize the integration of upstream and downstream industrial advantages.

mRNA platform

With mRNA technology as the core, the Group's mRNA platform focuses on the development of anti-tumor and anti-infection mRNA drugs. Currently, the Group has completed the establishment of mRNA production technology and liposomal nanoparticles ("**LNP**") delivery technology platform. ARC01 (A002), a therapeutic tumor vaccine against human papillomavirus type 16 ("**HPV-16**")-positive advanced unresectable or recurrent/metastatic solid tumors, which is under development by the platform, is currently the first mRNA therapeutic tumor vaccine against HPV-positive tumors that has been approved for clinical trials in China. Through the LNP delivery technology, mRNAs encoding E6 and E7 antigens of HPV-16 transfect autologous host cells and are translated into corresponding antigens, and then stimulate the body to produce specific humoral and cellular immunity under the joint action of TriMix® immunoadjuvant, which can ultimately achieve anti-tumor effects. Among them, the LNP delivery technology and TriMix® adjuvant technology are exclusive patented technologies that can significantly enhance the body's immune response and improve the immunotherapeutic effect of the vaccine.

Management Discussion and Analysis

NUCLEAR MEDICINE ANTI-TUMOR DIAGNOSIS AND TREATMENT AS WELL AS CEREBRO-CARDIOVASCULAR PRECISION INTERVENTIONAL DIAGNOSIS AND TREATMENT TECHNOLOGY

By fully capitalizing "accurate and stable business development capabilities at home and abroad, the introduction and digestion of international leading technologies, excellent marketing and sales capabilities", the Group is aiming at the frontier areas of technological innovation and focusing on the layout of the "nuclear medicine anti-tumor diagnosis and treatment" and "cerebro-cardiovascular precision interventional diagnosis and treatment" segments. It has become a leading enterprise in nuclear medicine anti-tumor diagnosis and treatment in China, and a comprehensive cerebro-cardiovascular precision interventional diagnosis and treatment technology platform with international cutting-edge technologies.

Nuclear Medicine Anti-tumor Diagnosis and Treatment Segment

In the nuclear medicine anti-tumor diagnosis and treatment segment, the Group has achieved a comprehensive layout in the fields of R&D, production, sales, regulatory qualifications and established a complete industrial chain. The Group has obtained a series of domestic licenses for the production and operation of radiopharmaceuticals, including the license for the production of radiopharmaceuticals, the license for the operation of radiopharmaceuticals and the license for the safety of radiation, with steady progress of commercialization in China. At the same time, the Group also participated in the formulation of the Technical Guidelines for Clinical Evaluation of Radioactive Therapeutic Drugs (《放射性體內治療藥物臨床評價技術指導原則》) and other regulatory documents to promote the healthy development of the nuclear medicine industry in China.

The nuclear medicine anti-tumor diagnosis and treatment segment is one of the most globalized segments of the Group. Currently, it has nearly 600 employees, with approximately 30% of them holding master's degree and doctoral degree. The Group, together with Sirtex, cooperated with Telix Pharmaceutical Limited ("**Telix**") and ITM Isotope Technologies Muncich SE ("**ITM**") to establish a world-class tumor intervention technology platform and a RDC technology platform. The Group adheres to the treatment concept of integrated oncology diagnosis and treatment. Currently, the Group has 14 innovative products in the pipeline, covering six radionuclides including 68Ga, 177Lu, 131I, 90Y, 89Zr and 99mTc as well as seven cancers including liver cancer, prostate cancer and brain cancer. In terms of product types, it covers two types of radionuclide drugs for diagnosis and therapy, providing patients with global leading anti-tumor solutions with multi-indication treatment options, multi-means and integrated diagnosis and treatment. At the same time, the Group and Shandong University jointly established Grand Pharma — Shandong University Radiopharmaceutical Research Institute (遠大醫藥 — 山東大學放射藥物研究院) to carry out the R&D of RDC drugs.

With the continuous expansion of the product pipeline, the registration and application of innovative products in China is also progressing smoothly. In 2022, Yttrium-90 microsphere injections have been commercialized successfully. At present, four RDC have been approved for clinical trials. At the same time, the Group has been advancing the construction of Class A qualification nuclide production platform in an orderly manner. In the future, the Group will continue to strengthen the R&D in and establishment of the nuclear medicine anti-tumor diagnosis and treatment segment, as well as enrich and improve the product pipeline and industrial layout, forming a nuclear medicine anti-tumor diagnosis and treatment product cluster with the core of Yttrium-90 microsphere injections, which continuously consolidates the Group's global leading position in the field of nuclear medicine anti-tumor diagnosis and treatment.

Management Discussion and Analysis

Core products

Yttrium-90 microsphere injections, the global innovative product:

The Group's global blockbuster innovative product, Yttrium-90 microsphere injections, is the only product in the world for selective internal radiation therapy (SIRT) for colorectal cancer liver metastases. It has been used by more than 150,000 people in over 50 countries and regions around the world. It is also recommended by the treatment guidelines issued by different international authoritative organizations such as Barcelona Clinic Liver Cancer Guidelines (BCLC), National Comprehensive Cancer Network (NCCN), European Society for Medical Oncology (ESMO), European Association for the Study of the Liver (EASL), National Institute for Health and Care Excellence (NICE), etc. and has been included in several authoritative clinical practice guidelines in China, including the "2022 CSCO Guidelines for Diagnosis and Treatment of Primary Liver Cancer" (《二零二二年CSCO原發性肝癌診療指南》), the "Guidelines for Diagnosis and Treatment of Primary Liver Cancer (2022 edition)" (《原發性肝癌診療指南(2022版)》), "Chinese Guidelines for Diagnosis and Comprehensive Treatment of Colorectal Cancer Liver Metastases (2018 edition)" (《中國結直腸癌肝轉移診斷和綜合治療指南(2018版)》), "Clinical Practice Guidelines for Liver Cancer and Liver Transplantation in China (2018 edition)" (《中國肝癌肝移植臨床實踐指南 (2018版)》), etc.

In January 2022, the Group received the approval from the NMPA for commercialization of Yttrium-90 microsphere injections, for the treatment of patients with unresectable colorectal liver metastases who have failed standard of care. The product will provide a new and effective treatment modality for patients with liver malignancies in China, offering the opportunity for translational therapy and further surgical resection to achieve clinical cure, bridging the gap in the local treatment of liver metastases from colorectal cancer, improving the long-term treatment outcome of the Chinese patient population with liver cancer, and marking the arrival of a new international precision interventional treatment option in the field of liver malignancies in China.

In May 2022, Yttrium-90 microsphere injections was officially commercialized in China. The treatment of liver malignancies in China has entered a new "Y-90 era". Since the official commercialization of YiGanTai®, nearly 60 hospitals have completed the nuclide transfer procedures, its official surgeries have been carried out in nearly 40 hospitals in 17 provinces and cities in China, while 7 surgery, treatment and training centers have been established. The follow-up results showed that the overall response of patients who take YiGanTai® surgery was satisfactory, and most patients achieved favorable clinical therapeutic effect and prolonged survival. As at the date of this announcement, more than 10 patients have successfully achieved liver cancer tumor downstaging transform and took liver cancer resection, achieving clinical cure. Among patients who could be followed up for 3 months or more, the objective response rate of YiGanTai® for liver cancer reached 60%, and more than half of the patients had achieved tumor size remission. Among them, the symptoms of more than 30 patients were completely relieved with no resection required, and the disease control rate of the follow-up patients was approximately 75%, showing a remarkable therapeutic effect.

Management Discussion and Analysis

In order to speed up the implementation and popularization of YiGanTai® microsphere injections precise interventional therapy in China, the Group, based on the surgeon supervision and training system approved by China NMPA and U.S. FDA, concentrated global resources to provide comprehensive training to surgeons in China on patient screening knowledge, surgical operation skills, and prognosis assessment methods, helping doctors to master and accumulate clinical experience to ensure a wider, safe and effective applications of the product, and assisted domestic doctors in conducting multiple personalized practical trainings by well-known overseas clinical experts. At present, the Group has trained more than 450 doctors in 70 hospitals on the surgery theory or skills of YiGanTai®, more than 120 doctors have obtained the surgeon registration for YiGanTai®. Among which, 38 doctors have obtained the operation qualification of independent surgery through strict one-to-one training by international and domestic renowned experts, and 48 doctors have been qualified as assistants in surgical operation. Another 7 experts have obtained the qualification of training instructor, which will further accelerate the clinical popularization of YiGanTai® radioactive interventional operation.

Since its commercialization, Yttrium-90 microsphere injection has been included in 36 inclusive insurances such as Shanghai Hu Hui Bao (上海滬惠保), Nanjing Ning Hui Bao (南京寧惠保), Jiangsu Yi Hui Bao (江蘇醫惠保) and Beijing Pu Hui Jian Kang Bao (北京普惠健康保) and 1 special medical insurance, which covers 20 provinces and 27 cities with a significant increase in the accessibility of such product to patients with liver cancer.

Innovative R&D pipeline

The products of the nuclear medicine anti-tumor diagnosis and treatment segment are mainly divided into two categories: interventional therapy and RDC.

Interventional therapy:

GPN00289, a global innovative temperature sensitive embolic agent:

GPN00289 is an NMPA innovative medical device approved temperature sensitive embolic material for the treatment of vascular-rich benign and malignant tumors. At room temperature, the gel has good flowability and is delivered to the vasculature of the diseased tissue through a microcatheter. The gel is then solidified in situ at body temperature from the peripheral vessels to the main donor vessel to achieve embolization of the diseased tissue. It is suitable for the embolization of various vascular-rich solid organ tumors, especially benign and moderate malignant tumors in the liver. Currently, the model inspection of the product was completed, and the preparation before its registered clinical study is underway.

Lava™, a global innovative liquid embolic agent:

Lava™ is the first innovative liquid embolic agent approved for the treatment of peripheral vascular arterial hemorrhage in the United States. Its radiopacity makes the product less prone to artifacts during the imaging process, thus giving a better imaging effect. Lava™ can be easily prepared in 3 minutes, while it takes about 20 minutes to prepare similar products, saving doctors' preparation time in emergency situations and increasing the probability of patient survival; the solid embolization upon conversion offers two viscosities which can be used flexibly for patients with different conditions. Lava™ can create synergies with radioisotopes brachytherapy and interventional therapies, which is expected to be used in combination with the Group's Yttrium-90 microsphere product to expand its indications to other tumors in the future. Currently, the product was approved for commercialization in the United States in April 2023 and its formal commercialization commenced in October of the same year.

Management Discussion and Analysis

Kona™, a global innovative liquid embolic agent:

The product, for the treatment of preoperative embolization of cerebral arteriovenous malformations, is developed with a transient radiopacity that diminishes over time, targeting to present clear post-operative organ visualization. In addition, with its drug loading potential, Kona™ can either be used in combination with the Yttrium-90 microspheres products to lay a foundation for the expansion of Yttrium-90 microspheres products into indications beyond liver tumor, or to load other chemical or radiopharmaceuticals to develop new drug-device combination products, so as to provide more diversified treatment options for the treatment of other tumors or vascular diseases. Currently, an application for Premarket Approval (PMA) has been submitted to the FDA for Kona™.

AuroLase®, a global innovative solid tumor ablation therapy:

AuroLase® is a global innovative therapeutic technology for prostate cancer tissue ablation that uses a new type of optically tunable nanoparticle, delivered intravenously and enriched in the tumor, to selectively absorb laser energy and convert light into heat, thereby precisely destroying the tumor and the blood vessels supplying it without severely damaging the surrounding healthy tissue. AuroLase® therapy can maximize treatment outcomes while minimizing the side effects associated with surgery, radiation and alternative focal therapies compared to surgery, radiation or traditional alternative focal therapies. Currently, an application for PMA has been submitted to the FDA for the product.

RDC drugs:

There are currently 9 product candidates under research and a number of products have made important progress during the period.

TLX591/TLX591CDx/TLX599CDx, global innovative products for prostate cancer diagnosis and treatment:

TLX591 is a therapeutic RDC drug targeting prostate-specific membrane antigen (PSMA), while TLX591-CDx and TLX599-CDx are diagnostic RDC drugs targeting PSMA, forming an integrated radiotherapy portfolio for prostate cancer. TLX591-CDx was approved for commercialization in Australia in November 2021 and in the United States in December of the same year, and was granted a special license in Brazil for pre-approval sales. At the same time, an application for commercialization of the product in the United Kingdom and the European Union was also underway. In August 2023, the first patient enrolment for the phase III clinical study of TLX591-CDx conducted in China was completed. In November of the same year, the first patient enrolment for the overseas phase III international multi-regional clinical study of TLX591 was completed.

Management Discussion and Analysis

TLX250/TLX250CDx, global innovative products for the treatment of clear cell renal cell carcinoma:

TLX250 and TLX250-CDx form an integrated radiotherapy portfolio for clear cell renal cell carcinoma (ccRCC). TLX250-CDx was granted a breakthrough therapy by the FDA in July 2020, and the overseas phase III clinical study successfully met clinical endpoints in November 2022. According to the study results, for the patients with renal masses suggested by computerized tomography (CT) or magnetic resonance imaging (MRI) but unable to determine whether it is ccRCC, the sensitivity and specificity of positron emission tomography (PET) imaging with TLX250-CDx in the diagnosis of ccRCC reached 86% and 87% respectively, which far exceeded the preset threshold required by the FDA (both sensitivity and specificity higher than or equal to 70%). Its positive predictive value has reached 93%. For early ccRCC in stage T1a, which is currently difficult to diagnose (the tumor is confined to the kidney with the largest tumor diameter smaller than or equal to 4 cm), the sensitivity and specificity of TLX250-CDx diagnosis reached 85% and 89% respectively. These breakthrough clinical results demonstrate that TLX250-CDx is expected to provide a highly accurate and non-invasive diagnostic solution for ccRCC, and has the potential to become a new clinical diagnostic standard for ccRCC. Currently, the application for commercialization of TLX250-CDx has been submitted to the FDA. Moreover, clinical studies of TLX250-CDx on a number of extended indications such as triple- negative breast cancer (TNBC), non-muscle invasive bladder cancer (NMIBC) and Urothelial carcinoma are progressing worldwide. In September 2022, TLX250-CDx was approved by the NMPA to conduct a phase I clinical trial and a confirmatory clinical trial in China, and the first patient enrolment and administration for its phase I clinical study was completed in July 2023. Its phase I clinical study was completed by now and it is currently in the stage of confirmatory clinical trial. TLX250 is undergoing a phase II clinical study overseas.

*ITM-11/TOCscan®, a global innovative product for the treatment of gastroenteropancreatic neuroendocrine tumors ("**GEP-NETs**"):*

ITM-11 and TOCscan® form an integrated radiotherapy portfolio for GEP-NETs. ITM-11 has received an orphan drug status from FDA and European Medicines Agency ("EMA") and is in phase III clinical studies overseas. For the registration in China, the phase I clinical study of the product was approved by the NMPA in May 2023. TOCscan® has been approved for commercialization in Germany, Austria and France in 2018.

TLX101, a global innovative product for glioblastoma treatment:

TLX101 is a RDC drug for the treatment of glioblastoma multiforme. It can pass through the blood-brain barrier entering the brain freely, and targets the overexpressed L-type amino acid transporter 1 (LAT- 1) in glioblastoma to precisely irradiate cancer cells, and promote their apoptosis to achieve therapeutic effect. The product has been granted orphan drug designation by the FDA and is currently in phase I/II clinical trials in Europe and Australia. In April 2023, the phase I clinical study of TLX101 to be conducted in China was approved by the NMPA.

ITM-41, a global innovative product for the treatment of bone metastasis in malignant tumors:

ITM-41 is a therapeutic RDC drug that targets bone metastasis in malignant tumors by conjugating no-carrier-added ^{177}Lu with zoledronic acid. The product can precisely target hydroxyapatite at the metastasis site, inhibiting bone metastasis from malignant tumors while minimizing radiation to normal tissues, greatly improving patient survival and potentially further reducing skeletal-related events in patients with severe bone metastases. The product is currently in clinical phase I studies overseas.

Management Discussion and Analysis

Cerebro-cardiovascular Precision Interventional Diagnosis and Treatment Segment

The Group adheres to the treatment concept of "interventional without implantation" and conducts comprehensive layout in three directions, namely channel management, structural heart disease, electrophysiology and heart failure, to build a high-end medical device product cluster. At present, the segment has reserved 16 products, of which 7 products in channel management have been approved for commercialization in China, NOVASIGHT Hybrid has been approved for commercialization in China by the NMPA in May 2023, and HeartLight X3 laser ablation platform has been submitted for commercial registration in China, while other products are also being actively promoted for clinical registration in China in order to achieve the stage-by-stage commercialization for innovative products in the coming years, driving the business in this segment to achieve leapfrog growth.

The Group has completed the comprehensive construction of the "active + passive" innovative device platform in this segment. Among them, the Active Equipment R&D and Production Base in Optics Valley, Wuhan and the Passive Equipment R&D and Production Base in Changzhou have been put into use. The Shanghai Device R&D Center, which focuses on the field of structural heart disease, was officially inaugurated. The construction of R&D bases in Germany, Canada, Italy, etc. are also progressing in an orderly manner. At present, the Group has carried out technology cooperation with clinical centers or R&D platforms in the Unites States, Canada, Germany, Italy and Switzerland, and gradually started a new process of globalized R&D. The segment has over 200 employees and nearly 60 R&D team members, with over 60% of them holding master's degrees and doctoral degrees. With a comprehensive background in medicine, pharmacy, materials, machinery, electronics, etc., it helps to achieve stable and long-term development in R&D and innovation. The Group is committed to developing this segment into a leading "cerebro-cardiovascular precision interventional therapy platform" in China and worldwide.

Cerebro-cardiovascular precision intervention diagnosis and treatment products

The Group's two drug-coating balloons for sale in China, namely RESTORE DEB® and APERTO® OTW adopt the unique patented SAFEPAX technology. Both drug coating products are stable with small decay rate, which have been recognized by clinical doctors and patients with good market reputation since its commercialization. In May 2023, the Group's Novasight Hybrid System ("**Novasight**"), a global innovative intravascular dual-mode imaging system for coronary artery imaging, was successfully approved for commercialization in China. The product can achieve ultrasound and optical imaging at the same time, which can simultaneously meet the doctor's requirements for resolution and penetration, simplify the doctor's operation and improve the accuracy of imaging, thereby providing a more accurate vascular imaging solution for patients who need percutaneous coronary intervention ("PCI") treatment and satisfying personalized clinical needs. On the front of neurointervention, the Group's self-developed and self- produced innovative global neurointerventional products, including the OTW (Over The Wire) intracranial balloon dilatation catheter Cai Yu® (彩鷸®), the acute ischemic stroke treatment products, occlusion balloon catheter Ti Hu (鵜鶘), the distal access catheter Pilu® (琵鷺®) and the microcatheter Sheti® (蛇鵜®), both for building access to neurovascular and peripheral vascular system intervention surgeries, were approved for commercialization in China.

Management Discussion and Analysis

RESTORE DEB®, a coronary drug-coating balloon:

RESTORE DEB® is the first drug-coating balloon with the dual indications of original coronary artery disease mutation and stent restenosis in China. Its clinical research results were published in the important journal "JACC (Journal of the American College of Cardiology) Cardiovascular Interventions" in the field of cardiovascular disease, and its clinical status was also affirmed in the guidelines and expert consensus such as the Guidelines for Treatment of Percutaneous Coronary Intervention (中國經皮冠狀動脈介入治療指南) and the Chinese Expert Consensus on Clinical Application of Drug Coated Balloon (藥物塗層球囊臨床應用中國專家共識).

APERTO® OTW, a drug coated balloon for dialysis access:

APERTO® OTW is the first drug-coating balloon for the indication of arteriovenous fistula stenosis in dialysis patients. This product has the dual characteristics of high pressure resistance and drug coating. Compared with ordinary high pressure balloon, APERTO® OTW has a significant advantage in the passing rate of target lesions for six months after surgery, which will greatly contribute to the extension of the life time of fistula and the improvement of the quality of life of dialysis patients. Its clinical research results are published in American Journal of Kidney Diseases, an important journal in the field of kidney disease treatment.

Novasight, an intravascular dual mode imaging system:

Novasight combines two imaging technologies, namely intravascular ultrasound ("**IVUS**") and optical coherence tomography ("**OCT**") and can simultaneously show the ultrasound and optical image with the same direction, axis and phase, which, on one hand, better provides doctors with histological and morphological information on intravascular plaque and vascular wall, facilitating doctors to provide patients with more accurate treatment options. On the other hand, it also reduces the diagnosis and treatment procedures for patients and reduces their medical burden. In addition, the product is the first intravascular ultrasound and optical dual mode imaging system approved by the FDA of the United States. It has been commercialized both in Canada and Japan with a promising prospect in the field of coronary artery imaging and intracavitary interventional surgery.

Cai Yu® (彩鷸®) , an intracranial balloon dilatation catheter:

Cai Yu® (彩鷸®) is the first OTW-designed intracranial balloon dilatation catheter in China, which is suitable for the interventional surgery for patients with non-acute symptom intracranial atherosclerotic stenosis (非急性期症狀性顱內動脈粥樣硬化性狹窄), and can deliver the balloon to the place with distal vascular lesion through guide wire during the surgery, carry out balloon dilatation, restore blood delivery, and thus improve blood flow and perfusion in blood vessels at the lesion. Cai Yu® (彩鷸®) intracranial balloon dilatation catheter has the properties of fast passing and accuracy, which provide high efficiency and convenience for clinical use. With a variety of specifications and unique designs, it provides better compatibility and precision for clinical use while meeting safety requirements.

Management Discussion and Analysis

Ti Hu® (鵜鶘®) an occlusion balloon catheter:

Ti Hu (鵜鶘) is an occlusion balloon catheter developed by the Group for intracranial ischemic diseases. The main structure of this product consists of a balloon, an inner and outer tube and a catheter holder, wherein the balloon is coaxial. It is one of the products in the overall solution for acute ischemic stroke in the neurointerventional direction of our cardiovascular and cerebrovascular precision interventional diagnosis and treatment section. Ti Hu (鵜鶘) is suitable for temporary peripheral vascular or neurovascular occlusion, and can also selectively block or control blood flow. It can be delivered intraoperatively via a guidewire to the proximal vascular of the lesion to be occluded, and the catheter holder is then filled with fluid to dilate the balloon and block or control blood flow. Ti Hu (鵜鶘) has high balloon compliance, which allows for a better fit to the vessel wall to block blood flow and reduce embolic escape, striking a balance between safety and efficacy. It also has favorable device compatibility to meet a wide range of clinical options.

Pilu® (琵鷺®) a distal access catheter:

Pilu® (琵鷺®) is one of the Group's self-developed neurointerventional series products for the establishment of access to neurovascular and peripheral vascular system intervention surgeries. The product has a variety of specifications and models with 3 inner and outer diameter specifications and 5 length specifications, which provides better device compatibility while meeting more clinical surgical needs. The product adopts a composite reinforced structure which enables stable transition through various stages to achieve a perfect balance between pushability, support and durability. The sufficiently effective distal flexible section of the catheter can smoothly pass through distal tortuous blood vessels, providing intracavity devices with a support closer to the place of the lesion. Its shapeable, non-invasive tapered tip can reduce blood vessel damage while enhancing the tortuous blood vessel passage and improving the placement to distal blood vessels.

Sheti® (蛇鵜®) a microcatheter:

Sheti® (蛇鵜®) is one of the Group's self-developed neurointerventional series products for the establishment of access to neurovascular and peripheral vascular system intervention surgeries, which is used to selectively deliver liquid or other devices or drugs to the target parts of the neurovascular and peripheral vascular during diagnosis and treatment procedures, with a wide range of models and specifications available to doctors. The smooth transition of outer material with multiple gradations of hardness achieves the best balance between flexibility and stability, ensuring successful placement and stability during treatment. The tube body is made of coiled spring structure and a specific resin material, which provides excellent maneuverability, good kink resistance and support, and facilitates stable delivery and release of therapeutic devices such as stents. The full- closed-loop development ring design can achieve 360-degree clear development and accurately locate the catheter position during surgery. The steam-shaped tip is durable and stable.

Innovative and R&D pipeline

Access management direction:

LEGFLOW® OTW, a global innovative drug-coated balloon:

LEGFLOW® OTW is a drug-coated balloon for the treatment of peripheral arterial stenosis by adopting SAFEPAX patented technology. The product has completed full patient enrollment for registered clinical study, and is expected to submit a commercial registration application in China in the first half of 2024.

Management Discussion and Analysis

IVL CAD/IAL PAD, a global innovative shock wave balloon:

IVL CAD/IAL PAD is an intravascular shock wave calcium treatment system for the treatment of moderate to severe arterial calcification. It utilizes a universal balloon dilatation catheter platform that integrates shock wave lithotripsy and balloon catheter angioplasty to deliver the catheter to the lumen of the lesion in an interventional manner. The shock wave destroys the calcified foci without causing damage to the soft tissues of the vessel wall/intima, reducing the complications of balloon dilatation and stenting. The product is highly versatile and is the latest generation of vascular calcification treatment. The product is currently in preclinical development stage.

LONG, a global innovative neurological stent retriever:

LONG is a stent retriever product against ischemic stroke. With reference of mature interventional technology and stent of coronary and peripheral, neurological stent retriever can extend an ischemic stroke patient's treatment window from 6 hours to 24 hours of drug treatment, becoming a new clinical method for the treatment of cerebral stroke. At present, as the clinical trial is progressing smoothly, the product has been submitted to the NMPA and accepted for commercial registration.

aXess, a global innovative endogenous tissue repair product:

aXess is a global innovative endogenous tissue repair product for end-stage renal disease (ESRD) patients with arteriovenous graft (AVG) for hemodialysis treatment. The product is expected to provide a safer and more effective blood access for dialysis patients by providing a basic structural framework for autologous tissue repair of patients, accelerating the establishment of dialysis access, and reducing the incidence of thrombosis and related complications. aXess can further synergize with APERTO® OTW in the field of hemodialysis. The product is currently in preclinical development stage.

Structural heart disease direction:

Saturn, a global innovative mitral valve replacement system:

Saturn is a global innovative medical device for mitral valve replacement. The product is implanted in an interventional manner via a room septum to minimize surgical trauma and shorten post-operative recovery time, and innovatively combines annular reconstruction technology with valve replacement technology to enhance device adaptability and suitability for all common mitral valve structures. The product is currently in the preclinical development stage.

Electrophysiology and heart failure direction:

HeartLight X3, a global innovative laser ablation platform:

HeartLight X3 is a global innovative laser ablation product for the treatment of atrial fibrillation ("**AF**") approved by the FDA for commercialization in May 2020, and is the only product in the world that can achieve circumferential ablation of AF through laser. HeartLight X3 adopts direct tissue visualization, adjustable laser energy and compliant balloon technology to achieve precise and continuous energy delivery, taking into account the adjustable energy point-to-point precision ablation characteristics of traditional radiofrequency catheter ablation and the simplicity of cryoablation with short operation time and significantly reduced dependence on the operator, making it the latest generation of AF ablation technology platform. In February 2023, the first chartered-access laser ablation operation for atrial fibrillation in China was successfully completed with the product in Rujin-Hainan Hospital, introducing a new option with world-class precision to the field of atrial fibrillation treatment in China. The HeartLight X3 laser ablation platform has submitted an application for commercialization registration in China.

Management Discussion and Analysis

CoRISMA, a global innovative ventricular assisted device:

CoRISMA is a fully implanted transcatheter ventricular assisted medical device for the treatment of class III and end-stage heart failure. By adopting the world's most advanced energy transmission technology for wireless power supply, it provides a minimally invasive, safe, power-line infection-free and complication-free treatment for patients with end-stage heart failure through minimally invasive surgery. Currently, the Group is working with an innovative medical device company incubated by Yale University on product development.

Biotechnology

The Group pursues the concept of green, low-carbon and sustainable development and promotes high-quality development of the segment with the world's leading innovative technology in synthetic biotechnology. The amino acid products and biopesticides are the core business in the field of biotechnology, and it is positioned as a global premium supplier of high-quality amino acids and high-end biopesticides. The Group's development in the biological field focuses on technological innovation and the construction of high-quality systems. Currently, we have 110 R&D personnel with professional backgrounds in cross-disciplinary disciplines such as microbiology, applied chemistry, biochemistry, pharmacology and food science, hold more than 200 invention patents and has promoted the formulation and publication of nearly 60 national and industrial standards with ongoing effort in promoting the formulation of over 25 national and industrial standards. We have a complete domestic and international quality system certification, and have won many honors such as the National and Provincial Specialized New Enterprise (國家和省級專精特新企業), the National Intellectual Property Advantage Enterprise (國家級知識產權優勢企業) and the Provincial Hidden Champion Enterprise (省級隱形冠軍企業).

Amino acids segment

The Group has been cultivating in the field of amino acids for more than 20 years and has always adhered to the spirit of technological innovation, taking synthetic biology as the core, it pioneered a world's leading innovative technology in China based on biotechnology method to produce various amino acids by biological method, which filled the gap in the industry. The Group has undertaken the "one-stop" application demonstration project for national industrial strong foundation engineering and high-end amino acid products and the industrial foundation transformation project of the PRC to ensure the safety and stability of the supply chain and industrial chain of high-quality amino acids in China. The Group's core product, Cysteine series, ranks first in the world in terms of market position and production capacity, while Taurine ranks second in the world in terms of production capacity.

The Group has always adhered to the core business philosophy of "new technology, high quality, industrial chain, and internationalization" and has continued to strengthen the expansion of the amino acid industry. Based on pharmaceutical-grade amino acids and by leveraging our industrial advantages, the Group continues to expand into diversified amino acids.

Management Discussion and Analysis

New technology:

With synthetic biology as the core and after years of scientific research, at present, we have built eight technology platforms, including synthetic biology, enzyme engineering, fermentation engineering, process optimization, quality research and application transformation, while taking initiatives in construction of cell factory, fine control of fermentation processes, and development of the full technology chain of separation and purification. It has formed unique technological leadership at multiple levels including front-end R&D, engineering and industrialization, and some of the processes have filled the domestic gaps in China. Currently, the Group has established long-term strategic cooperation relationship with a number of scientific research institutions such as Tsinghua University, Wuhan University, East China University of Science and Technology, Tianjin University of Science and Technology and Huazhong Agricultural University, under which, a new amino acid fermentation technology and an enzyme expression system were developed, constructing high-efficiency bacterial strains with independent intellectual property rights and in line with the requirements for the registration of APIs. Meanwhile, the technological development of cell culture media-level amino acid has been further deepened, providing technical support to the cell cultivation application study of amino acids, which is the key raw material of cell media required for biological drugs. We have applied the technologies of molecular biology and proteomics to modify the structure of reactive enzymes, thus improving the activity of reactive enzymes and enhancing the yield and quality of the products. Through the innovation and integration of several sub technology areas, we have built an integrated synergistic system with new product development, new technology engineering, industrialization and application solutions, which provides strong support for continuous technological innovation and industrialization transfer. Among them, the fermentation production process with strain construction optimization as the core and the enzyme conversion production process with immobilized enzymes as the core can not only replace the traditional synthesis process, but also significantly reduce the emission of carbon dioxide during the production process, which fully proves the development concept of energy saving, emission reduction and green environment protection of emission peak and carbon neutrality, showing great economic and environmental benefits. By continuously optimizing the fermentation and isolation purification process, we have achieved the leading position in the industry in terms of key indicators such as production volume and yield. The integrated technology of fermentation and enzymatic process, i.e., industrial microbial fermentation for the production of industrial enzymes, and the patented technology of immobilized enzymes can significantly shorten the time of enzyme conversion, significantly improve the yield and reduce the unit cost of products. Replacing dangerous processes in traditional synthesis routes by bio-enzymatic methods can also significantly reduce synthesis costs and significantly improve production safety. The industrial technology highway built by the Group in the amino acid segment is beginning to take shape, which has laid a solid foundation for technological innovation at source and product industrialization.

The Group attaches great importance to the construction of R&D team and the close integration of production and research. At present, the amino acid segment has a core technical team led by talents from the 100 Talents Plan of Hebei Province (湖北省百人計劃). The innovative model of combining academia, research and application in this segment, as well as the echelon of technical innovation talents with clear division of labor and complementary strengths, has yielded fruitful results with the number of granted invention patents ranking at the leading level in the same industry. The core subsidiaries in the segment have won many honors, such as the National and Provincial Specialized New Enterprises (國家和省級專精特新企業), the National Intellectual Property Advantage Enterprises (國家級知識產權優勢企業), the China Light Industry Green Manufacturing Engineering Technology Research Centers for Sulfur-containing Amino Acids (中國輕工業含硫氨基酸綠色製造工程技術研究中心), the China Foreign Trade Export Leading Indicator (ELI) Sample Enterprises (中國外貿出口先導指數(ELI)樣本企業), the Provincial Hidden Champion Enterprises and the 15th China Crop Protection Industry Association First Prize for Technological Innovation (第十五屆中國農藥工業協會技術創新一等獎). At the same time, the Group is also the only enterprise in Hubei Province that has been selected as one of the "Standardization Pilot Demonstration Projects in Hubei Province" in 2023 based on the concept of "Same production line, Same standard, Same quality".

Management Discussion and Analysis

High quality:

The Group's amino acid products have a complete quality certification system at home and abroad. Many products have passed the drug/food system certification and registration in Europe, the United States, Japan, Southeast Asia, China and other countries and regions, including European Union GMP certification, European Union REACH certification, the Accreditation certificate of foreign drug manufacturer in Japan, KFDA Registration in Korea, MAPA certification in Brazil, Free Sale Certificate Attestation in Argentina; as well as the ISO quality management system certification, the FSSC22000 food system certification, GRAS certification in the United States, the HALAL certification, the KOSHER certification, etc. Meanwhile, the Group has also made efforts to increase registration in new economies such as South America. Our comprehensive system certification and registration have demonstrated the Group's strong competitiveness for business expansion in overseas markets.

Industrial chain:

The Group has nearly 50 types of amino acids and their derivatives, including Cysteine series, Arginine series, Taurine series, etc. It has 24 registered amino acid APIs, covering more than 70% of the registration certificates in the same category and is the pharmaceutical company with the largest number of registered amino acid APIs in China. The rich amino acid product cluster can better meet the customized needs of the downstream market, provide one-stop services of multiple varieties and specifications, and enhance customer adhesion in high-end application scenarios. In addition to raw material products, the Group is also actively expanding its pharmaceutical products. Two of the self-developed functional dietary supplements, namely the U.S. patented citrulline and taurine preparations (which is used to enhance exercise endurance) and the acetylcysteine preparations (which protects respiratory health and enhances immunity) have obtained the U.S. FDA approval and was officially commercialized in the United States for sales in 2021. During the reporting period, nine functional foods developed by the Group was commercialized in China.

Internationalization:

The sales network of the Group's amino acid segment covers more than 140 countries and regions worldwide, including mainstream markets in Europe, the United States, Japan, Southeast Asia and China, with overseas business accounting for more than 50% of the total. Among which, some of our amino acid varieties ranking among the top three in terms of market share. Relying on technological breakthroughs and cost advantages, the core products have long served domestic and international high-quality customers including Zambon, Sanofi, Nestle and other Fortune 500 companies, and established long-term and stable cooperative relationships with customers in the upstream and downstream of the industrial chain as well as a high brand awareness and market reputation worldwide, which has laid a solid customer base for the continuous and rapid growth of the segment's performance.

In the future, the Group will continue to rely on its world-leading new bio-method manufacturing process in the field of high-quality amino acids, solid industrial base and industrial accumulation, rich amino acid product clusters, high-standard quality certification systems, strong international registration and commercialization capabilities, with a focus on high-end parenteral nutrition preparations, innovative peptide drugs, cell culture base and other pharmaceutical-related high value-added fields, as well as functional dietary supplements such as sports protection, special medical and infant food, beauty and pet food and other large health consumer areas. The extensive market space and huge development potential of the downstream segment will provide the Group's amino acid segment with strong and sustainable development momentum.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and profit

As of 31 December 2023, the business of the Group grew steadily and recorded a revenue of approximately HK$10,529.59 million (for the corresponding period of last year: HK$9,562.29 million), representing a year-on-year increase of approximately 10.1%. If disregarding the exchange rate fluctuation between RMB and HK$, it was increased by approximately 15.8% as compared with the same period of 2022. During the review period, the profit for the period attributable to owners of the Company amounted to approximately HK$1,879.998 million, representing a year-on-year decrease of approximately 9.6%. If disregarding the effect from gain on fair value change of investment in Telix of approximately HK$159.94 million and a one-off administrative fine of approximately HK$316.18 million, the profit for the period attributable to owners of the Company amounted to approximately HK$2,036.24 million, which decreased by approximately 4.7% as compared with the corresponding period of last year. If disregarding the exchange rate fluctuation between RMB and HK$, it was increased by approximately 0.2% as compared with the same period of 2022. The Group's gross profit margin during the period was approximately 62.0%, while it was approximately 62.2% in the same period of 2022.

During the period, the Group recorded a revenue of approximately HK$6,813.24 million from pharmaceutical technology products, representing an increase of approximately 17.1%[1] as compared with the same period of 2022 (approximately HK$6,120.15 million), as the continuous marketing of the core products led to a steady growth in demand. In particular, we recorded a revenue of approximately HK$1,374.62 million from the respiratory and severe disease sector, representing an increase of approximately 38.2%[1] as compared with the same period of 2022 (approximately HK$1,045.76 million), mainly due to increased demand for core products and the gradual investment of new products; a revenue of approximately HK$2,313.62 million from the ophthalmology and otorhinolaryngology sector, representing an increase of 10.0%[1] as compared with the same period of 2022 (approximately HK$2,211.26 million); and a revenue of approximately HK$2,447.49 million from the cerebro-cardiovascular emergency sector, representing an increase of approximately 15.9%[1] as compared with the same period of 2022 (approximately HK$2,221.62 million).

Note:

1 Disregard the impact of exchange rate fluctuation between RMB and HK$.

Management Discussion and Analysis

During the period, the Group recorded a revenue of approximately HK$335.39 million from the nuclear medicine anti-tumor diagnosis and treatment and cerebro-cardiovascular precision interventional diagnosis and treatment technology products, representing an increase of approximately 26.7%[1] as compared with the same period of 2022 (approximately HK$278.44 million). In particular, we recorded a revenue of approximately HK$217.45 million from the nuclear medicine anti-tumor sector, representing an increase of approximately 279.5%[1] as compared with the same period of 2022 (approximately HK$60.26 million), due to revenue growth from the rapid increase in core products; and a revenue of approximately HK$117.95 million from the cerebro-cardiovascular precision interventional diagnosis and treatment sector.

During the period, the Group recorded a revenue of approximately HK$3,380.96 million from biotechnology products, representing an increase of approximately 12.4%[1] as compared with the same period of 2022 (approximately HK$3,163.70 million), due to progressive introduction of new products and the steady growth in core products. In particular, we recorded a revenue of approximately HK$2,757.76 million from the amino acid sector (including taurine), representing an increase of approximately 16.1%[1] as compared with the same period of 2022 (approximately HK$2,498.15 million).

Note:

1 Disregard the impact of exchange rate fluctuation between RMB and HK$.

Distribution costs and administrative expenses

As of 31 December 2023, the Group's distribution costs and administrative expenses were approximately HK$2,567.63 million and HK$1,234.38 million respectively as compared to approximately HK$2,306.52 million and HK$1,090.03 million respectively for the same period of 2022. During the period, distribution costs increased by approximately HK$261.11 million, mainly due to the substantial increment in revenue recorded during the period. The administrative expenses also increased by approximately HK$144.35 million as compared to the corresponding period of last year since the Group continuously increased its R&D investment.

Finance costs

As of 31 December 2023, the Group's finance costs was approximately HK$205.15 million as compared to approximately HK$137.49 million for the same period of 2022. The increase in finance costs was due to US dollar interest rate hike.

R&D and project investment

As of 31 December 2023, the Group continuously invested resources in the stages of research project and introduction of innovative projects. If including the R&D expenses and also the capitalized R&D expenses, prepayments for new projects and other investments, the Group's investment in R&D and various projects was approximately HK$1,441 million.

Receivables and payables

As of 31 December 2023, the Group's trade and other receivables amounted to approximately HK$3,068.06 million, representing an increase of approximately HK$70.68 million as compared to the balance in 2022, mainly due to the increase in business during the period, thus resulting in an increase in trade and bills receivable balances of approximately HK$101.77 million during the period as compared to the closing balance of last year.

As of 31 December 2023, the Group's trade and other payables amounted to approximately HK$2,829.70 million, representing an increase of approximately HK$341.57 million as compared to the balance in 2022, mainly due to the increase in business during the period, resulting in an increase in trade and bills payables by a total of approximately HK$457.55 million.

Management Discussion and Analysis

Significant Investments

The Group's investments with value over 5% of value of its total assets are considered as significant investments. In respect of the Group's significant investments as at 31 December 2023, set out below are certain information on those investments and the comparative figures as at 31 December 2022:

Name	Carrying value of interests in associates as at		Size relative to the Group's total assets as at	
	31 December 2023 (HK$, million)	31 December 2022 (HK$, million)	**31 December 2023**	31 December 2022
Grand Pharma Sphere Pte Limited ("**Grand Pharma Sphere**") *(Note A)*	**4,991**	5,074	**22.2%**	22.7%
Shanghai Xudong Haipu Pharmaceutical Company Limited ("**Xudong Haipu**") *(Note B)*	**2,240**	2,136	**10.0%**	9.5%
Others *(Note C)*	**633**	494	**2.8%**	2.2%
Total interests in associates	**7,864**	7,704	**34.9%**	34.4%

Note A: Grand Pharma Sphere is the holding company of a group of companies principally engaged in the manufacturing and sales of interventional oncology products. The Group effectively owned approximately 57.98% equity interests of it. For the twelve months ended 31 December 2023, the Group's share of loss in Grand Pharma Sphere was approximately HK$89.07 million (for the year ended 31 December 2022: approximately HK$41.0 million).

Note B: Xudong Haipu and its subsidiaries is a group of companies principally engaged in the manufacturing and sales of pharmaceutical injections of various volumes. The Group effectively owned 55% equity interests of it. For the twelve months ended 31 December 2023, the Group's share of profit in Xudong Haipu was approximately HK$104.7 million (for the year ended 31 December 2022: approximately HK$110.3 million).

Note C: Others represents the aggregate of carrying value of interests in various associates, in which none of these investments individually accounted for over 5% of the total assets of the Group as at 31 December 2023 and 31 December 2022.

The quote fair value of significant investments in associates is not available, since the significant associates are private entities and do not have quoted market price. The results and assets and liabilities of associates are incorporated in the consolidated financial statements of the Group using the equity method of accounting.

The Group may consider to make investments in these associates due to different criteria, mainly including:

1) Looking for opportunities to enter into new markets and expand product pools. For instance, the investment in Grand Pharma Sphere offered an opportunity for the Group to venture into the field of interventional oncology, and investment in other associates may help the Group get into other markets like grasp advanced technology and step into the global market of cardiovascular interventional medical devices;

2) Looking for synergy effect to the Group's existing products and markets. For example, Xudong Haipu's core product line may create synergy with the Group's preparation products, and enrich the Group's core product pool in the areas of emergency medications and cerebro-cardiovascular and respiratory products. It can also strengthen the Group's product quality, market share and brand in those areas; and

3) Seeking opportunities to cooperate with companies in early R&D stage and obtain the commercial rights for products with strong potentials.

For further details of the product development and business prospects of these associates, please refer to the section with heading "Business Review and Prospect" above.

Management Discussion and Analysis

Research and development

The Group has sufficient innovation pipeline. During the Period, there were accumulatively 138 projects under research and 46 innovation projects, which were in different stages from preclinical to new drug commercialization application. The pipeline layout was reasonable, forming a good echelon effect.

R&D Center

Currently, the Group is involved in and has established a number of R&D technology platforms and R&D centers around the world:

In the field of pharmaceutical technology, the International R&D Center in Optics Valley in Wuhan, China is the main R&D body of the Group in the pharmaceutical technology field in China, providing technical support for the R&D of the Group's high-end preparation products; the Glycomics technology platform is located at the R&D center in Australia, focusing on the development of antiviral drugs; the mRNA technology platform is located in Nanjing, China, focusing on the development of anti-tumor and anti-infective mRNA drugs, and will further expand into the fields of rare disease and protein replacement therapy in the future.

In the sector of nuclear medicine anti-tumor diagnosis and treatment, the tumor intervention technology platform and the RDC technology platform involve the Boston R&D Center in the United States and the Grand Pharmaceutical — Shandong University Radiopharmaceutical Research Institute in China, respectively.

In the cerebro-cardiovascular precision interventional diagnosis and treatment sector, the Group's high-end medical device R&D technology platform comprises the International R&D Center in Optics Valley in Wuhan, China, the Changzhou Device R&D Center in China and the Device R&D Center in Shanghai, China.

R&D Team

As a technology-based innovative pharmaceutical enterprise, the Group has long been committed to building a high-end innovative R&D talent system to promote the global development of innovative projects. During the year, the Group, together with its associates, has a total of over 700 R&D personnel, of which nearly 450 are master's degree and doctoral degree holders, accounting for over 60%. All professional leaders and core team members of each segment have academic background in clinical medicine or pharmacy, while some of whom also have overseas education or working experience.

Development of Generic Drugs

During 2023 and up to the date of this announcement, eplerenone tablets, carglumic acid dispersible tablets, digoxin injection, warfarin sodium tablets, ophthalmic balanced salt solution (15ml), moxifloxacin hydrochloride eye drops, sodium hyaluronate eye drops (0.1%), levosimendan injection, travoprost eye drops and dobutamine hydrochloride injection have been issued drug registration certificates by the NMPA, among which the eplerenone tablets and carglumic acid dispersible tablets are among the first generic products being approved for commercialization in China, and the ophthalmic balanced salt solution (15ml) is the first generic product of such specification being approved for commercialization in China.

Consistency Evaluation

During 2023 and up to the date of this announcement, carglumic acid dispersible tablets, digoxin injection, warfarin sodium tablets, ophthalmic balanced salt solution (15ml), moxifloxacin hydrochloride eye drops, sodium hyaluronate eye drops (0.1%), levosimendan injection, travoprost eye drops, dobutamine hydrochloride injection, telmisartan and hydrochlorothiazide tablets, atropine sulfate injection, tramadol hydrochloride injection and fluorouracil injection were approved or deemed to have passed the consistency evaluation, and new applications were made for magnesium sulfate injection, vigabatrin powder, compound tropicamide eye drops, hydroxychloroquine sulfate tablets, olopatadine hydrochloride eye drops, levofloxacin eye drops, minoxidil topical solution, metaraminol bitartrate injection, eltrombopag olamine tablets, sodium hyaluronate eye drops (0.3%), neostigmine methylsulfate injection, flumazenil injection, nicorandil for injection. At present, a total of 33 products of the Group have been approved or deemed to have passed the consistency evaluation, and other 17 products are under review.

Management Discussion and Analysis

Intellectual Property Protection

During the period under review, the Group had an addition of 17 core patents and 75 peripheral patents. There were 118 new patents being granted, of which 71 were invention patents, accounting for 60.2%, and 5 new foreign patents being granted. The Group has accumulated 722 valid patents, of which 412 are valid invention patents. In terms of innovative products, we have applied for 31 new patents and made 1 new PCT application in the field of nuclear medicine. 10 new patents were applied and 1 new PCT application was made for the mRNA technology platform. We actively expanded our presence in the anti-infection field with 8 new patents applied. In particular, we have made 4 international PCT applications for the STC3141 project, including the applications for a total of 51 patent family members, and the core patents have been granted in the United States, Japan, Israel and Singapore. We were also making progress in the applications for patents in other countries.

Commercialization Capability

The Group's performance continued to improve, and the continuous commercialization of innovative products and profit contribution cannot be separated from the continuous improvement of commercialization capabilities. As of 31 December 2023, the Group had over 3,800 sales personnel, of which more than 3,300 were in the pharmaceutical area (including OTC), covering nearly 70,000 hospitals and primary medical and healthcare institutions in China, of which 13,000 were ranked hospitals. In the OTC area, we had over 1,000 sales personnel with a reach of more than 250,000 pharmacies in China. The cerebro-cardiovascular precision interventional diagnosis and treatment segment had a sales team comprising over 100 staff covering nearly 2,000 hospitals. The nuclear medicine anti-tumor diagnosis and treatment segment has over 320 sales personnel worldwide, with its global sales network covering more than 50 countries and regions. It has also actively carried out the hospital admission and academic promotion of Yttrium-90 microsphere injections in China.

International Standard

The Group continues to accelerate the pace of globalization and has a number of independently operating overseas companies in the fields of nuclear medicine anti-tumor diagnosis and treatment, cerebro-cardiovascular precision interventional diagnosis and treatment, and severe diseases, etc. The Group has advanced overseas clinical trials of a number of global innovative products and obtained eight clinical approvals in five countries, including the United States, Australia, Belgium, Poland and the United Kingdom, involving a number of indications such as primary liver cancer and sepsis. Currently, the Group has over 330 employees overseas.

Material Investment, M&A and Cooperation

The Group continued to implement the development strategy of "independent R&D + global expansion", further exploring high-quality innovative projects around the world to expand the Group's product pipeline and enhance the Group's comprehensive strengths and putting vigorous efforts in transformation towards innovation and internationalization. During 2023 and as of the date of this announcement, the Group has carried out the following material investment, M&A and cooperation:

- **Acquiring equity interests from Blackswan**

  In April 2023, the Group entered into a share purchase agreement to acquire 87.5% equity interests of BlackSwan Vascular, Inc. ("**BlackSwan**") from its original shareholder at a consideration of not more than US$37.5 million, and it has become a non-wholly owned subsidiary of the Group. After the completion of this acquisition, the Group will own the global rights and interests of Lava™ and Kona™. On the one hand, these two products will form a product profile with the Group's Yttrium-90 microspheres product, which is expected to expand the indications of Yttrium-90 microspheres product to other solid tumors. On the other hand, these two products will form a new drug-device profile with other chemical drugs or radiopharmaceuticals, expanding the Group's product pipeline in the field of tumor intervention. In addition, the Group's existing global R&D team and sales network can facilitate Lava™ and Kona™ to be approved for commercialization on a global scale and achieved high sales volume. It will develop new business markets while strengthening its existing global business through these two products.

Management Discussion and Analysis

- **Acquisition of Equity Interest in Tianjin Tanabe**

  In December 2023, the Group entered into an equity interest acquisition agreement (the "**Acquisition Agreement**") with Mitsubishi Tanabe Pharma Corporation ("**MTPC**"), Japan, pursuant to which Grand Pharma (China) will acquire 75.35% equity interest of Tianjin Tanabe Seiyaku Co, Ltd. ("**Tianjin Tanabe**") with approximately HK$400 million (equivalent to approximately RMB367.7 million) after the relevant conditions as agreed in the Acquisition Agreement are fulfilled. After the completion of this acquisition, the Group and Tianjin Tanabe will achieve comprehensive integration and upgrading of resources. On one hand, the Group can accelerate the market expansion and promotion of Tianjin Tanabe's core products through its current sales capabilities, thereby creating new profit growth, and benefit more patients with chronic diseases. At the same time, the Group's industrial advantages in the field of Active Pharmaceutical Ingredients can accelerate the integration of raw materials and preparations of Tianjin Tanabe's core products, further reducing production costs and enhancing product profitability. On the other hand, the Group can rapidly enter into the chronic disease market through Tianjin Tanabe, which greatly saves the time costs of exploring new markets. It is conducive to quickly establishing market advantages, thereby achieving the Group's full coverage in the field of cerebro-cardiovascular disease treatment, from emergency rescue to chronic disease management, from injection preparations to oral preparations. This has significantly expanded and improved the product portfolio of the Group's cerebro-cardiovascular segment, and hence further consolidating and enhancing the Group's comprehensive market competitiveness. In the future, the increasing unmet medical demands in the field of chronic diseases and acute and severe diseases will create huge market opportunities, and will also provide momentum for the sustained growth of the Group's performance. The Group and MTPC will continue to maintain strategic cooperation and are committed to building Tianjin Tanabe into a chronic disease platform to bring more safe and effective treatment options to patients in China.

- **Acquisition of Equity Interest in Duoputai Pharmaceutical Technology**

  In December 2023 and January 2024, the Group entered into two equity interest acquisition agreements with Chongqing Duoputai Pharmaceutical Co., LTD. ("**Duoputai Pharmaceutical**") to acquire 90% equity interest of Chongqing Duoputai Pharmaceutical Technology Co., Ltd.* (重慶多普泰醫藥科技有限公司, "**Duoputai Pharmaceutical Technology**") at a consideration of approximately RMB631,800,000 in aggregate. After the completion of the equity transfer, Duoputai Pharmaceutical Technology will become a non-wholly owned subsidiary of the Group. The acquisition is a significant strategic plan of the Group in the field of cerebro-cardiovascular disease treatment, which further enriched the product pipeline of the Group, consolidating and enhancing the Group's comprehensive market competitiveness in the field of cerebro-cardiovascular disease treatment, as well as providing the driving force for the sustained growth of the Group's performance.

Management Discussion and Analysis

INVESTOR RELATIONS

The Group has been committing to improving its corporate governance to ensure the long-term development. During the year, the Group published annual reports, annual results announcements, and other announcements and circulars on the websites of the Company and the Hong Kong Exchanges and Clearing Limited, and issued voluntary announcements, so as to disclose the latest business developments of the Group to shareholders and investors.

At the same time, the Group actively maintains close communication with investors through various channels, including securities company roadshows, large-scale telephone conferences, one-on-one meetings and other diversified communication methods, to introduce the Group's business situation, development progress and overseas member companies' businesses to investors, and simultaneously releases the latest business updates through different media channels, aiming to build an open, two-way, transparent and sincere communication platform, so that investors can keep abreast of the Group's business progress and development prospects. During the year, the Group actively communicated with the capital market and investors through results announcements, R&D open days, joint roadshows with strategic partners, and participated in a number of summits, forums, strategy conferences and special roadshows held by large investment banks and securities companies, attracting hundreds of institutional investors and analysts. Through communication with investors, the Group hopes to listen to more valuable opinions and extensively collect feedback from investors by establishing an active and efficient information and communication mechanism, so as to further enhance its corporate governance.

The Group's investor relations management is conducive to establishing a high-quality corporate image and delivering the core strategy of technological innovation. It has been highly recognized in the industry in multiple dimensions. In January 2023, it received the "Investment and Customs Pioneer Award" of the Royal Flush Enterprise and "2022 Listed Companies Most Concerned by Investors" by HSTONG. In April 2023, it won the accolade of the "6th New Fortune Best IR of Hong Kong Listed Companies (H-share)". In October 2023, it was honored with the title of "Top 10 R&D Innovative Pharmaceutical Listed Companies in China in 2023" by E Medicine Manager. In November 2023, it was named as the "Listed Bio-pharmaceutical Company with the Largest Growth" by National Business Daily. In December 2023, it was awarded the "Best Innovation Value Award of the Year" by Cailian Press in 2023, the "2023 Most Concerned by Investors Award" by HSTONG, the "Best Capital Market Communication Award" in the 7th China Excellent IR Award by Road Show China and the "Most Valuable Pharmaceutical and Healthcare Company" in the 8th Zhitong Finance Listed Company Selection, and the Investor Relations team was awarded the "Best Investor Relations Team Award". In February 2024, it received the accolade of the Best Investor Relations Company of the Year Award (Pharmaceutical and Healthcare Industry) of 'Gathering of Directors and Secretaries 2023 (《聚董秘2023》)'".

Management Discussion and Analysis

OTHER SIGNIFICANT MATTERS

(I) Litigations

With reference to the disclosure in the annual reports of the Company between 2016 to 2023, Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2023, the court has concluded 74 cases, and 1 case is under hearing processes at the people's court. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB39,216,705 in according to the court orders. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and in April 2021 Grand Pharm (China) had claimed the original shareholders of Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgment by the court, the original shareholders of Tianjin Jingming should compensate to us approximately RMB27.09 million as the existing compensate and liquidated damages at the point of the judgment. After the execution of the enforcement order from the people's court, Grand Pharm (China) has got properties and cash at approximately RMB7.27 million in aggregate from the original shareholders of Tianjin Jingming, and the outstanding amount is still under enforcement processes. Also Grand Pharm (China) has the right to raise litigation claiming the original shareholders of Tianjin Jingming for the subsequent payment of the indemnification related to such product quality incident made by Tianjin Jingming. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "**Actual Profit**") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "**Performance Guarantee**"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the share transfer consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group raised a litigation against those vendors in related to the said Performance Guarantee, and after the first trial, second trial and retrial from the court, the court granted the final judgement in December 2020. It was concluded that the Group can get back the RMB10 million share transfer consideration (recovered) deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB11.2 million share transfer consideration to the Group according to the terms of the agreement for the acquisition of Tianjin Jingming. Up to now, the case has been applied to the People's Court for enforcement and has been accepted. The Group has followed the judgement from the court and got back the RMB10 million deposited in the bank account jointly controlled by the Group and the vendors and the interest thereon of RMB644,135.

Management Discussion and Analysis

(II) Penalties

On 28 May 2023, Grand Pharmaceutical (China) Company Limited, a non-wholly owned subsidiary of the Company, received the Notice of Administrative Decision (the "**Notice**") issued by the China State Administration for Market Regulation. According to the China State Administration for Market Regulation, from June 2016 to July 2019, the Subsidiary entered into and implemented a monopoly agreement for the sale of Norepinephrine Bitartrate Injection API and Epinephrine API; from May 2010 to April 2021, the Subsidiary abused its dominant position in the Chinese market of Norepinephrine Bitartrate Injection API and Epinephrine API, violated the Anti-Monopoly Law of the People's Republic of China (the "**Anti-Monopoly Law**"), constituted the implementation of a monopoly agreement and the abuse of a dominant market position. Considering that the Subsidiary actively cooperated with the follow-up investigation works, provided relevant evidence materials, and actively self-checked and rectified, according to the provisions of the Anti-Monopoly Law and the "Administrative Punishment Law of the PRC", the China State Administration for Market Regulation has punished the Subsidiary and order the Subsidiary to stop the violation, confiscated the gain approximately RMB149 million from such behavior, and imposed fine of approximately RMB136 million, which is calculated based on 3% of the sales of the company in China in 2019.

The company attaches great importance to and actively cooperates with the investigation of the State Administration for Market Regulation, it accepts the punishment and organizes rectification according to requirements, maintains active communication with the competent authorities, improves the sales and compliance system, actively and properly solves relevant rectification requirements, has terminated relevant monopoly agreements, actively communicates with customers, and supplies relevant raw materials to the market in compliance with laws and regulations. At the same time, further strengthen the legal compliance consciousness and responsibility consciousness of subsidiaries and relevant employees, continue to improve and optimize the operation management and compliance risk control system. The company has quickly implemented internal rectification measures, organized repeated internal training and employee learning on compliance system, increased channels and methods of internal communication, reporting, supervision and self-examination through traditional and digital means, actively carried out comprehensive self-examination, and made rectification according to requirements and self-examination, so as to continuously strengthen the legal awareness and responsibility awareness of the Subsidiary and employees.

The above fine amount accounted for approximately 3.0% and 16.8% of the audited consolidated operating income and profit attributable to the Company's holders in the most recent fiscal year of the Group respectively. The Company considers that this administrative fine will not have any material adverse impact on the business operations and financial position of the Group.

(III) Petition for bankruptcy and liquidation by a former associate

On 14 June 2023, OncoSec Medical Incorporated ("OncoSec"), a former associate of the Group, filed a petition with the relevant regulatory authorities in the United States of America for voluntary liquidation under Chapter 7 of the US Bankruptcy Code. On 14 June 2023, but before OncoSec filed its petition for bankruptcy and liquidation, both directors appointed by the Group to OncoSec had resigned and the Group had lost its right to influence its operation and finance, and therefore it ceased to be an associate of the Group.

The Group made a loss provision of approximately HK$59.65 million, representing approximately 3.2% of the profit attributable to the holder of the Company for the most recent financial year, as a result of the bankruptcy and liquidation of OncoSec, and the products of OncoSec are still in the research and development stage and have not yet hit the market, therefore, the Company considers that this matter will not have any material adverse impact on the business operation and financial position of the Group.

Management Discussion and Analysis

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2023, the Group had current assets of HK$7,016.15 million (31 December 2022: HK$6,886.92 million) and current liabilities of HK$5,731.44 million. (31 December 2022: HK$6,454.60 million). The current ratio was approximately 1.22 at 31 December 2023 as compared with approximately 1.07 at 31 December 2022.

The Group's cash and bank balances as at 31 December 2023 amounted to HK$1,339.71 million (31 December 2022: HK$1,444.01 million), of which approximately 5.1% were denominated in Hong Kong Dollar, United States Dollar, Australian Dollar, Euro, and 94.9% in RMB.

As at 31 December 2023, the Group had outstanding bank loans of approximately HK$3,284.52 million (31 December 2022: HK$3,741.38 million) were granted by banks in the PRC and Hong Kong. All bank loans were denominated in RMB, USD and HK$. The interest rates charged by banks ranged from 2.50% to 7.07% (31 December 2022: 2.70% to 7.68%) per annum, in which bank loans of approximately HK$642.00 million were charged at fixed interest rate. Certain bank loans were pledged by assets of the Group with a net book value of approximately HK$121.03 million (31 December 2022: HK$167.20 million). The gearing ratio of the Group, measured by bank borrowings as a percentage of shareholders' equity, was approximately 21.5% as at 31 December 2023 while it was also approximately 26.3% as at 31 December 2022.

Since the Group's principal activities are in the PRC and the financial resources available, including cash and bank borrowings, are mainly in RMB and Hong Kong Dollar, the exposure to foreign exchange fluctuations is relatively low.

The Group intends to principally finance its operations and investing activities with its operating revenue, internal resources and bank facilities. The Directors believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. The Group did not have foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

Management Discussion and Analysis

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial condition, results of operations, and business prospects may be affected directly or indirectly, by a number of risks and uncertainties pertaining to the Group's businesses. To the best of knowledge and belief, the Directors consider that the following are the key risks and uncertainties identified by the Group as at the date of this report.

Market Risks

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices, being foreign exchange rates and interest rates. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign Exchange Rates Risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. During the year ended 31 December 2023, the Group did not carry out other hedging activity against foreign currency risk. Any substantial exchange rate fluctuation of foreign currencies against Renminbi may have a financial impact on the Group.

Interest Rate Risk

For interest-sensitive products and investments, the Group analyses its interest rate exposure on a dynamic basis and considers managing the risk in a cost-effective manner when appropriate, through variety of means.

Liquidity Risk

Liquidity risk is the potential that the Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, the Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels. Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. The management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

Management Discussion and Analysis

Investment Risk

Investment risk can be defined as the likelihood of occurrence of losses relative to the expected return on any particular investment. Key concern of investment framework will be balancing risk and return across different investments, and thus risk assessment is a core aspect of the investment decision process. Proper authorisation system has been set up and detailed analysis will be made before approving investments. Regular updates on the progress of the investments of the Group would be submitted to the Board.

Economic Environment

Most of the Group's facilities, operations and its revenue are located in and derived from Mainland China and Hong Kong, the PRC. The Group's results of operations and financial condition therefore depend on the economies of Mainland China and Hong Kong, the PRC. The economy of Hong Kong is significantly affected by the developments in the Mainland China and the Asia-Pacific region. Mainland China's economy may experience negative economic developments, and other regional economies may also deteriorate.

The Group also has significant business across the PRC and part of its growth strategy is to expand into new regions. These regions have also been adversely affected by the global economic slowdown and any continued slowdown may have an adverse effect on the Group's existing operations in, and planned expansion into, these regions.

Environmental Policies

The Group is committed to contributing to the sustainability of the environment and is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimize its environmental impact by reducing water consumption and encouraging recycle of office supplies and other materials.

Compliance with Relevant Laws and Regulations

Save as disclosed above, during the year ended 31 December 2023, as far as the Company is aware, there was no material breach of or non-compliance with the relevant laws and regulations by the Group that have a significant impact on the business and operations of the Group.

Key Relationships

(i) Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group aims to continue to be an attractive employer for committed employees. The Group strives to motivate its employees with a clear career path and opportunities for advancement and improvement of their skills.

(ii) Suppliers

The Group has developed long-standing relationships with a number of suppliers and take a great care to ensure that they share its commitment to quality and ethics. The Group cautiously selects its suppliers and requires them to satisfy certain assessment criteria including experience, reputation and quality control effectiveness.

(iii) Customers

The Group is committed to offer quality products to its customers and keep them informed its latest business developments.

Management Discussion and Analysis

Employees and Remuneration Policy

As at 31 December 2023, the Group employed about 10,534 staff and workers in Hong Kong and the PRC (31 December 2022: about 10,172). The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and share option scheme.

SIGNIFICANT INVESTMENT

Save as disclosed above, there was no other significant investment during the year.

CONTRACTUAL AND CAPITAL COMMITMENTS

As at 31 December 2023, the Group as lessor had operating lease commitments of approximately HK$0.377 million (2022: HK$0.65 million).

As at 31 December 2023, the Group had capital commitments of approximately HK$1,246.6 million (2022: HK$140.49 million).

CONTINGENT LIABILITIES

As at 31 December 2023, the Directors were not aware of any material contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

On 1 March 2024, the Group entered into the convertible loan agreement with Grand Pharma Sphere Pte Ltd. as the borrower, being a subsidiary of the Company, pursuant to which the Group has agreed to make available to Grand Pharma Sphere Pte Ltd. the convertible loan in the aggregate principal amount of US$28.66 million (equivalent to approximately HK$223.548 million 28.66 million).

Save as disclosed above, no subsequent events occurred after 31 December 2023 which may have a significant effect, on the assets and liabilities of future operations of the Group.

APPRECIATION

On behalf of the board of Directors (the "**Board**"), I would like to express my gratitude to our management and staff for their dedication and contribution to the Group, and our shareholders and business associates for their continued support throughout the year.

Dr. Tang Wei Kun
Chairman

Hong Kong, 19 March 2024

Corporate Governance Report

The Company has complied with all the applicable code provisions of the Corporate Governance Code (the "Code Provisions") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange during the year ended 31 December 2023. This report also provides the status of the Company's compliance with the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as follows:

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions by Directors. Having made specific enquiries of all Directors, the Directors have complied with the required standard set out in the Model Code during the year ended 31 December 2023.

BOARD OF DIRECTORS

The Board is responsible for formulating and reviewing business strategies and directions, overseeing the management and monitoring the performance of the Group. While the management is delegated by the Board to execute these business strategies and directions and is responsible for the daily operations of the Group.

Currently, the Board comprises 4 executive Directors — Dr. Tang Weikun, Mr. Zhou Chao, Mr. Yang Guang and Dr. Shi Lin and 3 independent non-executive Directors — Ms. So Tosi Wan, Winnie, Mr. Hu Yebi and Dr. Pei Geng. Dr. Tang Weikun is the Chairman and Mr. Zhou Chao is the Chief Executive Officer. There is no relationship among members of the Board.

The roles of the Chairman and the Chief Executive Officer are clearly defined and segregated to ensure independence and proper checks and balances. Dr. Tang, as Chairman of the Board, with his strategic vision, provides leadership to the Board and gives direction in the development of the Group, which is of added benefit to the check and balance mechanism of the Group. Mr. Zhou, as the Chief Executive Officer, focuses on the day-to-day management of the Group's business, and leads the management team of the Group.

The Board believes that the balance between executive and non-executive Directors is reasonable and adequate to provide check and balance that safeguard the interests of shareholders and the Group.

The Company has received annual confirmation of independence from all independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent and meet the independent guidelines set out in the Listing Rules.

All Directors are appointed for a term of one year and are subject to retirement by rotation and re-election at the general meetings in accordance with the Company's Bye-Laws.

BOARD AND SENIOR MANAGEMENT DIVERSITY POLICY

The Company has implemented a board and senior management diversity policy with the aim to set out the approach to achieve diversity in the Board and at the senior management level. The Company sees increasing diversity at Board and senior management level as essential to supporting attainment of its strategic objectives and to achieve sustainable and balanced development. In designing the composition of the Board and the senior management, the diversity has been considered from a number of perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity. It should have a balance of skills and experience and a diversity of perspectives appropriate to the requirements of the Company's business.

The Company recognizes and embraces the benefits of having a diverse Board and senior management team to enhance the quality of its performance. Currently the Board and senior management team comprises 8 male and 2 female.

Corporate Governance Report

TRAINING, INDUCTION AND CONTINUING DEVELOPMENT OF DIRECTORS

During the year ended 31 December 2023, the Directors complied with the paragraph A.6.5 of the Code Provision on participation in continuous professional training as follows:

	Mode of participation	
	a	b
Dr. Tang Weikun	✓	✓
Mr. Zhou Chao	✓	✓
Mr. Yang Guang	✓	✓
Dr. Shi Lin	✓	✓
Ms. So Tosi Wan, Winnie	✓	✓
Mr. Hu Yebi	✓	✓
Dr. Pei Geng	✓	✓

a: Directors received regular briefings and updates from the Company Secretary/the Company's management on the Group's business, operations and corporate governance matters.

b: Directors read technical bulletins, periodicals and other publications on subjects relevant to the Group and/or on their responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference for the purpose of monitoring the integrity of the financial statements and overseeing the financial reporting process and the internal control system of the Group. The Audit Committee is also responsible for the appointment of external auditors and assessment of their qualifications, independence and performance.

Currently, the Audit Committee consists of three independent non-executive Directors namely, Ms. So Tosi Wan, Winnie (Chairwoman), Mr. Hu Yebi and Dr. Pei Geng. Ms. So Tosi Wan, Winnie has appropriate professional qualifications as required by 3.10(2) of the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2023 and reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the interim and annual financial statements. The Audit Committee also met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending the financial statements to the Board for approval. There was no disagreement between management and the external auditors with regard to the interim and annual financial statements.

Corporate Governance Report

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference. Currently, the Remuneration Committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Dr. Tang Weikun and an independent non-executive Director Mr. Hu Yebi as members.

The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and reviewing specific remuneration package of all Directors and senior management including any compensation payable for loss or termination of their office and appointment. The remuneration should reflect the performance, complexity of duties and responsibility of the individual. The Remuneration Committee met twice during the year to review the remuneration policy for all Directors and senior management and considered the revised terms of reference of the Nomination Committee.

The remuneration of Directors and senior management comprises salary, pensions and discretionary bonus. Details of the Directors' emoluments for the year ended 31 December 2023 are set out in note 15 to the consolidated financial statements.

NOMINATION COMMITTEE

The Company has established a Nomination Committee with written terms of reference. Currently, the Nomination Committee is chaired by Ms. So Tosi Wan, Winnie with an executive Director Mr. Zhou Chao and an independent non- executive Director Mr. Hu Yebi as members.

The Nomination Committee is responsible for assisting the Board in the overall management of the nomination practices of the Company to ensure that effective policies, processes and practices are implemented in respect of the appointment and removal of Directors. The Nomination Committee considers the past performance, qualification, general market conditions and the Company's Bye-laws in seeking and recommending candidates for directorship.

The Nomination Committee held a meeting in 2023 to review the structure, size and composition of the Board, assess the independence of the independent non-executive Directors and other related matters of the Company.

ATTENDANCE RECORD AT MEETINGS

The attendance records of each Director at the various meetings of the Company during the year ended 31 December 2023 are set out as below:

	Meetings Attended/Held				
Directors	**Annual General Meeting**	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Dr. Tang Weikun	1/1	36/36	N/A	2/2	N/A
Dr. Shao Yan	1/1	16/16	N/A	N/A	1/1
Dr. Niu Zhanqi	1/1	18/18	N/A	N/A	N/A
Dr. Shi Lin	1/1	36/36	N/A	N/A	N/A
Ms. So Tosi Wan, Winnie	1/1	36/36	2/2	2/2	1/1
Mr. Hu Yebi	1/1	36/36	2/2	2/2	1/1
Dr. Pei Geng	1/1	36/36	2/2	N/A	N/A
Mr. Zhou Chao	N/A	20/20	N/A	N/A	N/A
Mr. Yang Guang	N/A	17/17	N/A	N/A	N/A

Corporate Governance Report

AUDITORS' REMUNERATION

During the year, the auditors performed the work of statutory audit for the year of 2023. Audit fees for the year under review payable/paid to the auditors of the Company, HLB Hodgson Impey Cheng Limited, amounted to HK$3,980,000.

FINANCIAL REPORTING

The Board has overall responsibility for preparing the accounts of the Group. In preparing the accounts, the generally accepted accounting policies in Hong Kong have been adopted and the Group has complied with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been applied consistently. The Directors are not aware of any other material uncertainties relating to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges that it has overall responsibility for the Group's risk management and internal control systems and for reviewing their effectiveness. The Company has an internal audit team which carries out the analysis and independent appraisal of the adequacy and effectiveness of the Company's risk management and internal control systems and reports to the Board. The Board also ensures that the review of the effectiveness of these systems has been conducted annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

During the financial year ended 31 December 2023, the Board has conducted its regular and annual review of the effectiveness of our risk management and internal control systems, in particular, the operational and financial reports, compliance control and risk management reports, budgets and business plans provided by the management. The Audit Committee of the Company also performs regular review of the Group's performance, risk management and internal control systems and discusses with the Board, in order to ensure effective measures are in place to protect material assets and identify business risks of the Group. Such review in the financial year ended 31 December 2023 did not reveal any major issues and the Board considers our risk management and internal control systems effective and adequate. The Group's review procedures involved in the risk management and internal control mainly included:

(1) A list of risks was created after the scope of risks was determined and risks were identified.

(2) The impacts brought by possible financial losses due to risks on operating efficiency, continuous development, and reputation were assessed with reference to possible occurrence of various potential risks and the attention drawn from the management of the Group, based on which the priority of the risks was determined.

(3) Our risk management measures with respect to material risks were identified, internal control over the design and implementation of risk management measures were assessed, and measures to improve the weaknesses were formulated.

(4) By assessing internal controls and management's implementation of rectification measures with respect to material risks, the Group regularly reviewed and summarized the risk management and internal control systems to realize the efficient operation and constant improvement of risk management.

(5) The risk management handbook was formulated to address risk management and internal control, pursuant to which, the terms of reference of the management, the Board, and the Audit Committee with respect to their risk management work were clearly determined, and risk management and internal control systems were monitored on an ongoing basis.

(6) The management submitted reports to the Audit Committee on regular reviews and assessment results with respect to risk management and internal control systems, material risk factors, and the relevant countermeasures.

Corporate Governance Report

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

(1) The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

(2) Confidentiality agreements or confidentiality clauses are in place when the Group enters into significant negotiations.

(3) The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

CORPORATE GOVERNANCE FUNCTIONS

The Board has adopted the terms of reference on corporate governance functions. The terms of reference of the Board in respect of corporate governance function are summarised as follows:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices to ensure compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with the Code Provisions and its disclosure requirements in the Corporate Governance Report.

The work performed by the Board on corporate governance functions during the year ended 31 December 2023 included developing and reviewing the Company's policies on corporate governance and review the Company's compliance with the Code Provisions.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company establishes different communication channels with shareholders and investors. Electronic version or printed copies of the annual and interim reports and circulars are sent based on shareholders' selected communication method to shareholders based on the method they chose. Shareholders are encouraged to attend general meetings of the Company which allows the Directors to meet and communicate with them.

Corporate Governance Report

SHAREHOLDERS' RIGHTS

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition.

Any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders of the Company or not less than 100 shareholders can put forward any proposed resolution or the business to be dealt with at general meetings of the Company by depositing a requisition in writing at the principal office of the Company. The requisition must be signed by the relevant shareholder(s).

Shareholders may at any time send their enquiries and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Unit 3302, The Center,
99 Queen's Road Central, Hong Kong
Email: victor.foo@grandpharm.com

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

In 2012, the Company adopted certain amendments on the Bye-laws of the Company in order to bring the Bye-laws in line with (i) current amendments made to the Listing Rules came into effect on 1 January 2012 and 1 April 2012; and (ii) amendments of the Companies Act 1981 of Bermuda pursuant to the Companies Amendment (No. 2) Act 2011 in Bermuda which became operative on 18 December 2011. The amended Bye-laws of the Company is available on the websites of the Company and the Stock Exchange.

Report of the Directors

The Directors are pleased to present their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of its principal subsidiaries and associates are set out in notes 21 and 19 to the consolidated financial statements respectively.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2023 is set out in the section "Management Discussion and Analysis" on pages 19 to 21 of this annual report.

Description of principal risks and uncertainties that may be faced by the Group can be found in the section "Management Discussion and Analysis — Principal Risks and Uncertainties" on pages 54 to 56 of this annual report.

An analysis of the Group's performance during the year using financial key performance indicators is set out in the section "Management Discussion and Analysis — Financial Resources and Liquidity" on page 53 of this annual report. In addition, discussions on the Group's environmental policies and compliance with relevant laws and regulations which may have a significant impact on the Group are set out in the section "Management Discussion and Analysis — Environmental Policies" and "Management Discussion and Analysis — Compliance with Relevant Laws and Regulations" separately on page 55 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2023 and the state of affairs of the Group at that date are set out on pages 83 to 202.

DIVIDEND POLICY

The Company has adopted a dividend policy, in considering the payment of dividends, to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for future growth of the Group. The Board shall consider the following factors before recommending or declaring dividends:

i. The Company's actual and expected financial performance;

ii. Retained earnings and distributable reserves of the Company and each of the members of the Group;

iii. The Group's working capital, capital expenditure requirements and future expansion plans;

iv. The Group's liquidity position;

v. General economic conditions, business cycle of the Group and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and

vi. Other factors that the Board deems relevant.

The payment of dividend is also subject to compliance with applicable laws and regulations including the laws of Bermuda and the Company's Bye-laws. The Board will review the dividend policy from time to time and there can be no assurance that dividend will be paid in any particular amount for any given period.

Report of the Directors

DIVIDEND

The Board recommends the payment of final dividend of approximately HK$905.14 million at 26 HK cents per share (2022: HK$496.94 million at 14 HK cents per share) for the year ended 31 December 2023. No interim dividend was declared during the year (2022: Nil).

RESERVES

Details of the movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 40 to the consolidated financial statements respectively. As at 31 December 2023, the Company's reserves available for distribution, calculated in accordance with the relevant laws and regulations of Bermuda, amounted to approximately HK$6,870.44 million (2022: approximately HK$7,143.16 million).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 37 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates at 31 December 2023 are set out in notes 21 and 19 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

BANK BORROWINGS

Particulars of bank borrowings of the Group during the year are set out in note 31 to the consolidated financial statements.

DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Dr. Tang Weikun
Dr. Shao Yan (retired on 2 June 2023)
Dr. Niu Zhanqi (resigned on 30 June 2023)
Dr. Shi Lin
Mr. Zhou Chao (appointed on 2 June 2023)
Mr. Yang Guang (appointed on 30 June 2023)

Independent Non-executive Directors

Ms. So Tosi Wan, Winnie
Mr. Hu Yebi
Dr. Pei Geng

Report of the Directors

Pursuant to bye-law 87(1), Dr. Tang Weikun, Ms. So Tosi Wan, Winnie and Mr. Hu Yebi will retire from office at the forthcoming annual general meeting. Dr. Tang Weikun, Ms. So Tosi Wan, Winnie and Mr. Hu Yebi, being eligible, offer themselves for re-election of the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

There is no unexpired service contract which is not determinable by the Company within one year without payment of compensation other than statutory compensation. Each of the independent non-executive Directors has been appointed pursuant to a letter of appointment for a term of one year, which is renewable automatically for successive terms of one year after the expiry of the term of appointment, unless terminated by not less than three months' notice in writing served by either party.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

COMPETING INTEREST

Save that Dr Niu Zhanqi, former executive Director (resigned in June 2023), is the former director of Huadong Medicine Co., Ltd. (resigned in June 2023), and thus may have interest in businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group, so far as the Directors are aware of, no Directors or the management shareholders of the Company (as defined in the Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

RELATED PARTY TRANSACTIONS

For the year ended 31 December 2023, the related party transactions entered by the Group are all disclosed note 41 in the consolidated financial statements and in the section "Continuing Connected Transactions" in the Report of the Directors below, and had complied with the relevant requirements under Chapter 14A of the Listing Rules. Save as mentioned in these 2 sections, there were no other discloseable non-exempted connected transactions or non- exempted continuing connected transactions under the Listing Rules. To the extent of the related party transactions as disclosed in note 41 to the financial statements constituted connected transaction or continuing connected transaction, the Company had complied with the relevant requirements under Chapter 14A of the Listing Rules during the year.

Report of the Directors

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2023, the Group has entered the following continuing connected transactions which are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules:

(1) On 30 June 2023, Grand Pharm (China) entered into an agreement (the "Huadong Medicine Supply Agreement") with Huadong Medicine. Pursuant to the Huadong Medicine Supply Agreement, Grand Pharm (China) or its related companies shall supply pharmaceutical preparations, raw materials and related services to Huadong Medicine or its related companies, and the maximum annual amount of products to be sold by the Group to Huadong Medicine for each of the periods commencing from the date where the terms of the Huadong Medicine Supply Agreement become effective until 31 December 2023 and for the two years ending 31 December 2025 shall not exceed RMB141.10 million, RMB142.00 million and RMB143.00 million respectively (the "Huadong Medicine Supply Caps"). In 2023, the transaction amount under Huadong Medicine Supply Agreement was approximately RMB140.68 million.

(2) On 30 June 2023, Grand Pharm (China) entered into a purchase agreement (the "Yuanda Jiufu Purchase Agreement") with Hebei Yuanda Jiufu Biotechnology Co., Ltd. ("Yuanda Jiufu"). Pursuant to the Yuanda Jiufu Purchase Agreement, Grand Pharm (China) or its related companies shall purchase raw materials for the production of steroid hormone products and other pharmaceutical products from Yuanda Jiufu or its related companies, and the maximum annual amount of products to be purchased by Yuanda Jiufu from the Group for each of the periods commencing from the date where the terms of the Yuanda Jiufu Purchase Agreement become effective until 31 December 2023 and for the two years ending 31 December 2025 shall not exceed RMB108.00 million, RMB165.00 million and RMB196.00 million respectively (the "Yuanda Jiufu Purchase Caps"). In 2023, the transaction amount under Yuanda Jiufu Purchase Agreement was approximately RMB102.86 million.

(3) On 30 June 2023, Grand Pharm (China) entered into a sub-contracting agreement (the "Yuanda Jiufu Sub-contracting Agreement") with Yuanda Jiufu. Pursuant to the Yuanda Jiufu Sub-contracting Agreement, Grand Pharm (China) shall engage Yuanda Jiufu and its related companies for the provision of processing services for the production of amino acid products and other pharmaceutical products, and the maximum annual amount of processed products to be consigned by the Group to Yuanda Jiufu for each of the periods commencing from the date where the terms of the Yuanda Jiufu Sub-contracting Agreement become effective until 31 December 2023 and for the two years ending 31 December 2025 shall not exceed RMB84.00 million, RMB85.00 million and RMB86.00 million respectively (the "Yuanda Jiufu Sub-contracting Caps"). In 2023, the transaction amount under Yuanda Jiufu Sub-contracting Agreement was approximately RMB9.02 million.

(4) On 9 December 2021, Cangzhou Huachen BioTech Co., Ltd. (an indirect non-wholly owned subsidiary of the Company) (the "Huachen BioTech ") entered into an agreement (the "Huachen BioTech Supply Agreement") with Hebei Huayang Biological Technology Co., Ltd. (the "Hebei Huayang "). Pursuant to the Huachen BioTech Supply Agreement, Huachen BioTech or its related companies shall supply glycine, other raw materials for pharmaceutical use and related services, to Hebei Huayang or its related companies, and the maximum annual amount of products to be sold by the Group to Hebei Huayang for each of the periods commencing from the date where the terms of the Huachen BioTech Supply Agreement become effective until 31 December 2021 and for the two years ending 31 December 2023 shall not exceed RMB200.00 million, RMB700.00 million and RMB1.00 billion respectively (the "Huachen BioTech Supply Caps"). In 2023, the transaction amount under Huachen BioTech Supply Agreement was approximately RMB31.83 million.

Report of the Directors

As Huadong Medicine and Baoding Jiufu are regarded as connected persons of the Company since they are associates of the China Grand (which is a substantial shareholder of the Company), and the subject matters of each of the Huadong Medicine Supply Agreement, China Grand Supply Agreement, Yuanda Jiufu Purchase Agreement, and Yuanda Jiufu Sub-Contracting Agreement (collectively known as the "China Grand Continuing Connected Transaction Agreements") are similar in nature, pursuant to Rule 14A.81 of the Listing Rules the transactions between the Group and each of these companies would be aggregated. As the aggregated amount of the Huadong Medicine Supply Caps, the China Grand Supply Caps, Baoding Jiufu Purchase Caps and Yuanda Jiufu Sub-Contracting Caps exceed HK$10 million per annum, the transactions contemplated under the China Grand Continuing Connected Transaction Agreements are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Huachen BioTech is owned as to 80% by the Group and 20% by Hebei Huayang. Accordingly, Hebei Huayang is a connected person of the Company. As the amount of the Huachen BioTech Supply Caps exceed HK$10 million per annum, the transactions contemplated under the Huachen BioTech Supply Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Report of the Directors

The independent non-executive Directors have reviewed and confirmed that these transactions were entered into:

(i) in the ordinary and usual course of the business of the Group;

(ii) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties; and

(iii) in accordance with the China Grand Continuing Connected Transaction Agreement, Huachen BioTech Supply Agreement and Beijing Purevalley Distribution Agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Auditors of the Company have reviewed the continuing connected transactions and confirmed in a letter (the "Letter") to the Board (a copy of which has been provided to the Stock Exchange). The Auditors of the Company have:

(i) found that the continuing connected transactions have received the approval of the Board of Directors of the Company;

(ii) obtained the relevant agreements governing each of the continuing connected transactions from management;

(iii) found that the prices charged for each of the transactions selected were in accordance with the pricing terms set out in the relevant agreements governing such transactions or where the related agreement did not clearly specify a price, the prices charged were consistent with the prices charged for comparable transactions that were identified by management; and

(iv) found that the continuing connected transactions have not exceed the cap amounts disclosed in previous announcements dated 16 July 2021, 9 December 2021 and 30 June 2023 made by the Company in respect of each of the continuing connected transactions.

SHARE OPTION SCHEME

During the year ended 31 December 2023, the Company did not adopt any share option scheme and no outstanding share options.

No share options were granted or exercised under any share option scheme during the year ended 31 December 2023 and 2022 and there were no outstanding share options as at 31 December 2023 and 2022.

SHARE AWARD SCHEME

On 1 September 2021, the Company has adopted the Share Award Scheme (the "Scheme"), in which the Group's employees, directors or consultants will be entitled to participate. Details of the Scheme are set out in the Company's announcement dated 1 September 2021.

The Group has paid to the trust established for the Scheme approximately HK$278.56 million, and including the dividend belongs to the shares acquired previously, the trustee used approximately HK$268.73 million to purchase 47,761,500 shares of the Company (the "Shares") as part of the trust fund, and such Shares are held by the trustee for the benefit of the eligible participants under the trust and are the total number of award shares available for grant under the Scheme, representing approximately 1.35% of the issued Shares of the Company. Where the trustee has received instructions from the Group to acquire Shares and necessary funds, the trustee shall acquire such number of Shares on-market at the prevailing market price as soon as reasonably practicable.

Report of the Directors

Save for the aforesaid, as at 31 December 2023, the Group did not grand any awards nor caused to pay the trustee the trust fund for purchase nor subscription of Shares. When any awards were granted later, the number of Shares to be awarded, award price, vesting criteria and vesting schedule of awards of each participant will be subject to the applicable Listing Rules and other applicable regulations by that time, and will inform the participants in the form of an award letter. The Board shall not make any award of Shares which will result in the aggregate number of the Shares awarded by the Board under the Scheme exceeding 5% of the number of issued Shares of the Company as at the adoption date of the Scheme (i.e. 177,478,557 Shares), and the maximum entitlement of each participant under the Scheme in every 12-months in aggregate shall not exceed 1% of the issued Shares as at the adoption date of the Scheme (i.e. 35,495,711 Shares).

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

As at 31 December 2023, the Directors and the chief executive of the Company, and their respective associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are 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 as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"):

Long positions in the shares of the Company:

Name of Director and chief Executive of the Company	Capacity	Number of ordinary shares held	Approximate percentage of the Company's issued share Capital
Tang Weikun	Beneficial owner	60,000	0.00%
Zhou Chao	Beneficial owner	56,000	0.00%

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO.

PERMITTED INDEMNITY PROVISION

The articles of associations of the Company provides that the Directors or other officers of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him/her as a Director or other officer of the Company in defending any proceedings, civil or criminal, in which judgment is given in his/her favour, or in which he/she is acquitted.

The Company has arranged appropriate insurance cover or other relevant arrangement in respect of potential legal actions against its Directors and senior management members as well as directors of the subsidiaries of the Group.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2023, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO.

Long and short positions in the shares of the Company:

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
Outwit Investments Limited ("Outwit")	1	1,671,671,149 (L)	Beneficial owner	47.09 (L)
Grand (Hongkong) International Investments Holdings Limited ("Grand Investment")	1	1,671,671,149 (L)	Interest of controlled corporation	47.09 (L)
China Grand Enterprises Incorporation ("China Grand")	1	1,671,671,149 (L)	Interest of controlled corporation	47.09 (L)
Shanghai China Grand Asset Finance Investment Management Co., Limited ("Shanghai Finance")	2	286,039,153 (L)	Beneficial owner/Interest of controlled corporation	8.06 (L)
East Ocean Capital (Hong Kong) Company Limited ("East Ocean")	2	224,373,091 (L)	Beneficial owner	6.32 (L)
Mr. Hu Kaijun ("Mr. Hu")	1 & 2 & 3	1,999,230,302 (L)	Interest of controlled corporation	56.32 (L)
Ms. Chau Tung	1 & 2 & 3	1,999,230,302 (L)	Beneficial owner/Interest in spouse	56.32 (L)
CDH Giant Health I Limited ("CDH Giant")	4	356,648,142 (L)	Beneficial owner	10.05 (L)
CDH Fund V, L.P. ("CDH Fund")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
CDH V Holdings Company Limited ("CDH V")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
China Diamond Holdings V Limited ("China Diamond V")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)

Report of the Directors

Name of Shareholders	Notes	Number of the shares interested	Nature of interests	Approximate percentage or attributable percentage of shareholding (%)
China Diamond Holdings Company Limited ("China Diamond")	4	356,648,142 (L)	Interest of controlled corporation	10.05 (L)
CNCB (Hong Kong) Investment Limited	5	208,750,000 (L)	Owned security interests in shares	5.88 (L)
China CITIC Bank Corporation Limited	5	208,750,000 (L)	Interest of controlled corporation	5.88 (L)
CITIC Limited	5	208,750,000 (L)	Interest of controlled corporation	5.88 (L)
CITIC Group Corporation	5	208,750,000 (L)	Interest of controlled corporation	5.88 (L)
Assicurazioni Generali S.p.A	6	179,173,959 (L)	Interest of controlled corporation	5.05 (L)
Li Zhenfu	6	179,173,959 (L)	Interest of controlled corporation	5.05 (L)
Lion River I N.V.	6	179,173,959 (L)	Interest of controlled corporation	5.05 (L)
GL Partners Capital Management Ltd.	6	179,173,959 (L)	Interest of controlled corporation	5.05 (L)

(L) denotes long position

Report of the Directors

Notes:

1. Outwit is the beneficial owner of 1,671,671,149 Shares. Grand Investment, being wholly-owned by China Grand, held 99.85% equity interests of Outwit, and Ms. Chau Tung, spouse of Mr. Hu, held the remaining 0.15% equity interests. Grand Investment and China Grand are therefore deemed to be interested in 1,671,671,149 Shares pursuant to the SFO.

2. Beijing Yuanda Huachuang Investment Co., Ltd. (北京遠大華創投資有限公司), a company wholly owned by Mr. Hu, owned 70% of the equity interests of Shanghai Finance. Shanghai Finance is the beneficial owner of 61,666,062 Shares. East Ocean, a wholly owned subsidiary of Shanghai Finance, also holds 224,373,091 Shares. Shanghai Finance is therefore deemed to be interested in 286,039,153 Shares pursuant to the SFO.

3. China Grand is controlled and ultimately and beneficially owned by Mr. Hu. Ms. Chau Tung, spouse of Mr. Hu, is also the beneficial owner of 41,520,000 Shares. Mr. Hu and Ms. Chau Tung are therefore deemed to be interested in 1,999,230,302 Shares pursuant to the SFO.

4. CDH Giant is the beneficial owner of 356,648,142 Shares. CDH Giant is wholly-owned by CDH Fund, and pursuant to the SFO CDH Fund is therefore deemed to be interested in the 356,648,142 Shares. CDH Fund is controlled by CDH V, which in turn held as to 80% by China Diamond V. China Diamond V is in held as to 100% by China Diamond.

5. CNCB (Hong Kong) Investment Limited owns a security interest in 208,750,000 Shares.

   China CITIC Bank Corporation Limited owns 99.05% interests in CNCB (Hong Kong) Investment Limited. China CITIC Bank Corporation Limited is owned by CITIC Limited by approximately 65.97%. CITIC Limited is owned by CITIC Group Corporation by approximately 58.13%. Pursuant to the SFO these three companies are therefore deemed to be interested in the 208,750,000 Shares.

6. GL Trade Investment Limited owns 99,438,959 Shares, and GL China Long Equity Opportunities Fund SPV LP owns 79,735,000 Shares.

   Lion River I N.V. owns 49% interests of GL Trade Investment Limited and approximately 80.13% interests in GL China Long Equity Opportunities Fund SPV LP. Assicurazioni Generali S.p.A owns 100% interests of Lion River I N.V.. Pursuant to the SFO these two companies are therefore deemed to be interested in the 179,173,959 Shares.GL Partners Capital Management Limited and Li Zhenfu also declare to have the same interests in Shares through the control and/or interests in the above companies.

Save as disclosed above, as at 31 December 2023, the Directors or chief executive of the Company were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, the five largest customers of the Group accounted for less than 30% of the Group's total revenue while the five largest suppliers accounted for less than 30% the Group's total purchases.

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2023.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules during the year ended 31 December 2023 and as at the latest practicable date prior to the issue of this annual report.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 57 to 62.

AUDITORS

The consolidated financial statements for the year ended 31 December 2023 have been audited by HLB Hodgson Impey Cheng Limited which shall retire and, being eligible, offer itself for re-appointment at the forthcoming annual general meeting. A resolution to re-appoint HLB Hodgson Impey Cheng Limited and to authorize the Board of Directors to fix its remuneration will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Dr. Tang Weikun
Chairman

Hong Kong, 19 March 2024

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Tang Weikun, aged 39, joined Grand Pharma (China) Co., Ltd. (a major subsidiary of the Group) ("Grand Pharma (China)") in 2012 and worked for several companies of the Group. He has been the assistant of the president of Grand Pharma (China) since April 2019, and was appointed as the president of Grand Pharma (China) with effect from 1 June 2021. Dr. Tang has overall responsible for the operation of Grand Pharma (China) and being the officer of its strategic decision committee. Dr. Tang completed his life science and technology undergraduate education at Wuhan University in 2007, and obtained his doctoral degree in microbiology from the College of Life Sciences, Wuhan University in 2012.

Mr. Zhou Chao, aged 34, joined the Company as the executive deputy officer in June 2019 and became the executive officer of the Company since June 2021. He is also directors of certain associated company of the Group. Mr. Zhou is primarily responsible for the overall internal management of the Group. Prior to joining the Company, Mr. Zhou was a legal manager and a senior legal manager of the legal security management headquarter and the business director of China Grand Enterprises Incorporation (a substantial shareholder of the Company) from 2013 to 2019. He is currently directors of certain local and overseas companies. Mr. Zhou obtained his bachelor degree in law from the Ocean University of China and subsequently obtained his master degree in international economic law from the University of International Business and Economics.

Mr. Yang Guang, aged 48, was appointed as an executive Director on 30 June 2023. Mr. Yang has over 20 years experience in business development. He has been the general manager of the investment management headquarters (formerly known as investment development headquarters) of China Grand Enterprises Incorporation (a substantial shareholder of the Company) since 2019. Mr. Yang obtained his bachelor degree in pharmaceutical preparations from the China Pharmaceutical University in 1996. He also obtained a master degree in bio-pharmacy engineering from the Tianjin University in 2007, and a master degree of business administration from the China Europe International Business School in 2013.

Dr. Shi Lin, aged 60, joined the Group in 2019 and is currently the deputy president and chief pharmaceutical officer of Grand Pharma (China). Before joining the Group, she had been the EU Registration Leader in Global Regulatory Affairs (GRA) Neuroscience of Janssen R&D in Belgium. Dr. Shi has over 30 years of clinical and research experience in the pharmaceutical industry, with significant experience working with global multifunctional matrix teams to drive forward complex projects. She led various applications for clinical trials (Clinical Trial Applications (CTA) and Investigational New Drug Applications (IND)) in different countries in Europe and the United States, particularly in relation to strategic assessments in first clinical trials and innovative research paths. Dr. Shi obtained her doctoral degree in medical sciences from Vrije Universiteit Brussel in 2005. She has been appointed as visiting professor and visiting fellow in various universities, such as Tongji Medical College affiliated to Huazhong University of Science and Technology (華中科技大學同濟醫學院) in Wuhan. Dr. Shi was awarded as "2014 Top Ten Chinese Technology Leaders in Europe" (2014年度歐洲華人10大科技領軍人才*) by the Federation of Chinese Professional Association in Europe (全歐華人專業協會聯合會*). She is also a director of OncoSec Medical Incorporated, a company listed in NASDAQ (trading symbol: ONCS).

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. So Tosi Wan, Winnie, aged 61, was appointed as an independent non-executive Director in March 2005. Ms. So is a fellow member of the Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. She is a partner of an accounting firm.

Mr. Hu Yebi, aged 60, was appointed as an independent non-executive Director in December 2018. Mr. Hu Yebi received his Master of Business Administration from Netherlands International Institute for Management in the Netherlands and a Postgraduate Diploma in Management Engineering from Beijing Institute of Technology in Beijing, the PRC. Mr. Hu has more than twenty years of experience in securities and financial services, mergers and acquisitions and corporate finance. Mr. Hu is the founder and chairman of Vision Finance Group Limited. Mr. Hu is currently a non- executive director of Beijing Sports and Entertainment Industry Group Limited (stock code: 1803) and was an executive director of Beijing Enterprises Medical and Health Industry Limited (stock code: 2389) and Beijing Properties (Holdings) Limited (stock code: 925), but already resigned in October 2018 and November 2018 respectively. All these companies are listed on The Stock Exchange of Hong Kong Limited.

Dr. Pei Geng, aged 64, was appointed as an independent non-executive Director in May 2011. Dr. Pei holds a bachelor degree in Medicine and clinically became a neurosurgeon after graduation from Beijing Capital University of Medicine, China. Dr. Pei also holds a licentiate degree in Medical Sciences from Uppsala University, Sweden and a PhD degree in neuroscience from University of Würzburg, Germany. Dr. Pei is currently working in Multiway Trading Intl., USA and its Beijing branch.

SENIOR MANAGEMENT

Mr. Foo Tin Chung, Victor, aged 55, joined the Company in September 2011 as a company secretary of the Company. Mr. Foo holds a bachelor degree in Accounting and Information System in the University of New South Wales in Australia and a master degree in Business Administration in Australia Graduate School of Management. He is a member of the Australia Society of Certified Practising Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Foo is the company secretary and chief financial officer of Justin Allen Holdings Limited (stock code: 1425) since April 2018, which is listed on the Stock Exchange.

Mr. Shi Xiaofeng, aged 57, joined the principal subsidiary Grand Pharm (China) since 2003 and is the chairman of the board of directors of Grand Pharma (China). Mr. Shi is responsible for overseeing the entire operations and management of Grand Pharm (China), and has over 20 years of experience in the pharmaceutical industry management. Mr. Shi used to work for Schering-Plough and Pharmacia as senior management before joining the Group. Mr. Shi holds a medical degree from Medical School of Southeast University and a EMBA certificate at China Europe International Business School.

Independent Auditors' Report

國衛會計師事務所有限公司
HODGSON IMPEY CHENG LIMITED

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11 Pedder Street
Central
Hong Kong

香港
中環
畢打街11號
置地廣場
告羅士打大廈31樓

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
GRAND PHARMACEUTICAL GROUP LIMITED
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Grand Pharmaceutical Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 83 to 202, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' 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.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of pharmaceutical business Refer to notes 3, 4, 20 and 22 to the consolidated financial statements	
The Group had goodwill and intangible assets of approximately HK$588,622,000 and HK$1,656,879,000 respectively relating to the cash generating units engaged in business of manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and health products, specialised pharmaceutical raw materials and other products mainly in the People's Republic of China as at 31 December 2023. The management of the Group performed impairment assessment of pharmaceutical business annually for recoverability of cash-generating units to which goodwill and intangible assets being allocated. An impairment loss on goodwill of approximately HK$39,136,000 was recognised for the year. This conclusion was based on value-in-use model that required significant management judgement with respect to the discount rate and the underlying cashflows, in particular future revenue growth. Independent external valuation reports were obtained in order to support management's estimates. We focused on this area due to the impairment assessment of pharmaceutical business involved the use of significant management judgements and estimates.	Our procedures in relation to management's impairment assessment of pharmaceutical business included but not limited to: • Evaluating of the independent external valuer's competence, capabilities and objectivity; • Assessing the appropriateness of methodologies used and the key assumptions based on our knowledge of the pharmaceutical business and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on sampling basis, the accuracy and relevance of the input data used. We found that the management's judgement and estimates used in the impairment assessment of pharmaceutical business were supported by the available evidence.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of trade and other receivables and amounts due from related companies

Refer to notes 3, 4, 5(b)(iv), 27 and 33 to the consolidated financial statements

As at 31 December 2023, the Group had gross trade and other receivables and amounts due from related companies of approximately HK$1,287,417,000 and HK$53,953,000, respectively. The provision for impairment of trade and other receivables and amounts due from related companies are approximately HK$146,759,000 and HK$1,486,000, respectively.

In general, the credit terms granted by the Group to the customers ranged between 30 to 180 days. Management applied judgement in assessing the expected credit losses ("ECL"). Trade and other receivables relating to counterparties with known financial difficulties or significant doubt on collection of trade receivables are assessed individually for provision for loss allowance. ECL are also estimated by grouping the remaining trade receivables based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its business and its ageing category, and applying ECL rates to the respective gross carrying amounts of the trade receivables. The management assessed the recoverability of amounts due from related companies based on these counterparties' capability of repayment. The ECL rates on these receivables are determined based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

We focused on this area due to the impairment assessment of trade and other receivables and amounts due from related companies under the ECL model involved the use of significant management judgements and estimates.

Our procedures in relation to management's impairment assessment of the trade and other receivables and amounts due from related companies as at 31 December 2023 included but not limited to:

- Understanding and evaluating the key controls that the Group has implemented to manage and monitor its credit risk;

- Checking, on a sample basis, the ageing profile of the trade and other receivables and amounts due from related companies as at 31 December 2023 to the underlying financial records and post year-end settlements to bank receipts;

- Inquiring of management for the past due status of each of the material trade and other receivables and amounts due from related companies as at year end and corroborating explanations from management with supporting evidence, such as understanding on-going business relationship with the customers based on trade records, checking historical and subsequent settlement records of and other correspondence with the customers or debtors; and

- Assessing the appropriateness of the ECL provisioning methodology, examining the key data inputs on a sample basis to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the ECL.

We found that the management's judgement and estimates used to assess the recoverability of the trade and other receivables and amounts due from related companies and its impairment provision were supported by the available evidence.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Interests in associates

Refer to note 3, 4 and 19 to the consolidated financial statements

As at 31 December 2023, the carrying amounts of interests in associates amounted to approximately HK$7,864,366,000 which represented approximately 35% of the Group's total assets. Included in the interests in associates, the Group had 57.98% interest in Grand Pharma Sphere Pte Limited ("Grand Pharma Sphere") which was accounted for under the equity method. The Group's share of loss from Grand Pharma Sphere for the year ended 31 December 2023 was approximately of HK$89,067,000 and the Group's share of net assets of Grand Pharma Sphere was approximately HK$4,991,038,000 as at 31 December 2023, which represented approximately 22% of the Group's total assets. Grand Pharma Sphere's revenue amounted to approximately HK$1,261,284,000 for the year ended 31 December 2023. Revenue was generated from sale of SIRSpheres Y-90 resin microspheres, a targeted radiotherapy for liver cancer. Revenue is recognised when control of the product has transferred to the customer, being when the product is delivered to the distributor or medical facility and when the customer has sole discretion over the use of the product and there are no unfulfilled obligations that could affect the customer's acceptance of the product.	Our procedures in relation to the i) the audit work performed on interest in Sirtex; and ii) management's impairment assessment of interests in associates included but not limited to: i) The audit work performed on the Group's interest in Sirtex: Sirtex Medical Pty Ltd. ("Sirtex") is a wholly owned subsidiary of Grand Pharma Sphere and was audited by non-HLB auditors ("the Sirtex Auditors"). We discussed with the Sirtex Auditors their audit approach and result of their work and reviewed their working papers. We discussed the key audit matters relating to Sirtex with Group's management and evaluated the impact on our audit of the consolidated financial statements. We reviewed and discussed with the Sirtex Auditors their report in accordance with our group audit instructions, and thus we found that the Group's share of results and net assets of Grand Pharma Sphere were supported by the available evidence.

Independent Auditors' Report

KEY AUDIT MATTERS *(Continued)*

Key audit matter	How our audit addressed the key audit matter

Interests in associates (continued)

Refer to note 3, 4 and 19 to the consolidated financial statements *(continued)*

Key audit matter	How our audit addressed the key audit matter
Management determines at the end of each reporting period the existence of any objective evidence through which the Group's interests in all associates may be impaired. The assessment of indicators of impairment and where such indicators exist and the determination of the recoverable amounts requires significant management's judgement. We focused on this area due to its significance balance to the Group's total assets and significant management judgements and estimates involved in impairment assessment on interests in associates.	ii) Management's impairment assessment of interests in associates included but not limited to: — Evaluating of the Group's assessments as to whether any indication of impairment exist by reference to the available information in the relevant market and industries; — Assessing the appropriateness of methodologies used and the key assumptions based on our knowledge and using our valuation experts; — Challenging the reasonableness of key assumptions based on our knowledge: and — Checking, on a sample basis, the accuracy and relevance of information included in the valuation of interests in associates. We found that the management's judgement and estimates used in the management impairment assessment on interests in associates were supported by the available evidence.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon (the "Other Information").

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.

Independent Auditors' Report

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' 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 auditors' report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Independent Auditors' Report

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

- 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 auditors' 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.

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 director on the audit resulting in this independent auditors' report is Tien Sun Kit, Jack.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Tien Sun Kit, Jack
Practising Certificate Number: P07364

Hong Kong, 19 March 2024

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Revenue	7	**10,529,590**	9,562,285
Cost of sales		**(4,005,524)**	(3,610,806)
Gross profit		**6,524,066**	5,951,479
Other income, gains and losses, net	8	**(107,810)**	211,572
Distribution costs		**(2,567,628)**	(2,306,519)
Administrative expenses		**(1,234,377)**	(1,090,032)
(Provision)/reversal of expected credit losses, net		**(58,664)**	23,017
Impairment loss recognised in respect of goodwill		**(39,136)**	(36,442)
Impairment loss on interests in associates		**(59,652)**	–
Fair value change on financial assets at fair value through profit or loss	9	**148,921**	(94,623)
Fair value change on derivative financial instruments		**(31,370)**	39,720
Share of results of associates		**(25,008)**	(43,786)
Finance costs	10	**(205,145)**	(137,493)
Profit before tax		**2,344,197**	2,516,893
Income tax expense	11	**(448,755)**	(418,642)
Profit for the year	12	**1,895,442**	2,098,251
Other comprehensive loss, net of income tax			
Items that will not be reclassified to profit or loss:			
Fair value loss on investment in equity instruments at fair value through other comprehensive income		**(185,919)**	(70,706)
Share of other comprehensive income/(loss) of associates		**5,717**	(31,311)
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operations		**(86,192)**	(788,439)
Other comprehensive loss for the year, net of income tax		**(266,394)**	(890,456)
Total comprehensive income for the year, net of income tax		**1,629,048**	1,207,795
Profit for the year attributable to:			
— Owners of the Company		**1,879,998**	2,079,419
— Non-controlling interests		**15,444**	18,832
		1,895,442	2,098,251
Total comprehensive income for the year attributable to:			
— Owners of the Company		**1,595,334**	1,182,143
— Non-controlling interests		**33,714**	25,652
		1,629,048	1,207,795
Earnings per share			
Basic and diluted (HK cents)	14	**53.60**	58.70

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Non-current assets			
Property, plant and equipment	16	**3,533,202**	3,505,138
Right-of-use assets	17	**452,451**	436,764
Investment properties	18	**175,817**	175,112
Interests in associates	19	**7,864,366**	7,704,161
Equity instruments at fair value through other comprehensive income	24	**357,554**	567,320
Goodwill	20	**588,622**	644,047
Intangible assets	22	**1,656,879**	1,397,992
Deferred tax assets	23	**25,111**	24,585
Prepayments	27	**845,179**	1,029,022
		15,499,181	15,484,141
Current assets			
Inventories	26	**1,388,649**	1,340,466
Trade and other receivables	27	**3,068,059**	2,997,384
Amounts due from related companies	33	**52,467**	33,747
Financial assets at fair value through profit or loss	25	**1,134,590**	1,038,582
Derivative financial instrument	38	**–**	31,370
Pledged bank deposits	28	**32,672**	1,357
Cash and cash equivalents	28	**1,339,708**	1,444,014
		7,016,145	6,886,920
Current liabilities			
Trade and other payables	29	**2,829,697**	2,488,127
Contract liabilities	30	**198,173**	318,824
Bank and other borrowings	31	**2,317,986**	3,243,126
Lease liabilities	32	**34,611**	9,785
Amounts due to related companies	33	**16,576**	22,670
Amount due to the immediate holding company	35	**2,331**	2,331
Income tax payable		**332,063**	369,738
		5,731,437	6,454,601
Net current assets		**1,284,708**	432,319
Total assets less current liabilities		**16,783,889**	15,916,460

Consolidated Statement of Financial Position

As at 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Non-current liabilities			
Bank and other borrowings	31	**990,028**	1,162,288
Lease liabilities	32	**61,614**	60,083
Deferred tax liabilities	34	**221,626**	220,148
Deferred income	36	**240,105**	265,281
		1,513,373	1,707,800
Net assets		**15,270,516**	14,208,660
Capital and reserves attributable to owners of the Company			
Share capital	37	**35,496**	35,496
Reserves		**15,122,222**	14,104,842
Equity attributable to owners of the Company		**15,157,718**	14,140,338
Non-controlling interests		**112,798**	68,322
Total equity		**15,270,516**	14,208,660

The consolidated financial statements on pages 83 to 202 were approved and authorised for issue by the board of directors of the Company on 19 March 2024 and are signed on its behalf by:

Tang Weikun
Director

Zhou Chao
Director

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

	Attributable to owners of the Company												
	Share capital	Share premium	Contribution surplus reserve	Statutory reserve	Safety fund reserve	Translation reserve	Other reserve	FVTOCI reserve	Treasury shares	Retained profits	Total equity attributable to owners of the Company	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000 (Note a)	HK$'000 (Note b)	HK$'000	HK$'000 (Note c)	HK$'000	HK$'000 (Note d)	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2022	35,496	6,523,049	121,273	545,074	28,825	439,956	(81,686)	3,046	(143,503)	5,921,101	13,392,631	50,231	13,442,862
Profit for the year	–	–	–	–	–	–	–	–	–	2,079,419	2,079,419	18,832	2,098,251
Other comprehensive loss for the year, net of income tax													
Change in fair value of FVTOCI	–	–	–	–	–	–	–	(70,706)	–	–	(70,706)	–	(70,706)
Share of other comprehensive loss of associates	–	–	–	–	–	–	–	(31,311)	–	–	(31,311)	–	(31,311)
Exchange difference on translation of foreign operations	–	–	–	–	–	(795,259)	–	–	–	–	(795,259)	6,820	(788,439)
Total comprehensive (loss)/income for the year	–	–	–	–	–	(795,259)	–	(102,017)	–	2,079,419	1,182,143	25,652	1,207,795
Purchase of treasury shares	–	–	–	–	–	–	–	–	(43,986)	–	(43,986)	–	(43,986)
Dividend paid	–	–	–	–	–	–	–	–	–	(390,450)	(390,450)	(7,561)	(398,011)
Transfer	–	–	–	66,295	–	–	–	–	–	(66,295)	–	–	–
As at 31 December 2022 and 1 January 2023	35,496	6,523,049	121,273	611,369	28,825	(355,303)	(81,686)	(98,971)	(187,489)	7,543,775	14,140,338	68,322	14,208,660
Profit for the year	–	–	–	–	–	–	–	–	–	1,879,998	1,879,998	15,444	1,895,442
Other comprehensive loss for the year, net of income tax													
Change in fair value of FVTOCI	–	–	–	–	–	–	–	(185,919)	–	–	(185,919)	–	(185,919)
Share of other comprehensive income of associates	–	–	–	–	–	–	–	5,717	–	–	5,717	–	5,717
Exchange difference on translation of foreign operations	–	–	–	–	–	(104,462)	–	–	–	–	(104,462)	18,270	(86,192)
Total comprehensive (loss)/income for the year	–	–	–	–	–	(104,462)	–	(180,202)	–	1,879,998	1,595,334	33,714	1,629,048
Purchase of treasury shares	–	–	–	–	–	–	–	–	(81,014)	–	(81,014)	–	(81,014)
Acquisition of a subsidiary (Note 39)	–	–	–	–	–	–	–	–	–	–	–	36,488	36,488
Dividend paid	–	–	–	–	–	–	–	–	–	(496,940)	(496,940)	(25,726)	(522,666)
Transfer	–	–	–	41,674	16,931	–	–	–	–	(58,605)	–	–	–
As at 31 December 2023	35,496	6,523,049	121,273	653,043	45,756	(459,765)	(81,686)	(279,173)	(268,503)	8,868,228	15,157,718	112,798	15,270,516

Consolidated Statement of Changes in Equity

For the year ended 31 December 2023

Notes:

a. Each of the Company's subsidiary's Articles of Association in the People's Republic of China (the "PRC") requires the appropriation of 10% of its profit after tax determined under the relevant accounting principles and financial regulations applicable to companies established in the PRC each year to the statutory reserve until the balance reaches 50% of the share capital. The statutory reserve shall only be used for making up losses, capitalisation into share capital and expansion of the production and operation.

b. According to document (Cai Zi 2023 No. 136), entities involved in mining, construction, production of dangerous goods and land transport are required to transfer an amount at fixed rates on production volume or operating revenue as safety fund reserve. The safety fund is for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

c. Other reserve represents the difference between the consideration paid to or received from non-controlling interests for acquisition of additional equity interest or additional capital injection in a subsidiary without the overall change in the control in that subsidiary and the carrying amount of share of net assets being acquired or disposed.

d. Where any Group's entity purchases the Group's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Group's equity owners. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity owners. As at 31 December 2023, the Company held 47,761,500 (2022: 30,300,000) treasury shares and the aggregate price of the purchased shares was deducted from equity as "Treasury shares reserve" for an amount of approximately HK$268,503,000 (2022: HK$187,489,000).

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Operating activities			
Profit before tax		**2,344,197**	2,516,893
Adjustments for:			
Amortisation of intangible assets	22	**29,087**	32,341
Depreciation of property, plant and equipment	16	**323,268**	328,712
Depreciation of right-of-use assets	17	**39,855**	33,859
Finance costs	10	**205,145**	137,493
Recognition of deferred government grant	36	**(18,393)**	(52,119)
Loss on disposal of property, plant and equipment	12	**13,064**	2,476
Write-off of property, plant and equipment	12	**16,453**	11,271
Write-down of inventories	12	**14,768**	5,265
Allowance for/(reversal of) expected credit losses recognised in respect of trade and other receivables	12	**57,698**	(22,642)
Reversal of expected credit loss recognised in respect of loan receivables	12	**–**	(795)
Allowance for expected credit losses recognised in respect of amounts due from related companies	12	**966**	420
Fair value change on financial assets at fair value through profit or loss	9	**(148,921)**	67,240
Fair value change on derivative financial instrument		**31,370**	(39,720)
Interest income	8	**(7,745)**	(19,806)
Share of results of associates		**25,008**	43,786
Gain on sales and leaseback transaction, net		**–**	(2,297)
Net gain in fair value of investment properties	8, 18	**(5,454)**	(21,351)
Realised loss on disposal of financial assets at fair value through profit or loss, net	9	**–**	27,383
Impairment loss recognised in respect of goodwill	20	**39,136**	36,442
Impairment loss on interest in associates		**59,652**	–
Operating cash flows before movements in working capital		**3,019,154**	3,084,851
Increase in inventories		**(99,408)**	(295,283)
Increase in trade and other receivables		**(177,524)**	(514,242)
Increase/(decrease) in trade and other payables		**290,649**	(234,575)
Increase in amounts due from related companies		**(20,717)**	(22,523)
(Decrease)/increase in amounts due to related companies		**(5,518)**	18,748
(Decrease)/increase in contract liabilities		**(112,764)**	135,089
Increase in deferred income		**2,103**	19,867
Cash generated from operations		**2,895,975**	2,191,932
Income tax paid		**(471,080)**	(349,256)
Net cash generated from operating activities		**2,424,895**	1,842,676

Consolidated Statement of Cash Flows

For the year ended 31 December 2023

	Notes	2023 HK$'000	2022 HK$'000
Investing activities			
Purchase of property, plant and equipment	16	**(487,727)**	(626,215)
Purchase of intangible asset	22	**(305)**	(431,368)
Purchase of right-of-use assets		**(9,657)**	(27,489)
Acquisition of financial assets at fair value through profit or loss		**(1,594,973)**	(1,429,782)
Acquisition of financial assets at fair value through other comprehensive income		**–**	(509,086)
Addition of investments in associates		**–**	(70,431)
Dividend received from an associate	19	**–**	192,095
Advances to associates		**(65,989)**	(70,029)
Repayment of advances to associates		**17,808**	85,605
(Placement)/withdrawal of pledged bank deposits, net		**(1,801)**	5,864
Decrease/(increase) in non-current prepayments		**150,983**	(586,225)
Proceeds from disposal of property, plant and equipment		**6,609**	1,987
Proceeds from disposal of financial assets at fair value through profit or loss		**1,637,984**	1,354,385
Interest income received		**7,745**	19,806
Net cash outflow from acquisition of subsidiaries	39	**–**	(269,223)
Net cash outflow from acquisition of subsidiaries that do not constitute businesses	39	**(176,424)**	–
Net cash used in investing activities		**(515,747)**	(2,360,106)
Financing activities			
Purchase of shares for share award scheme		**(81,014)**	(43,986)
Proceeds from new bank and other borrowings		**2,369,788**	3,116,608
Repayments of bank and other borrowings		**(3,424,327)**	(2,199,261)
Repayments of principal portion of lease liabilities		**(26,822)**	(10,857)
Interest paid		**(204,358)**	(137,493)
Dividends paid		**(496,940)**	(390,450)
Dividends paid to non-controlling interests		**(25,726)**	(7,561)
Net cash (used in)/generated from financing activities		**(1,889,399)**	327,000
Net increase/(decrease) in cash and cash equivalents		**19,749**	(190,430)
Cash and cash equivalents at the beginning of year		**1,444,014**	1,752,860
Effect of foreign exchange rate changes		**(124,055)**	(118,416)
Cash and cash equivalents at the end of year			
Cash and cash equivalents		**1,339,708**	1,444,014

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

1. GENERAL INFORMATION

Grand Pharmaceutical Group Limited (the "Company") is incorporated in Bermuda on 18 October 1995 as an exempted company under the Companies Act 1981 of Bermuda with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 19 December 1995. The addresses of the registered office and principal place of business of the Company are disclosed in "Corporate information" section of the annual report.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products and health products, specialised pharmaceutical raw materials and other products, mainly in the People's Republic of China (the "PRC").

The directors consider that Outwit Investments Limited ("Outwit") is the parent company of the Company and China Grand Enterprises Incorporation is the ultimate holding company of the Company. The ultimate controlling party is Mr. Hu Kaijun.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the same as functional currency of the Company, and the functional currency of the most of the subsidiaries in Renminbi ("RMB"). The board of directors considered that it is more appropriate to present the consolidated financial statements in HK$ as the shares of the Company (the "Shares") are listed on the Stock Exchange. The consolidated financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

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

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

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

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

The application of the new and amendments to HKFRS Standards in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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

New and amendments to HKFRSs that have been Issued but not yet effective

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

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[1]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 1	Non-current Liabilities with Covenants[1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[1]
Amendments to HKAS 21	Lack of Exchangeability[3]
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statement — Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause[1]

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

The directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Basis of preparation *(Continued)*

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16, Lease and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Basis of consolidation *(Continued)*

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Business combination

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organised workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses, other than business combination under common control are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

For business combinations in which the acquisition date is on or after 1 January 2023, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Conceptual Framework for Financial Reporting 2018 issued in June 2018 (the "Conceptual Framework") except for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, in which the Group applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognised.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard; and

- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Business combination *(Continued)*

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to right-of-use assets, intangible assets and property, plant and equipment which are subsequently measured under fair value model and financial assets/financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or group of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates

An associate is an entity over which the Group 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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. The associate uses accounting policies that differ from those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the associate's accounting policies to those of the Group. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Investments in associates *(Continued)*

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Changes in the Group's interests in associates

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- 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.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Sale of goods

Revenue from manufacture and sales of pharmaceutical preparations and medical devices, sales of biotechnology products and nutrition products and sales of specialised pharmaceutical raw materials and other products are recognised at point in time when carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. The credit period granted to customers by the Group is determined based on the characteristics of customers' credit risk, which is consistent with industry practice and there is no significant financing component. The Group's obligations to transfer goods to customers for consideration received or receivable from customers are shown as contract liabilities.

Dividend income

Dividend income from investments is recognised at point in time when the shareholders' right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance). Interest income is presented as "interest income" where it is mainly earned from financial assets that are held for cash management purposes.

Rental income

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy below.

Leasing

Definition of a lease

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing *(Continued)*

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Refundable rental deposits

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

Lease liabilities

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

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

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

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the standalone price for the increase in scope and any appropriate adjustments to that standalone price to reflect the circumstances of the particular contract.

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

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

When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Changes in the basis for determining the future lease payments as a result of interest rate benchmark reform

For changes in the basis for determining the future lease payments as a result of interest rate benchmark reform, the Group applies the practical expedient to remeasure the lease liabilities by discounting the revised lease payments using the unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In that case, the Group uses the revised discount rate that reflects change in the interest rate and makes a corresponding adjustment to the related right-of-use assets. A lease modification is required by interest rate benchmark reform if, and only if, both of these conditions are met:

- the modification is necessary as a direct consequence of interest rate benchmark reform; and

- the new basis for determining the lease payments is economically equivalent to the previous basis (i.e. the basis immediately preceding the modification).

If lease modifications are made in addition to those lease modifications required by interest rate benchmark reform, the Group applies the applicable requirements in HKFRS 16 (see the accounting policy above) to account for all lease modifications made at the same time, including those required by interest rate benchmark reform.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing *(Continued)*

The Group as a lessee *(Continued)*

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases./Initial direct costs for leases in which the Group is the manufacturer or dealer lessor are recognised in costs of sales at the commencement date of the finance leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise. When a lease contract contains a specific clause that provides for rent reduction or suspension of rent in the event that the underlying assets (or any part thereof) are affected by adverse events beyond the control of the Group and the lessee so as to render the underlying assets unfit or not available for use, the relevant rent reduction or suspension of rent resulting from the specific clause is accounted for as part of the original lease and not as a lease modification. Such rent reduction or suspension of rent is recognised in profit or loss in the period in which the event or condition that triggers those payments to occur.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Leasing *(Continued)*

The Group as a lessor *(Continued)*

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Foreign currencies *(Continued)*

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

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

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

Government grants

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

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

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

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale, except for freehold land, which is always presumed to be recovered entirely through sale.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Taxation *(Continued)*

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

Property, plant and equipment

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

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognised in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of HKAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Ownership interests in leasehold land and building

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

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

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

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income.

Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. A leased property which is recognised as a right-of-use asset is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Intangible assets

Intangible assets acquired separately

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

Internally-generated intangible assets — research and development expenditure

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses/revalued amounts, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Inventories

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

Cash and cash equivalents

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

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value and restricted deposits arising from acquisition of subsidiaries that are held for meeting short-term cash commitments. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Cash and cash equivalents *(Continued)*

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the consolidated statement of financial position.

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Employee benefit

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. In determining the present value of the Group's defined benefit obligations and the related current service cost and, where applicable, past service cost, the Group attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than earlier years, the Group attributes the benefit on a straight-line basis from:

(a) the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service) until

(b) the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs *(Continued)*

Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Employee benefit *(Continued)*

Retirement benefit costs *(Continued)*

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or asset.

- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the Group reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the Group reduces service cost in the period in which the related service is rendered/reduces service cost by attributing contributions to the employees' periods of service in accordance with HKAS 19 paragraph 70.

For LSP obligation, the Group accounts for the employer MPF contributions expected to be offset as a deemed employee contribution towards the LSP obligation in terms of HKAS 19.93(a) and it is measure on a net basis. The estimated amount of future benefit is determined after deducting the negative service cost arising from the accrued benefits derived from the Group's MPF contributions that have been vested with employees, which are deemed to be contributions from the relevant employees.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Employee benefit *(Continued)*

Termination benefits

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Financial instruments

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

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

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

Interest/dividend income (others to specify) which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

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

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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

Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

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

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

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

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, loan receivables, pledge bank deposits, amount due from related companies and cash and cash equivalents), which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Significant increase in credit risk

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

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

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

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

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

Definition of default

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Credit-impaired financial assets

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

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

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

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

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

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over 1 years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

Measurement and recognition of ECL *(Continued)*

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

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

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

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

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

Foreign exchange gains and losses

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

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other gains and losses" line item as part of the net foreign exchange gains/(losses);
- For debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the "Other gains and losses" line item as part of the net foreign exchange gains/(losses). As the foreign currency element recognised in profit or loss is the same as if it was measured at amortised cost, the residual foreign currency element based on the translation of the carrying amount (at fair value) is recognised in other comprehensive income in the fair value through other comprehensive income/revaluation reserve;
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the "Other gains and losses" line item as part of the gain/(loss) from changes in fair value of financial assets;
- For equity instruments measured at FVTOCI, exchange differences are recognised in other comprehensive income in the fair value through other comprehensive income/revaluation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

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

Financial liabilities

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

Financial liabilities at amortised cost

Financial liabilities (including bank and other borrowings, lease liabilities, trade payables, accruals and other payables, amounts due to related companies and amount due to the immediate holding company) are subsequently measured at amortised cost, using the effective interest method.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognised in the "Other gains and losses" line item in profit or loss as part of net foreign exchange gains/(losses) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognised in other comprehensive income and accumulated in a separate component of equity.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Financial instruments *(Continued)*

Derecognition of financial assets and liabilities

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

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not due to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Related parties

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

(i) A person, or a close member of that person's family, is related to the Group if that person:

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

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or of a parent of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the group of which the other entity is a member);

(c) both entities are joint ventures of the same third party;

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

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

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

(g) 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); or

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

Close family members of an individual are those family members who may be expected to influence, or he influence by, that person in their dealing with the and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of the person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

Segment reporting

Operating segments and the amounts of each segment item reported in the consolidated financial statements are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of business activities.

Segment revenue, expenses, results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, but exclude exceptional items. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Corporate portions of expenses and assets mainly comprise corporate administrative and financing expenses and corporate financial assets respectively.

Share-based payments

Equity-settled share-based payment transactions

Shares/Share options granted to employees

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

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

Cash-settled share-based payment transactions

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. The fair value of the cash-settled share-based payments is determined without taking into consideration all non-market vesting conditions.

At the end of each reporting period until the liability is settled, and at the date of settlement, the liability is remeasured to fair value. For cash-settled share-based payments that are already vested, any changes in fair value are recognised in profit or loss for the year. For cash-settled share-based payments which are still subject to non-market vesting conditions, the effects of vesting and non-vesting conditions are accounted on the same basis as equity-settled share-based payments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statement.

Valuation of inventories

Valuation of inventories is stated at the lower of cost and net realisable value at the end of the reporting period. Net realisable value is determined on the basis of the estimated selling price less the estimated costs necessary to make the sale. The directors estimate the net realisable value for raw materials and finished goods based primarily on the latest invoice prices and current market conditions. In addition, the directors perform an inventory review on a product by product basis at the end of each reporting period and assess the need for write down of inventories.

Significant influence over individual company

Note 19 describes that Grand Pharma Sphere Pte Ltd. is an associate of the Group although the Group has 57.98% ownership interest in Grand Pharma Sphere Pte Ltd as at 31 December 2023 and the remaining 42.02% of shareholdings were owned by CDH Genetech that is a related party of the Group. Details of Grand Pharma Sphere Pte Ltd. are set out in note 19.

Note 19 describes that Shanghai Xudong Haipu Pharmaceutical Company Limited is an associate of the Group although the Group has 55% ownership interest in Shanghai Xudong Haipu Pharmaceutical Company Limited. The Group has a 55% ownership in Shanghai Xudong Haipu Pharmaceutical Company Limited since September 2018; another 45% of shareholdings are owned by another shareholder that are unrelated to the Group. Details of Shanghai Xudong Haipu Pharmaceutical Company Limited are set out in note 19.

The directors of the Company assessed whether the Group has control over Grand Pharma Sphere Pte Ltd. and Shanghai Xudong Haipu Pharmaceutical Company Limited (the "Associates") based on whether the Group controls these Associates when it is exposed, or has rights, to variable returns from its involvement with the Associates and has the ability to affect those returns through its power over the Associates. As such, the classification of the entity as a subsidiary, a joint venture, a joint operation, an associate or a cost investment might require the application of judgement through the analysis of various indicators, such as the percentage of ownership interest held in the entity, the representation on the entity's board of directors and various other factors including, if relevant, the Group's representation on the chief decision-making authorities of an entity, such as board of directors' meetings and shareholders' meetings, as well as other facts and circumstances. After assessment, the directors of the Company concluded that the Group does not have sufficiently dominant voting interest to direct the relevant activities of Associates and therefore the Group does not have control over Associates.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty

The following are 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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to be arisen from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amount of goodwill as at 31 December 2023 was approximately HK$588,622,000 (2022: HK$644,047,000). An impairment loss of approximately HK$39,136,000 (2022: 36,442,000) was recognised for the year. Details of the impairment assessment are disclosed in note 20.

Impairment of intangible assets

The Group performs annual tests on whether there is impairment of intangible assets in accordance with the accounting policy. The recoverable amounts are determined based on value in use calculations of CGUs to which intangible assets are allocated. These calculations require the use of estimates and assumptions made by management on the future operation of the business, post-tax discount rates, and other assumptions underlying the calculation.

The carrying amount of intangible assets as at 31 December 2023 was approximately HK$1,656,879,000 (2022: HK$1,397,992,000). Detailed information is disclosed in note 22.

Provision of ECL for trade and other receivables and amounts due from related companies

The Group estimates the loss allowance for trade receivables using ECL model in accordance with HKFRS 9. Under the model, the Group assesses lifetime ECL individually for trade receivables with significant balances or credit impaired balances and/or collectively using a provision matrix with appropriate age groupings for the remaining debtors. The management takes into consideration, inter alia, the historical default rates, past due status, general economic conditions and an assessment of both the current conditions at the report date as well as the forward-looking information specific to the debtors.

The Group uses three-stage model to calculate ECL for the other receivables and amounts due from related companies. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The three-stage model is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable, supportable and available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, other receivables and amounts due from related companies with significant balances and credit impaired balances are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade and other receivables and amounts due from related companies are disclosed in notes 5(b)(iv), 27 and 33.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Income tax and deferred tax

The Group is subject to income taxes in several jurisdictions. There are certain transactions and calculations for which the ultimate tax determination may be uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets

The Group's management determines the estimated useful lives and related depreciation/amortisation charges for its property, plant and equipment, right-of-use assets and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment, right-of-use assets and intangible assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to market conditions. Management will increase the depreciation/amortisation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The patents, trademarks and capitalised development costs are considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

The intangible asset will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

During the year ended 31 December 2023, the Group did not change the estimated useful lives of property, plant and equipment, right-of-use assets and intangible assets.

Impairment test for interests in associates

The Group completed its annual impairment test for interests in associates by comparing the recoverable amount of interests in associates to its carrying amount as at 31 December 2023. The Group has engaged the independent external valuer to carry out a valuation of the interests in associates as at 31 December 2023 based on the value in use calculations. The valuations use cash flow projections based on the financial estimates covering a five-year period, and post-tax discount rates ranged from 12.0% to 31.4% (2022: 15.1% to 33.3%). The cash flows beyond the five-year period and ten years period are extrapolated using a steady 2.1% to 2.2% (2022: 2.0% to 3.0%) growth rate for the pharmaceutical industries in which are operated by associates.

Fair value measurement of equity instruments at FVTOCI and financial assets at FVTPL

As at 31 December 2023, the Group held equity instruments of FVTOCI and financial assets at FVTPL with carrying amounts of approximately HK$357,554,000 (2022: HK$567,320,000) and HK$1,134,590,000 (2022: HK$1,038,582,000). A certain of these equity instruments carrying amounting to HK$334,050,000 (2022: HK$542,477,000) and HK$532,913,000 (2022: HK$nil), for FVTOCI and FVTPL respectively do not have a quoted market price in an active market are measured at fair value with fair value being determined based on significant unobservable inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could result in material adjustments to the fair value of these instruments. See note 5(b)(vi) for further disclosures.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2023 HK$'000	2022 HK$'000
Financial assets		
Equity Instruments at FVTOCI	**357,554**	567,320
Financial assets at FVTPL	**1,134,590**	1,038,582
Financial asset at amortised cost (including cash and cash equivalents)		
— Trade and other receivables	**2,197,896**	2,104,469
— Amounts due from related companies	**52,467**	33,747
— Pledged bank deposits	**32,672**	1,357
— Cash and cash equivalents	**1,339,708**	1,444,014
	5,114,887	5,189,489
Derivative financial instrument at fair value	**–**	31,370
	5,114,887	5,220,859
Financial liabilities		
At amortised costs		
— Trade and other payables	**2,757,644**	2,389,926
— Bank and other borrowings	**3,308,014**	4,405,414
— Lease liabilities	**96,225**	69,868
— Amounts due to related companies	**16,576**	22,670
— Amount due to the immediate holding company	**2,331**	2,331
	6,180,790	6,890,209

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity instruments at FVTOCI, financial asset at FVTPL, trade and other receivables, amounts due from related companies, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings, lease liabilities, amounts due to related companies, amount due to the immediate holding company and derivative financial instrument at fair value. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

i. Currency risk

The Group's presentation currency is HK$, however, the Group major subsidiaries' functional currency are RMB in which most of the transactions are denominated. The functional currency is also used to settle expenses for the PRC operations. Certain trade and other receivables, cash and cash equivalents, trade and other payables, bank and other borrowings are denominated in foreign currencies of United State dollars ("USD"). Such USD denominated financial assets and liabilities are exposed to fluctuations in the value of RMB against USD.

The Group currently does not have any USD hedging policy but the management monitors USD exchange exposure and will consider hedging significant USD exposure should the need arise.

Sensitivity analysis

The following table details the Group's sensitivity to a reasonably possible change of 10% (2022: 10%) in exchange rate of USD against RMB while all other variables are held constant. 10% (2022: 10%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of each reporting period for a 10% (2022: 10%) change in foreign currency rates.

	2023 **HK$'000**	2022 HK$'000
Increase/(decrease) in profit for the year		
— if USD weakens against of RMB	**(21,380)**	(17,511)
— if USD strengthens against of RMB	**21,380**	17,511

A change of 10% (2022: 10%) in exchange rate of USD against RMB does not affect other components of equity except the translation reserve.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	2023 **HK$'000**	2022 HK$'000
USD		
— Trade and other receivables	**180,342**	141,843
— Cash and cash equivalents	**57,165**	121,402
— Trade and other payables	**(19,341)**	(8,729)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk

The Group has variable-rate interest-bearing assets and liabilities including pledged bank deposits, bank balances and bank and other borrowings and is therefore exposed to cash flow interest rate risk. In addition, the Group is exposed to fair value interest rate risk in relation to fixed rate borrowing and lease liabilities. Details of these financial instruments are disclosed in respective notes. The Group currently does not have interest rate hedging policy. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The Group's interest rate risk is mainly concentrated on the fluctuation of variable-rates borrowings as detailed in note 31.

Sensitivity analysis

The sensitivity analysis below is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point (2022: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If the interest rates had been increased/decreased by 100 basis points (2022: 100 basic points) at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would decrease/increase by approximately HK$924,000 (2022: decrease/increase by approximately HK$13,756,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure with respect to interest rate on its variable-interest rate bank deposits and bank and other borrowings.

Managing interest rate benchmark reform and associated risks

Several of the Group's London Interbank Offered Rate ("LIBOR") and HIBOR bank borrowings have been subject to the interest rate benchmark reform.

LIBOR

As at 31 December 2023, all LIBOR settings have been either ceased to be provided by any administrator or no longer be representative, except for US$ settings (other than the 1-week and 2-month settings) which will be ceased immediately after 30 June 2023. No LIBOR bank borrowing is outstanding as at 31 December 2023 (2022: a carrying amount of HK$664,031,000 of variable rate interest-bearing liabilities referenced to 6-month USD LIBOR).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

ii. Interest rate risk *(Continued)*

Managing interest rate benchmark reform and associated risks *(Continued)*

HIBOR

While the Hong Kong Dollar Overnight Index Average ("HONIA") has been identified as an alternative to HIBOR, there is no plan to discontinue HIBOR. The multi-rate approach has been adopted in Hong Kong, whereby HIBOR and HONIA will co-exist.

Progress towards implementation of alternative benchmark interest rates

As part of the Group's risk management for transition, new contracts entered into by the Group are linked to the relevant alternative benchmark rates or interest rates which are not subject to reform to the extent feasible. Otherwise, the Group ensured the relevant contracts include detailed fallback clauses clearly referencing the alternative benchmark rate and the specific triggering event on which the clause is activated.

During the year ended 31 December 2023, a contract has been transitioned to Secured Overnight Financing Rate ("SOFR"). In addition, for certain floating rate borrowings that are linked to HIBOR, the Group had confirmed with the relevant counterparties that HIBOR will continue to maturity. The Group accounted for the changes using the practical expedient in HKFRS 9 which allows the Group to change the basis for determining the contractual cash flows prospectively by revising the effective interest rate.

The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant interbank offered rate regulators, risks arising from the interest rate benchmark reform and the progress in completing the transition to alternative benchmark.

iii. Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The maturity analysis for financial liabilities is prepared based on the scheduled repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

As at 31 December 2023

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Non-derivative instruments							
Trade and other payables	–	2,757,644	2,757,644	–	–	–	2,757,644
Bank and other borrowings	4.26	3,440,763	2,417,529	475,818	547,416	–	3,308,014
Lease liabilities	6.20	111,232	39,395	21,180	29,058	21,599	96,225
Amounts due to related companies	–	16,576	16,576	–	–	–	16,576
Amount due to the immediate holding company	–	2,331	2,331	–	–	–	2,331
		6,328,546	5,233,475	496,998	576,474	21,599	6,180,790

As at 31 December 2022

	Weighted average interest rate %	Total contractual undiscounted cash flow HK$'000	Within one year or on demand HK$'000	More than one year but less than two years HK$'000	More than two years but less than five years HK$'000	More than five years HK$'000	Carrying amount HK$'000
Non-derivative instruments							
Trade and other payables	–	2,389,926	2,389,926	–	–	–	2,389,926
Bank and other borrowings	4.37	4,531,978	3,345,285	931,470	255,223	–	4,405,414
Lease liabilities	6.01	86,388	13,559	12,838	30,638	29,353	69,868
Amounts due to related companies	–	22,670	22,670	–	–	–	22,670
Amount due to the immediate holding company	–	2,331	2,331	–	–	–	2,331
		7,033,293	5,773,771	944,308	285,861	29,353	6,890,209

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iii. Liquidity risk *(Continued)*

Bank and other borrowings with a repayment on demand clause are included in the "On demand or within one year" time band in the below maturity analysis. As at 31 December 2023, the aggregate carrying amounts of these bank and other borrowings amounted to approximately HK$1,224,455,000 (2022: approximately HK$344,000,000). Taking into account the Group's financial position, the management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank and other borrowings will be repaid within 1 years (2023: 1 years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

Maturity Analysis — Bank and other borrowings with a repayment on demand clause based on scheduled repayments

	Less than 1 year	1–2 years	2–5 years	Total undiscounted cash outflows	Carrying amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2023	1,270,783	–	–	1,270,783	1,224,455
31 December 2022	360,258	–	–	360,258	344,000

The amounts included above for variable interest rate instruments are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

iv. Credit risk

The credit risk of the Group mainly arises from bank balances and deposits, trade and other receivables, amount due from associates and amounts due from related companies. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets.

In respect of cash deposited at banks, the credit risk is considered to be low as the counterparties are reputable banks. The existing counterparties do not have defaults in the past. Therefore, ECL rate of cash at bank is assessed to be close to zero and no provision was made as of 31 December 2023 and 2022.

The credit risk for amount due from associates are considered to be low, therefore no ECL provision was made during the year ended 31 December 2023 and 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

In respect of trade receivables, ECLs are recognised under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. The management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the management reviews the recoverability of each trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The Group assessed its trade receivables individually, for significant balances and credit-impaired balances, and/or collectively based on the aging analysis of trade receivables. Significant and/or credit-impaired trade receivables balances are assessed individually by considering the aging, repayment history and/or past due status of respective trade receivables.

In respect of other receivables and amounts due from related companies, ECLs are recognised in three 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 the end of each reporting period, 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.

As at 31 December 2023 and 2022, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to sales of pharmaceutical products and are transacted on credit. The Group's trade receivables arise from sales of pharmaceutical products to the customers. As at the end of the year, the top three debtors and the largest debtor accounted for approximately 6.30% and 2.58% (2022: 6.39% and 2.36%), of the Group's trade receivables balance. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 180 days (2022: 30 to 180 days) from the date of billing. Normally, the Group does not obtain collateral from customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

(1) Provision of ECL on trade receivables

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables which are assessed on a collective basis by using provision matrix within lifetime ECL (not credit-impaired).

As at 31 December 2023	**Expected credit loss rate %**	**Gross carrying amount HKD'000**	**Allowance for expected credit loss HKD'000**
Current (not past due)	**2.8**	**788,527**	**22,281**
Less than 6 months past due	**8.3**	**160,531**	**13,292**
6 months to 1 year past due	**21.5**	**57,016**	**12,240**
More than 1 year past due	**100.0**	**55,572**	**55,572**
		1,061,646	**103,385**

As at 31 December 2022	Expected credit loss rate %	Gross carrying amount HKD'000	Allowance for expected credit loss HKD'000
Current (not past due)	1.7	854,682	14,398
Less than 6 months past due	4.8	169,151	8,127
6 months to 1 year past due	9.4	102,161	9,615
More than 1 year past due	100.0	29,201	29,201
		1,155,195	61,341

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(1) Provision of ECL on trade receivables *(Continued)*

The provision/(reversal of allowances) of trade receivables as at 31 December 2023 and 2022 were as follows:

	HK$'000
As at 1 January 2022	102,931
Reversal for the year	(10,263)
Write off	(24,459)
Exchange realignment	(6,868)
As at 31 December 2022 and 1 January 2023	61,341
Provision for the year	43,968
Exchange realignment	(1,924)
As at 31 December 2023	**103,385**

(2) Provision of ECL on other receivables

The tables below show loss allowance for ECL based on the Group's credit policy, which are mainly based on the internal credit score, and year-end staging classification as at 31 December 2023 and 31 December 2022.

As at 31 December 2023	**Stage 1 12-months ECLs HK$'000**	**Stage 2 Lifetime ECLs HK$'000**	**Stage 3 Lifetime ECLs HK$'000**	**Total HK$'000**
Other receivables				
— Industry average	**444**	**–**	**–**	**444**
— CCC- to CC	**–**	**2,175**	**–**	**2,175**
— D	**–**	**–**	**40,755**	**40,755**
	444	**2,175**	**40,755**	**43,374**

As at 31 December 2022	Stage 1 12-months ECLs HK$'000	Stage 2 Lifetime ECLs HK$'000	Stage 3 Lifetime ECLs HK$'000	Total HK$'000
Other receivables				
— Industry average	2,708	–	–	2,708
— CCC- to CC	–	–	–	–
— D	–	–	27,725	27,725
	2,708	–	27,725	30,433

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(2) Provision of ECL on other receivables *(Continued)*

The provision/(reversal of allowances) of other receivables as at 31 December 2023 and 2022 were as follows:

	HK$'000
As at 1 January 2022	46,142
Reversal for the year	(12,379)
Exchange realignment	(3,330)
As at 31 December 2022 and 1 January 2023	30,433
Provision for the year	13,730
Exchange realignment	(789)
As at 31 December 2023	**43,374**

(3) Provision of ECL on amount due from related companies

The table below show credit quality and maximum exposure to credit risk of amounts due from related companies based on the Group's credit policy, which are mainly based on past due information available without undue cost or effort, and year-end staging classification as at 31 December 2023 and 2022.

As at 31 December 2023	**Stage 1 12-months ECLs HK$'000**	**Stage 2 Lifetime ECLs HK$'000**	**Stage 3 Lifetime ECLs HK$'000**	**Total HK$'000**
Amount due from related companies				
— Industry average	**543**	**–**	**–**	**543**
— CCC- to CC	**–**	**–**	**–**	**–**
— D	**–**	**–**	**943**	**943**
	543	**–**	**943**	**1,486**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

iv. Credit risk *(Continued)*

(3) Provision of ECL on amount due from related companies *(Continued)*

As at 31 December 2022	Stage 1 12-months ECLs HK$'000	Stage 2 Lifetime ECLs HK$'000	Stage 3 Lifetime ECLs HK$'000	Total HK$'000
Amount due from related companies				
— Industry average	359	–	–	359
— CCC- to CC	–	–	–	–
— D	–	–	182	182
	359	–	182	541

The provision of ECL on due from related companies as at 31 December 2023 and 2022 was as follows:

	HK$'000
As at 1 January 2022	121
Provision for the year	420
Exchange realignment	–
As at 31 December 2022 and 1 January 2023	541
Provision for the year	966
Exchange realignment	(21)
As at 31 December 2023	**1,486**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

v. Equity price risk

The Group is exposed to equity price risk through its investment in equity instruments measured at FVTPL and FVTOCI. For equity instruments measured at FVTPL quoted in relative active markets, the management of the Group manages this exposure by maintaining a portfolio of investments with different risks. In addition, the Group also invested in certain unquoted equity securities for investees operating in pharmaceutical industry sector for long term strategic purposes which had been designated as FVTOCI.

The sensitivity analysis have been determined based on the exposure to equity price risk at the reporting date. Sensitivity analysis for unquote equity securities with fair value measurement categorized within Level 3 were disclosed in note 5(b)(vi).

If the prices of the respective equity instruments listed in Hong Kong had been 5% (2022: 5%) higher/lower, the post-tax profit for the year ended 31 December 2023 would increase/decrease by approximately HK$640,000 (2022: increase/decrease by approximately HK$725,000), as a result of the changes in fair value of listed equity security in Hong Kong.

If the prices of the respective equity instruments listed outside Hong Kong had been 5% (2022: 5%) higher/lower, the post-tax profit for the year ended 31 December 2023 would increase/decrease by approximately HK$24,480,000 (2022: increase/decrease by approximately HK$21,180,000) and the other comprehensive income would increase/decrease by approximately HK$1,175,000 (2022: HK$1,242,000) respectively, as a result of the changes in fair value of listed equity security outside Hong Kong.

vi. Fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value at the end of each reporting period, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

— Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

vi. Fair value *(Continued)*

Fair value hierarchy

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL (note 25) (note (a))	**601,677**	**–**	**532,913**	**1,134,590**
Equity instruments at FVTOCI (note 24) (note (a))	**23,504**	**–**	**334,050**	**357,554**

	2022			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets at FVTPL (note 25)	1,038,582	–	–	1,038,582
Equity instruments at FVTOCI (note 24) (note (a))	24,843	–	542,477	567,320
Derivative financial instrument (note 38)	–	31,370	–	31,370

There was no transfer between level 2 and level 3 during the current year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

vi. Fair value *(Continued)*

Fair value hierarchy *(Continued)*

Note:

(a) In estimating the fair value, the Group uses market-observable data to the extent it is available. For instruments with significant unobservable inputs under Level 3, the Group engages independent qualified valuers to perform the valuation. The Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Below is a summary of the valuation technique used and the key inputs to the valuation of level 3 instruments and derivative financial instruments:

	Valuation technique	Significant unobservable inputs	2023	2022
Financial assets				
Equity instruments at FVTOCI				
9.86% of eTheRNA Immunotherapies NV of Preferred Series B Shares (note i and ii)	Discounted cash flow method	Terminal growth rate (note i) Discount rate (note ii)	**2.0%** **20.12%**	1.7% 21.21%
6.83% of Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares (note iii)	Discounted cash flow method	Discount rate (note iii)	**18.06%**	18.04%
1.3% of ITM Isotope Technologies Munich SE of shares (note iv)	Comparable transaction method	% change of market cap (note vi)	**(15.68%)**	NA
Equity instrument at FVTPL				
CNCB Healthcare Investment Fund II LP (note v)	Net asset value	$ change of market cap (note v)	**2.53%**	NA
Debt instrument at FVTPL				
Convertible loan receivable from Grand Pharma Sphere Pte Ltd. (note vi and vii)	Binomial option pricing model	Discount Rate (note vi) Volatility (note vii)	**6.77%** **38.37%**	NA NA
Derivative financial instrument Cross currency swap	Discounted cash flow method	Discount rate	**NA**	0.96%

Notes:

(i) A slight increase in the terminal growth rate used in isolation would result in a slight increase in the fair value measurement of the eTheRNA Immunotherapies NV of Preferred Series B Shares, and vice versa. A 5% (2022: 5%) increase/decrease in the terminal growth rate holding all other variables constant would increase/decrease the carrying amount of the eTheRNA Immunotherapies NV of Preferred Series B Shares by HK$183,000 and HK$181,000 (2022: HK$53,000 and HK$52,000) respectively.

(ii) A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of the eTheRNA Immunotherapies NV of Preferred Series B Shares, and vice versa. A 5% (2022: 5%) increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the eTheRNA Immunotherapies NV of Preferred Series B Shares by HK$1,831,000 and HK$2,043,000 (2022: HK$3,104,000 and HK$3,452,000) respectively.

(iii) A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of the Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares, and vice versa. A 5% (2022: 5%) increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the Cloudbreak Pharmaceutical Inc. of Series B Preferred Shares by HK$2,190,000 and HK$2,419,000 (2022: HK$3,013,000 and HK$3,241,000) respectively.

(iv) A slight increase in the % change of market cap used in isolation would result in a slight increase in the fair value measurement of the share of ITM Isotope Technologies Munich SE, and vice versa. A 5% increase/decrease in the % change of market cap holding all other variables constant would increase/decrease the carrying amount of the share of ITM Isotope Technologies Munich SE by approximately HK$1,138,000.

(v) A slight increase in the % change of market cap used in isolation would result in a slight increase in the fair value measurement of the CNCB Healthcare Investment Fund II LP, and vice versa. A 5% increase/decrease in the % change of market cap holding all other variables constant would increase/decrease the carrying amount of the share of CNCB Healthcare Investment Fund II LP by approximately HK$172,000.

(vi) A slight increase in the discount rate used in isolation would result in a slight decrease in the fair value measurement of the convertible loan, and vice versa. A 5% increase/decrease in the discount rate holding all other variables constant would decrease/increase the carrying amount of the convertible loan by HK$738,000 and HK$742,000 respectively.

(vii) A slight increase in the volatility used in isolation would result in a slight increase in the fair value measurement of the convertible loan, and vice versa. A 5% increase/decrease in the discount rate holding all other variables constant would increase/decrease the carrying amount of the convertible loan by HK$147,000 and HK$59,000 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

5. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

vi. Fair value *(Continued)*

Reconciliation of Level 3 fair value measurements of equity instruments at FVTOCI

	2023 **HK$'000**	2022 HK$'000
As at 1 January	**542,477**	145,685
Addition during the year	**–**	431,192
Disposal during the year	**(23,761)**	–
Fair value loss in other comprehensive income	**(184,560)**	(17,654)
Exchange alignment	**(106)**	(16,746)
As at 31 December	**334,050**	542,477

Included in other comprehensive income is a fair value loss in an amount of approximately HK$185,919,000 (2022: fair value loss of approximately HK$70,706,000) relating to listed and unlisted equity securities classified as equity instruments at FVTOCI held at the end of the current reporting period and is reported as changes of "FVTOCI reserve".

Reconciliation of Level 3 fair value measurements of financial assets at FVTPL

	2023 **HK$'000**
As at 1 January	**–**
Addition during the year	**542,632**
Fair value loss in profit or loss	**(9,288)**
Exchange alignment	**(431)**
As at 31 December	**532,913**

The directors consider the fair values of trade and other receivables, pledged bank deposits, cash and cash equivalents, trade and other payables, bank and other borrowings reported in the consolidated statement of financial position approximate their carrying amounts due to their immediate or short-term maturities.

The directors consider the fair value of amount due to the immediate holding company approximate to its carrying amount as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

6. CAPITAL RISK MANAGEMENT

The Group reviews its capital structure to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank and other borrowings, lease liabilities and amount due to the immediate holding company, cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium, reserves and retained profits.

The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at the end of the reporting period was as follows:

	2023	2022
	HK$'000	HK$'000
Debts (note (a))	**3,406,570**	4,500,283
Cash and cash equivalents	**(1,339,708)**	(1,444,014)
Net debt	**2,066,862**	3,056,269
Equity (note (b))	**15,157,718**	14,140,338
Net debt to equity ratio	**13.6%**	21.6%

Notes:

(a) Debts comprises bank and other borrowings, lease liabilities and amount due to the immediate holding company respectively.

(b) Equity includes all capital and reserves attributable to owners of the Company.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

7. REVENUE AND SEGMENT INFORMATION

For the years ended 31 December 2023 and 2022, the Group is principally engaged in manufacture and sales of pharmaceutical preparations and medical devices, bio-technology products, health products, specialised pharmaceutical raw materials and other products. The board of directors, being the chief operating decision maker of the Group, reviews the operating results of the Group as a whole to make decisions about resource allocation. The operation of the Group constitutes one single reportable segment under HKFRS 8 and accordingly, no separate segment information is prepared.

The Group's revenue represents the invoiced value of goods sold, net of discounts and sales related taxes.

Geographical information

The Group's operations are mainly located in the PRC (country of domicile) and it also derives revenue from America, Europe and Asia (other than the PRC).

Information about the Group's revenue from external customers is presented based on geographical location of the customers and information about the Group's non-current assets is presented based on geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2023	2022	**2023**	2022
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**8,721,927**	7,453,795	**9,369,147**	9,675,884
America	**687,446**	956,036	**317,744**	–
Europe	**562,250**	566,532	**–**	–
Asia other than the PRC	**512,093**	480,809	**107,564**	66,228
Others	**45,874**	105,113	**–**	–
Total	**10,529,590**	9,562,285	**9,794,455**	9,742,112

Note: Non-current assets excluded equity instruments at fair value through comprehensive income, deferred tax assets and a part of interests in associates.

Information about major customers

For the years ended 31 December 2023 and 2022, none of the Group's sales to a single customer amounted to 10% or more of the Group's total revenue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue

Disaggregation of revenue from contracts with customers

	2023 HK$'000	2022 HK$'000
Type of goods and services		
Manufacture and sales of pharmaceutical preparations and medical devices	**6,813,239**	6,120,145
Sales of bio-technology products and health products	**3,380,958**	3,163,702
Sales of specialised pharmaceutical raw materials and other products	**335,393**	278,438
Total revenue recognised at point in time	**10,529,590**	9,562,285

	2023 HK$'000	2022 HK$'000
Revenue disclosed in segment information		
External customers	**10,529,590**	9,562,285
Timing of revenue recognition		
At a point in time	**10,529,590**	9,562,285

All of the Group's revenue are recognised at point in time upon arrival of carrier designated by the customers, or after the customer's acceptance or upon transfer of control of the goods to customer. All of the Group's revenue is generated in the PRC based on where goods are sold. All revenue contracts are for period of one year or less, as permitted by practical expedient under HKFRS 15, the transaction price allocated to these unsatisfied contacts is not disclosed.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

8. OTHER INCOME, GAINS AND LOSSES, NET

	2023 HK$'000	2022 HK$'000
Government grants (note (i))	**129,081**	97,352
Interest income	**7,745**	19,806
Sales of raw materials, scrap and other materials, net	**10,676**	7,891
Rental income	**962**	557
Net gain in fair value of investment properties (note 18)	**5,454**	21,351
Consultancy income	**–**	24,925
Additional deduction of VAT (note (ii))	**20,139**	–
Fine imposed pursuant to China's Anti-Monopoly Law (note (iii))	**(316,182)**	–
Sundry income	**34,315**	39,690
	(107,810)	211,572

Notes:

(i) The amount in 2023 consists of government grants with conditions being fulfilled and included in deferred income amounted to approximately HK$18,393,000 (2022: HK$52,119,000). There are no unfulfilled conditions related to the remaining amount of approximately HK$130,827,000 (2022: HK$45,233,000).

(ii) During the current year, the Group recognised government grants of approximately HK$20,139,000 (2022: HK$nil) in respect of value-added tax exemption provided by the local government in accordance with Announcement 2023 No. 43 of the Ministry of Finance and the State Administration of Taxation, advanced manufacturing enterprises are allowed to deduct additional 5% VAT of the current deductible input VAT from the VAT payable. According to the announcement, the value-added tax exemption is effective until 31 December 2027.

(iii) On May 28, 2023, the China State Administration for Market Regulation issued a Notice of Administrative Decision (the "Notice") regarding a violation of the Anti-Monopoly Law of the People's Republic of China. As a result, a penalty was imposed, which includes the confiscation of gains amounting to approximately RMB149,457,000 (equivalent to approximately HK$165,467,000) and a fine of approximately RMB136,132,000 (equivalent to approximately HK$150,715,000).

9. FAIR VALUE CHANGE ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 HK$'000	2022 HK$'000
Gain/(loss) in fair value change of listed equity securities in Hong Kong	**833**	(18,833)
Gain/(loss) in fair value change of equity instruments outside Hong Kong	**172,615**	(48,407)
Loss in fair value change of debt instruments	**(24,527)**	–
Realised loss on disposal of financial assets at fair value through profit or loss	**–**	(27,383)
	148,921	(94,623)

10. FINANCE COSTS

	2023 HK$'000	2022 HK$'000
Interest on bank and other borrowing	**198,397**	132,977
Interest on lease liabilities	**6,748**	4,516
	205,145	137,493

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

11. INCOME TAX EXPENSE

	2023 HK$'000	2022 HK$'000
Current tax:		
The PRC Enterprise Income Tax	**442,361**	383,904
Deferred tax (notes 23 and 34)	**6,394**	34,738
	448,755	418,642

No provision for Hong Kong profits tax has been made in the consolidated financial statements as the Company did not have any assessable profits subject to Hong Kong profits tax for both years. Provision on profits assessable elsewhere has been calculated at the rate of tax prevailing to the countries to which the Group operates, based on existing legislation, interpretations, and practices in respect thereof.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

According to the relevant the PRC tax regulations, High-New Technology Enterprise (the "HNTE") operating within a High and New Technology Development Zone are entitled to a reduced Enterprise Income Tax (the "EIT") rate of 15%. Certain subsidiaries are recognised as HNTE and accordingly, are subject to EIT at 15%. The recognition as a HNTE is subject to review on every three years by the relevant government bodies.

The charge for the year is reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2023 HK$'000	2022 HK$'000
Profit before tax	**2,344,197**	2,516,893
Tax at the average income tax rate	**586,049**	629,223
Tax effect of share of results of associates	**2,186**	27,530
Tax effect of expenses not deductible for tax purpose	**83,021**	78,942
Tax effect of income not taxable for tax purpose	**(36,800)**	(102,174)
Tax effect of temporary differences not recognised	**12,206**	(7,580)
Effect of tax exemptions granted to the PRC subsidiaries	**(44,011)**	(44,023)
Income tax on concessionary rate	**(239,954)**	(252,182)
Tax effect of tax losses not recognised	**86,058**	88,906
Tax charge for the year	**448,755**	418,642

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

12. PROFIT FOR THE YEAR

	2023 HK$'000	2022 HK$'000
Profit for the year is arrived after charging/(crediting):		
Staff costs (excluding Directors' emoluments (note 15)) comprises:		
— Wages and salaries	**1,402,958**	1,371,081
— Retirement benefits schemes contributions	**110,262**	92,550
	1,513,220	1,463,631
Depreciation of property, plant and equipment (note 16)	**323,268**	328,712
Depreciation of right-of-use assets (note 17)	**39,855**	33,859
Amortisation of intangible assets (note 22)	**29,087**	32,341
Total depreciation and amortisation	**392,210**	394,912
Provision/(reversal of allowance) for ECL		
— trade and other receivables	**57,698**	(22,642)
— amounts due from related companies	**966**	420
— loan receivables	**–**	(795)
Provision/(reversal of allowance) for ECL, net	**58,664**	(23,017)
Auditors' remuneration		
— audit services	**3,980**	3,880
— non-audit services	**–**	–
Cost of inventories recognised as an expense	**4,005,524**	3,610,806
Write-off of property, plant and equipment	**16,453**	11,271
Research and development expenditure	**571,985**	531,924
Marketing and promotion expenses	**567,201**	498,692
Write-down of inventories	**14,768**	5,265
Loss on disposal of property, plant and equipment	**13,064**	2,476
Net foreign exchange gain	**(43,505)**	(34,348)
Short-term lease rental expenses	**25,012**	12,015
Fair value change on derivative financial instruments	**31,370**	(39,720)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

13. DIVIDEND

(i) Dividends payable to equity shareholders of the company attributable to the year

	2023 HK$'000	2022 HK$'000
Final dividend proposed after the end of report of HK$0.26 per share (2022: HK$0.14 per share)	**905,141**	496,940

(ii) Dividends payable to equity shareholders of the company attributable to the previous financial year, approved and paid during the year

	2023 HK$'000	2022 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.14 per share (2022: HK$0.11 per share)	**496,940**	390,450

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity owners of the Company by the weighted average number of ordinary shares outstanding during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

	2023 HK$'000	2022 HK$'000
Earnings		
Earnings for the purpose of basic earnings per share calculation	**1,879,998**	2,079,419

	2023 '000	2022 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share calculation (Note)	**3,507,754**	3,542,258

Note:

As at 31 December 2023 and 2022, treasury shares are deducted from total shares in issue for the purpose of calculating earnings per share.

Diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2023 and 2022 as there were no potential dilutive ordinary shares in issue.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of directors' emoluments are as follows:

	2023 HK$'000	2022 HK$'000
Fees:		
Executive directors	50	58
Independent non-executive directors	340	395
	390	453
Other emoluments:		
Salaries and allowances	8,079	5,784
Retirement benefits scheme contributions	519	120
	8,988	6,357

No emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office for both years ended 31 December 2023 and 2022.

The emoluments paid or payable to each of the nine (2022: seven) directors for the year ended 31 December 2023 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Dr. Tang Weikun *(Chairman)*	–	2,770	121	2,891
Dr. Shao Yan (retired on 2 June 2023)	–	1,720	172	1,892
Dr. Niu Zhanqi (resigned on 21 June 2023)	25	–	–	25
Dr. Shi Lin	–	1,888	54	1,942
Mr. Zhou Chao (appointed on 2 June 2023) (note (a))	–	1,701	172	1,873
Mr. Yang Guang (appointed on 30 June 2023)	25	–	–	25
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	180	–	–	180
Dr. Pei Geng	100	–	–	100
Mr. Hu Yebi	60	–	–	60
Total	390	8,079	519	8,988

Note:

(a) Mr. Zhou Chao is the chief executive officer since June 2021.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

Details of directors' emoluments for the year ended 31 December 2022 are as follows:

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits schemes contributions HK$'000	Total HK$'000
Executive directors:				
Dr. Tang Weikun *(Chairman)*	–	2,812	102	2,914
Dr. Shi Lin	–	1,014	–	1,014
Dr. Shao Yan (retired on 2 June 2023)	–	1,958	18	1,976
Dr. Niu Zhanqi (resigned on 21 June 2023)	58	–	–	58
Independent non-executive directors:				
Ms. So Tosi Wan, Winnie	209	–	–	209
Dr. Pei Geng	70	–	–	70
Mr. Hu Yebi	116	–	–	116
Total	453	5,784	120	6,357

During year ended 31 December 2023 and 2022, no director of the Company agreed to waive or waived any emoluments.

(b) Five Highest Paid Individuals

The five individuals with the highest emoluments in the Group, one (2022: none) was the director of the Company whose emoluments were included above. The emoluments of the remaining four (2022: five) individuals are as follows:

	2023 HK$'000	2022 HK$'000
Employees		
Salaries and allowances	**14,614**	22,347
Retirement benefits schemes contributions	**497**	980
	15,111	23,327

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

15. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Five Highest Paid Individuals *(Continued)*

These emoluments were within the following bands:

	2023 No. of employees	2022 No. of employees
Nil to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**2**	2
HK$3,500,001 to HK$4,000,000	**–**	1
Over HK$4,000,000	**2**	2
	4	5

During both years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Senior Management of the Group

The emoluments of the senior management who are non-director of the Group are within the following band:

	2023 No. of employees	2022 No. of employees
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**–**	–
Over HK$2,000,000	**1**	1
	2	3

During years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT

	Owned buildings HK$'000	Allocated land HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Equipment HK$'000	Others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
As at 1 January 2022	2,356,997	1,837	2,253,900	28,304	158,180	412	457,810	5,257,440
Additions	3,775	–	807	2,120	93,419	–	526,094	626,215
Disposals	(21)	–	(28,676)	–	(3,120)	–	–	(31,817)
Acquired through business combination (note 39)	60,522	–	22,147	371	427	–	1,730	85,197
Write-off	(290)	–	(33,304)	(1,398)	(10,740)	–	–	(45,732)
Transfer	100,984	–	292,784	–	1,733	–	(395,501)	–
Exchange realignment	(184,812)	(141)	(179,538)	(2,194)	(14,441)	(31)	(38,795)	(419,952)
As at 31 December 2022 and 1 January 2023	2,337,155	1,696	2,328,120	27,203	225,458	381	551,338	5,471,351
Additions	–	–	159,312	2,189	88,794	–	237,432	487,727
Disposals	(31,445)	–	(38,532)	–	(2,144)	–	–	(72,121)
Acquired through asset acquisition (note 39)	–	–	–	–	578	–	–	578
Write-off	(13,072)	–	(8,751)	(1,076)	(6,198)	–	–	(29,097)
Transfer	257,228	–	110,215	–	–	–	(367,443)	–
Exchange realignment	(73,667)	(46)	(88,321)	(1,089)	(10,315)	(10)	(11,158)	(184,606)
As at 31 December 2023	2,476,199	1,650	2,462,043	27,227	296,173	371	410,169	5,673,832
Accumulated depreciation and impairment								
As at 1 January 2022	621,460	–	1,097,950	14,005	114,430	412	–	1,848,257
Depreciation provided for the year	103,384	–	187,745	3,398	34,185	–	–	328,712
Eliminated on disposals	(5)	–	(26,091)	–	(1,258)	–	–	(27,354)
Eliminated on write-off	(288)	–	(22,877)	(1,243)	(10,053)	–	–	(34,461)
Exchange realignment	(50,463)	–	(87,910)	(1,133)	(9,404)	(31)	–	(148,941)
As at 31 December 2022 and 1 January 2023	674,088	–	1,148,817	15,027	127,900	381	–	1,966,213
Depreciation provided for the year	100,566	–	167,332	3,336	52,034	–	–	323,268
Eliminated on disposals	(19,885)	–	(30,563)	–	(2,000)	–	–	(52,448)
Eliminated on write-off	(449)	–	(5,381)	(984)	(5,830)	–	–	(12,644)
Exchange realignment	(30,072)	–	(48,691)	(527)	(4,459)	(10)	–	(83,759)
As at 31 December 2023	724,248	–	1,231,514	16,852	167,645	371	–	2,140,630
Net carrying amounts								
As at 31 December 2023	**1,751,951**	**1,650**	**1,230,529**	**10,375**	**128,528**	**–**	**410,169**	**3,533,202**
As at 31 December 2022	1,663,067	1,696	1,179,303	12,176	97,558	–	551,338	3,505,138

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

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

The above items of property, plant and equipment, except for construction in progress and allocated land are depreciated on a straight-line basis, at the following rates per annum:

Buildings	2.5%–10%
Plant and machinery	5%–25%
Equipment	12%–33.3%
Motor vehicles	10%–25%
Others	12.5%–20%

Allocated land is located in the PRC and is not specified by the PRC government authorities with the period of usage. The allocated land is restricted for disposal or transfer, but can be leased or pledged to other parties upon obtaining the approval from the relevant PRC's authorities.

Buildings are held in the PRC under medium-term leases.

As at 31 December 2023, certain buildings in the Group aggregated amount of approximately HK$97,287,000 (2022: HK$107,846,000) have been pledged to banks to secure general bank loans granted to the Group as further detailed in note 42.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

17. RIGHT-OF-USE ASSETS

	Motor vehicle leased for own used HK$'000	Buildings leased for own use HK$'000	Land right use HK$'000	Total HK$'000
Cost				
As at 1 January 2022	734	27,874	425,646	454,254
Acquisition of through business combination (note 39)	–	–	17,263	17,263
Additions	–	64,579	27,489	92,068
Termination of lease	–	(2,950)	–	(2,950)
Exchange realignment	(38)	(2,946)	(29,937)	(32,921)
As at 31 December 2022 and 1 January 2023	696	86,557	440,461	527,714
Additions	147	62,196	11,662	74,005
Termination of lease	–	(7,401)	–	(7,401)
Exchange realignment	(14)	(2,495)	(16,158)	(18,667)
As at 31 December 2023	829	138,857	435,965	575,651
Accumulated depreciation				
As at 1 January 2022	112	11,487	50,127	61,726
Depreciation provided for the year	118	22,740	11,001	33,859
Termination of leases	–	(2,950)	–	(2,950)
Exchange realignment	(3)	(1,365)	(317)	(1,685)
As at 31 December 2022 and 1 January 2023	227	29,912	60,811	90,950
Depreciation provided for the year	220	29,053	10,582	39,855
Termination of leases	–	(7,401)	–	(7,401)
Exchange realignment	(2)	(135)	(67)	(204)
As at 31 December 2023	445	51,429	71,326	123,200
Net carrying amounts				
As at 31 December 2023	**384**	**87,428**	**364,639**	**452,451**
As at 31 December 2022	469	56,645	379,650	436,764

Notes:

1. The Group leases several assets including office premises and land right use. The average lease term is 6 years (2022: 6 years).

2. The total cash outflow for leases, including payment of short-term lease amount approximately to HK$58,582,000 (2022: HK$15,373,000) for the year ended 31 December 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

18. INVESTMENT PROPERTIES

	2023 HK$'000	2022 HK$'000
Residential properties	**175,817**	175,112

	2023 HK$'000	2022 HK$'000
As at 1 January	**175,112**	167,151
Fair value gain recognised in profit or loss (note 8)	**5,454**	21,351
Exchange realignment	**(4,749)**	(13,390)
As at 31 December	**175,817**	175,112

Properties measured at fair value

	2023			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Investment properties located in PRC	**–**	**–**	**175,817**	**175,817**

	2022			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Investment properties located in PRC	–	–	175,112	175,112

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

18. INVESTMENT PROPERTIES *(Continued)*

(a) Valuation of investment properties

The investment properties of the Group amounted of approximately HK$175,817,000 (2022: HK$175,112,000) were stated at fair value as at 31 December 2023. The fair value of investment properties as at 31 December 2023 and 2022 were arrived at based on the valuations carried out by Wuhan Huasheng Zhenghao Assets Appraisal Co., Ltd.*, an independent external valuer. *(This is the English translation of Chinese name or words which included for identification purposes only)

The valuer has valued the properties on the basis of comparable market transactions as available. Discussions of valuation processes and results are held between the Group and valuers at least once every six months, in line with the Group's interim and annual reporting dates. As at 31 December 2023 and 2022, the fair values of the properties were determined by the valuer. At each financial year end, the Group (i) verifies all major inputs to the independent valuation report and (ii) holds discussions with the independent valuer.

Market approach method is adopted based on the principle of substitution, where comparison is made based on prices realised on actual sales and/or asking prices of comparable properties. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value and capital values.

The valuation assumptions, unless otherwise stated, the valuer assumed that:

(a) The assets within the scope of the assessment are owned by the appraised unit and there is no ownership dispute;

(b) The assessment information provided by the entrusting party and the appraised unit is true, lawful and complete; and

(c) The assessment data collected by the assessors in the capacity range is authentic and credible.

There was no change from the valuation technique used during the year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuation of investment properties is determined by various major inputs:

As at 31 December 2023, the major unobservable inputs applied in valuing the investment properties was market selling price per each square meter of recent transactions, taken into account and adjusted for nature, location, conditions, transaction time and plot ration. The range of unit market price was from RMB3,970 to RMB4,050 (2022: RMB3,798 to RMB4,026). An increase in unit market price would result in an increase in the fair value of investment properties, and vice versa.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. INTERESTS IN ASSOCIATES

	2023 HK$'000	2022 HK$'000
Cost of unlisted investments	**7,411,892**	7,564,016
Share of post-acquisition profit/(loss) and other comprehensive profit/(loss)	**161,595**	(184,586)
Group's share of net assets	**7,573,487**	7,379,430
Amounts due from associates	**290,879**	324,731
	7,864,366	7,704,161

Amounts due from associates are unsecured, interest-free and not recoverable within next twelve months.

The summarised financial information in respect of the Group's material associates is set out below:

Shanghai Xudong Haipu Pharmaceutical Company Limited (the "Xudong Haipu")

	2023 HK$'000	2022 HK$'000
Total assets	**2,825,847**	2,624,141
Total liabilities	**(323,872)**	(369,192)
Net assets of the associate	**2,501,975**	2,254,949
Less: Non-controlling interests	**(74,150)**	(62,934)
Net assets attributable to owners of the associate	**2,427,825**	2,192,015
Group's share of net assets of the associate	**1,335,304**	1,205,608
Goodwill	**904,958**	930,000
	2,240,262	2,135,608
Revenue	**1,030,835**	1,062,627
Profit for the year	**190,280**	200,535
Share of result in an associate for the year	**104,654**	110,294
Dividend received during the year	**–**	(192,095)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. INTERESTS IN ASSOCIATES *(Continued)*

Grand Pharma Sphere Pte Ltd. (the "Grand Pharma Sphere")

	2023 HK$'000	2022 HK$'000
Total assets	**12,420,241**	12,239,513
Total liabilities	**(3,504,020)**	(3,797,409)
Net assets	**8,916,221**	8,442,104
Group's share of net assets of the associate	**4,991,038**	5,074,390
Revenue	**1,261,284**	1,223,111
Loss for the year	**(153,637)**	(72,103)
Share of result of an associate for the year	**(89,067)**	(40,991)

Aggregate information of associates that are not individually material

	2023 HK$'000	2022 HK$'000
The Group's share of results of associates	**(40,595)**	(113,089)
The Group's share of net assets of associates	**342,187**	169,432

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. INTERESTS IN ASSOCIATES *(Continued)*

Details of the principal associates as at 31 December 2023 and 2022 are as follows:

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2023	2022	Particulars of issued/paid-up capital	Principal activities
Cardionovum Holding (note (a))	Hong Kong/ Hong Kong	Limited liability company	**33.33% (indirect)**	33.33% (indirect)	Contributed capital USD93,000,000	Development, production and distribution of advanced cardiovascular interventional medical devices and the provision of related services
Xudong Haipu (note (b) & (j))	PRC/PRC	Limited liability company	**55.00% (indirect)**	55.00% (indirect)	Contributed capital RMB60,000,000	Production and sales of pharmaceutical preparations for injections
Grand Pharma Sphere (note (c))	Singapore/ Singapore	Limited liability company	**57.98% (indirect)**	57.98% (indirect)	Contributed capital USD100	Investment holding
RevoImmune (note (d) & (k))	PRC/PRC	Limited liability company	**7.25% (indirect)**	7.83% (indirect)	Issued capital RMB813,447/ contributed capital RMB272,269	Development of colorectal cancer medicine
Nanjing Fuhan (note (e) & (k))	PRC/PRC	Limited partnership	**51.00% (indirect)**	51.00% (indirect)	Contributed capital RMB40,000,000	Investment holding
Nanjing Kainite (note (f) & (k))	PRC/PRC	Limited liability company	**29.27% (indirect)**	29.27% (indirect)	Contributed capital RMB3,100,000	Development of Neurological intervention
OncoSec (note (g))	USA/USA	Limited liability company	**N/A**	25.70% (indirect)	Contributed capital USD2,769	Development of cancer immunotherapy
CoRISMA (note (h))	USA/USA	Limited liability company	**22.20% (indirect)**	22.20% (indirect)	Contributed capital USD13,250,000	Development of global innovative medical devices
FastWave (note (i))	USA/USA	Limited liability company	**40.00% (indirect)**	40.00% (indirect)	Contributed capital USD1,200,000	Development of global cerebro-cardiovascular precision interventional devices

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(a) Cardionovum Holding Co. Limited ("Cardionovum Holding") was an associate of Grand Wise International Trading Limited, a wholly-owned subsidiary of the Company, and Cardionovum Holding was establish with individual third party. The Company had subscribed for approximately 33.33% of the enlarged issued share capital of the Cardionovum Holding pursuant to an agreement signed on 21 April 2015, and are accounted for the investment in an associate.

The Group is able to exercise significant influence over Cardionovum Holding because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(b) Xudong Haipu was an associate of Taiwan Tung Yang International Company Limited ("Tung Yang"). The Company entered into the acquisition agreement, the Company had acquired 100% of the Tung Yang shares at aggregate consideration HK$2,004,227,000 which are settled by cash and shares. Upon completion of the acquisition, Tung Yang is a directly wholly-owned subsidiary of the Company. Xudong Haipu and its subsidiaries are classified as associates of the Company after Completion. This is because material decisions of Xudong Haipu (including but not limited to the approval of its annual budget, manufacturing plan and profit distribution policy) are subject to the resolutions of the board of directors of Xudong Haipu which must be passed by at least two-third of its directors in attendance under the articles of association of Xudong Haipu. As Tung Yang is entitled to appoint only four out of the seven directors of Xudong Haipu, Tung Yang does not have control over the operations and financial management of Xudong Haipu.

The completion of the acquisition took place on 5 September 2018. Details of the acquisition of Tung Yang are disclosed in the announcement of the Company dated 24 May 2018, 31 July 2018 and 24 August 2018.

Even the Company was holding 55% of shares of Xudong Haipu, since the resolutions requires at least 5 out of 7 directors' approval to pass, where the Company only entitled to appoint 4 directors on the board meeting, the Company does not have control over the associate.

(c) Grand Pharma Sphere was an associate of Grand Decade Developments Limited ("Grand Decade") and it was the immediate holder of Grand Pharma Sphere (Australia BidCo) Pte Ltd. ("BidCo").

The Company entered into the binding scheme implementation deed pursuant to which CDH Genetech Limited ("CDH Genetech") and the Company had acquired 100% of the Sirtex Medical Pty Ltd. ("Sirtex") shares. The Company and CDH Genetech had established BidCo to acquire the Sirtex shares and paid aggregate consideration HK$2,907,725,000. Upon completion of the acquisition, the Company and CDH Genetech owned 49% and 51% of the issued shares capital of the BidCo respectively. The completion of the acquisition took place on 20 September 2018. Details of the acquisition of BidCo are disclosed in the announcement of the Company dated 14 June 2018, 26 July 2018, 20 September 2018 and 12 March 2019.

The Group entered into a subscription agreement with CDH Genetech pursuant to which the Group and CDH Genetech (or its nominee) will further subscribe shares of Grand Pharma Sphere in proportion to their respective equity interests. The total consideration for the further subscription is approximately HK$1,163,571,000 and the Group and CDH Genetech will invest for approximately HK$570,150,000 and HK$593,421,000 respectively. Details of the further subscription of the Grand Pharma Sphere were disclosed in the announcement of the Company dated 4 May 2020.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(c) *(Continued)*

During the year ended 31 December 2021, there was an increase in shareholding in Grand Pharma Sphere through several transactions as described below. Details of the transactions were stated in the Company published announcement dated 2 July 2021, 11 August 2021 and 1 September 2021 and circular dated 13 September 2021.

On 1 July 2021, the Group entered into a subscription agreement with Grand Pharma Sphere, pursuant to which, the Group agreed to subscribe for and Grand Pharma Sphere agreed to issue and allot 84,704,650 Grand Pharma Sphere Shares for a consideration of US$100 million. The subscription was completed in July 2021. As at 31 December 2021, the shareholdings in Grand Pharma Sphere held by the Group increased by approximately 0.15% after a series of transactions.

The Group also entered into two agreements of total return swap transaction ("TRS Agreements") with a financial institution (the "Natixis"), pursuant to which, among other things, the Natixis shall pass through to the Company the full economic exposure to the shares of Grand Pharma Sphere ("Sirtex HoldCo Shares") acquired by the Natixis pursuant to the Natixis's Subscriptions.

In view of the TRS Agreements, the total of Sirtex HoldCo Shares held by the Natixis which was acquired by the Natixis under the Natixis's Subscription (the "Natixis Shares") are treated as part of the existing ownership interests of the Group in Grand Pharma Sphere for the purpose of applying the equity method of accounting as the terms of the TRS Agreement are such that it is the Company that has access to the returns associated with an ownership interest in the Natixis's shares currently held by the Natixis. In such circumstances, the proportion of ownership interest in Grand Pharma Sphere allocated to the Group is determined by taking into account the Shares held by the Natixis that currently give the Group access to the returns. The Group's effective interests in Grand Pharma Sphere, has been increased by 7.69%.

Hence, the Group had, in substance, an existing ownership interest in respect of the 84,704,650 Sirtex HoldCo Shares as a result of the TRS transaction. A corresponding liability of USD100,000,000, which is equivalent to HK$777,256,000, representing the potential future payments was recognised at initial recognition of these ownership interests, which is disclosed under "Bank and other borrowings" of consolidated statement of financial position. The liabilities has been fully settled during the year ended 31 December 2023.

During the year ended 31 December 2022, the Group subscribed 29,646,627 new shares of Grand Pharma Sphere Pte Ltd. (which wholly owned the equity interests of Sirtex) at the consideration of USD35,000,000. After the completion of the transaction, the equity interests held in it increased to approximately 51.61%. The Group's effective interest in Grand Pharma Sphere Pte. Ltd. increased to 57.98%, with consideration of shares held by Natixis. Details of the subscription for new shares in Grand Pharma Sphere were disclosed in the announcement of the Company dated 15 December 2022.

(d) RevoImmune Therapeutics Co., Ltd. ("RevoImmune") was an associate of Grand Pharmaceutical (China) Company Limited ("Grand Pharm (China)"), being a subsidiary of the Company owned as to 99.84%. The Company subscribed for approximately 9.68% of issued share capital of the RevoImmune pursuant to an agreement signed on 13 July 2020, and are accounted for the investment in an associate.

During the year ended 31 December 2021, the Group's equity interest in RevoImmune decreased from 9.68% to 8.91%. The equity interest was further decreased by 1.08% to 7.83%, as a result of new shares issued to third party during the year ended 31 December 2022.

During the year ended 31 December 2023, the Group's equity interest in Revolumune was further decreased to 7.25%, as a result of new shares issued to third party.

The Group is able to exercise significant influence over RevoImmune because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(e) Nanjing Fuhan Enterprise Management Partnership (Limited Partnership) ("Nanjing Fuhan") was an associate of Grand Pharm (China). The Company held 51% of issued share capital of the Nanjing Fuhan as at 31 December 2023 and 2022.

Even the Company was holding 51% of shares of Nanjing Fuhan, since the resolutions requires over 50% of the total number of directors (2 directors in total) to pass, where the Company only entitled to appoint 1 director on the board meeting, the Company does not have control over the associate.

(f) Nanjing Kainite Medical Technology Co., Ltd. ("Nanjing Kainite") was an associate of Grand Pharm (China). The Company subscribed for approximately 29.17% of issued share capital of the Nanjing Kainite on 27 July 2020. Pursuant to an agreement, the Company will inject and acquire to 100% equity interest of capital into Nanjing Kainite in phases if the conditions are met, and are accounted for the investment in an associate.

During the year ended 31 December 2021, the Group's equity interest in Nanjing Kainite increased from 29.17% to 29.27%.

The Group is able to exercise significant influence over Nanjing Kainite because it has the power to appoint one out of the three directors of that company under the shareholders agreement.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

19. INTERESTS IN ASSOCIATES *(Continued)*

Notes: *(Continued)*

(g) OncoSec Medical Incorporated ("OncoSec") was an associate of Grand Decade Developments Limited ("Grand Decade").

The Company had acquired approximately of 43.95% of the issued shares capital of the OncoSec at aggregate consideration for approximately HK$193,929,000 which are settled by cash. The completion of the acquisition took place on 7 February 2020. Details of the acquisition of the OncoSec are disclosed in the announcement of the Company dated 10 October 2019, 26 November 2019 and 7 February 2020.

Since OncoSec has announced offering of common stock of an aggregate 4,608,589 shares of USD3.25 per share on 16 August 2020, the Company had acquired 1,999,000 of new placing shares at aggregate consideration of approximately HK$50,396,000. Furthermore, OncoSec has announced offering of common stock of an aggregate 7,711,284 shares of USD5.45 per share on 21 January 2021. The Group had acquired 3,389,198 of new placing shares at aggregate consideration approximately HK$144,075,000. And according to the anti-dilution terms of stock purchase agreement on 19 October 2019, the Group has the right to acquire further shares when certain share options issued by OncoSec were exercised, and the Group had acquired 1,409,838 shares of USD3.45 per share on 16 April 2021 at aggregate consideration of approximately HK$37,939,000.

OncoSec has announced the share consolidation on the basis of every 22 issued and outstanding common stock in to 1 share each on 8 November 2022. Furthermore, OncoSec has announced offering of common stock of an aggregate 1,166,667 shares of USD3.00 per share on 30 November 2022. During the year ended 31 December 2022, the Group's equity interest in OncoSec had decreased from 42.71% to 25.70% after series of transaction.

On 14 June 2023, OncoSec filed a petition with the relevant regulatory authorities in the United States of America for voluntary liquidation under Chapter 7 of the US Bankruptcy Code. Immediately before OncoSec filed its petition for bankruptcy and liquidation, all directors appointed by the Group to OncoSec had resigned and the Group had lost its right to influence its operation and finance, and therefore OncoSec ceased to be an associate of the Group. Impairment loss of approximately HK$59,652,000 has been recognised for the interest in OncoSec, recoverable amount of which was determined with reference to fair value less cost to disposal as at 14 June 2023.

(h) CoRISMA MCS Systems Incorporated ("CoRISMA") was an associate of East Ocean Medical (Hong Kong) Company Limited ("East Ocean Medical"), a wholly-owned subsidiary of the Company. The Company had subscribed for approximately 22.20% of issued share capital of the CoRISMA pursuant to an agreement signed on 10 December 2021. The Group has accounted for the investment as interest in an associate.

The Group is able to exercise significant influence over CoRISMA because it has the power to appoint one out of the three directors of that company under the shareholders voting agreement. During the year ended 31 December 2022, CoRISMA has increased its number of board seats to include five directors and one observer. In the opinion of the Directors, a quorum must be presented in any of the board meeting and the board seat held by the Group will give rise to the significant influence to any significant decision.

The Group is able to exercise significant influence over CoRISMA because it has the power to appoint one out of the five directors of that company under the shareholders agreement.

(i) FastWave Medical, Inc. ("FastWave") is an associate of East Ocean Medical. East Ocean Medical had subscribed for approximately 20% of issued share capital of FastWave pursuant to an agreement on 28 July 2021 and had accounted for the investment as interest in an associate. The Company will inject and acquire up to 40% equity interest of issued capital of FastWave in phases if the conditions are met. During the year ended 31 December 2022, the Group has further acquired 20% equity interest of FastWave after conditions being met, 40% in aggregate at the end of the year.

The Group is able to exercise significant influence over FastWave because it has the power to appoint two out of the five directors of that company under the shareholders agreement.

(j) Xudong Haipu is a wholly foreign owned enterprise.

(k) These companies are wholly-domestic owned enterprises.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

20. GOODWILL

	HK$'000
As at 1 January 2022	596,746
Arising on acquisition of a subsidiary (note 39)	128,071
Impairment loss recognised for the year	(36,442)
Exchange realignment	(44,328)
As at 31 December 2022 and 1 January 2023	644,047
Impairment loss recognised for the year	(39,136)
Exchange realignment	(16,289)
As at 31 December 2023	**588,622**

Impairment Tests for Cash-generating Units Containing Goodwill

Goodwill acquired has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

— Zhejiang Jianju Xianle Pharmaceutical Company Limited ("Zhejiang Xianle")

— Wuhan Kernel Bio-tech Co., Ltd. ("Wuhan Kernel")

— Hubei Wellness Pharmaceutical Co., Ltd. ("Hubei Wellness")

— Beijing Rui Yao Technology Limited ("Beijing Rui Yao")

— Beijing Jiu He Pharmaceutical Limited ("Jiu He")

— Tianjin Jingming New Technology Development Co., Ltd. ("Tianjin Jingming")

— Xi'an Beilin Pharmaceutical Co., Ltd. ("Xi'an Beilin")

— Cangzhou Huachen BioTech Co., Ltd ("Huachen BioTech")

— Beijing Puer Weiye Biotechnology Co., Ltd ("Puer Weiye")

— Hubei Bafeng Pharmaceutical & Chemicals Share Co., Ltd. ("Hubei Bafeng")

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

20. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The carrying amount of goodwill (net of accumulated impairment losses) was allocated to CGU as follows:

	2023	2022
	HK$'000	HK$'000
Zhejiang Xianle	**–**	39,136
Wuhan Kernel	**15,409**	15,836
Hubei Wellness	**22,232**	22,847
Beijing Rui Yao	**23,743**	24,400
Jiu He	**176,956**	181,853
Tianjin Jingming	**40,450**	41,569
Xi'an Beilin	**120,405**	123,737
Huachen BioTech	**58,249**	59,861
Puer Weiye	**9,973**	10,249
Hubei Bafeng	**121,205**	124,559
	588,622	644,047

Notes:

Zhejiang Xianle

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would cause further impairment loss on goodwill and other assets of Zhejiang Xianle.

The impairment loss was caused by under-performance of the CGU from impact of the market conditions and direct cost control after the implementation of lockdown and restriction measures by the PRC local government. The Group's financial budget was revised to reflect current assessment of economic and market conditions.

With the assistance from an independent valuer, the directors determine the recoverable amount which based on value in use calculation to be lower than the carrying amount of CGU to which goodwill is allocated, an impairment loss of goodwill of approximately HK$39,136,000 was recognised for the year (2022: HK$15,808,000). No impairment loss of other asset allocated to Zhejiang Xianle is considered necessary.

Wuhan Kernel

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by management covering a 5-year period, and the discount rate of approximately 13.8% (2022: 14.4%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

20. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes: *(Continued)*

Hubei Wellness

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Beijing Rui Yao

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Jiu He

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets are allocated, no impairment loss was recognised.

Tianjin Jingming

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15.5% (2022: 17.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would cause further impairment loss on goodwill and other assets of Tianjin Jingming.

The impairment loss was caused by under-performance of the CGU from impact of the market conditions and direct cost control after the implementation of lockdown and restriction measures by the PRC local government. The Group's financial budget was revised to reflect current assessment of economic and market conditions.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets are allocated, no impairment loss was recognised for the year ended 31 December 2023.

With the assistance from an independent valuer, the directors determine the recoverable amount which based on value in use calculation to be lower than the carrying amount of CGU to which goodwill and intangible assets are allocated, an impairment loss of goodwill of approximately HK$20,634,000 was recognised for the year ended 31 December 2022. No impairment loss of other asset allocated to Tianjin Jingming is considered necessary for the year ended 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

20. GOODWILL *(Continued)*

Impairment Tests for Cash-generating Units Containing Goodwill *(Continued)*

Notes: *(Continued)*

Xi'an Beilin

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets are allocated, no impairment loss was recognised.

Huachen BioTech

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 15.0% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Puer Weiye

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 16.1%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% growth rate per annum (2022: 3.0%). The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill is allocated, no impairment loss was recognised.

Hubei Bafeng

The recoverable amount of the CGU is determined by reference to the income approach, which is based on discounted cash flow sourced from the financial budgets approved by the management covering a 5-year period, and the discount rate of approximately 14.6% (2022: 14.4%) that reflects current market assessment of the time value of money and the risks specific to the CGU. Cash flows beyond 5 year period have been extrapolated using 2.2% (2022: 3.0%) growth rate per annum. The directors believe that any reasonably possible further change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed its recoverable amount.

As the recoverable amount was calculated to be exceed the carrying amount of CGU to which goodwill and intangible assets are allocated, no impairment loss was recognised.

The key assumptions used in the value in use calculations for the cash-generating units are as follows:

Budgeted market share	Average market share in the period immediately before the budget period, plus a growth of 2.2% (2022: 3%) of market share per year. The values assigned to the assumption reflect past experience and are consistent with the directors' plans for focusing operations in these markets. The directors believe that the planned market share growth per year for the next five years is reasonably achievable.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period, increased for expected efficiency improvements. This reflects past experience.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES

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

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company 2023	2022	Particulars of issued/paid-up capital	Principal activities
Grand Pharm (China) Co., Ltd. ("Grand Pharm (China)") (notes (iv), (vi), (vii), (viii) & (xxvii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB470,000,000	Manufacture and sales of pharmaceutical products in the PRC
Wuhan Wuyao. Pharmaceutical Co. Ltd ("Wuhan Wuyao") (notes (i) & (viii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.18% (indirect)	Contributed capital RMB61,000,000	Production and sale of pharmaceutical raw material and chemicals and export of self-made products and related technologies
Wuhan Grand Hoyo Co., Ltd. ("Wuhan Grand Hoyo") (notes (ii), (viii), (xvi), (xxv) and (xxix))	PRC/PRC	Limited liability company	**97.67% (indirect)**	97.67% (indirect)	Paid up capital RMB50,000,000	Manufacture and distribution of amino acid products
Hubei Grand Fuchi Production and sales of and Chemical Company Limited ("Hubei Fuchi") (notes (viii) and (xx))	PRC/PRC	Limited liability company	**89.60% (indirect)**	89.60% (indirect)	Contributed capital RMB38,990,000	Pharmaceutical agrochemicals, fine chemicals and chemical medicine
Hubei Grand EBE Bright Eyes Company Limited ("Hubei Grand EBE") (note (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB114,000,000	Production and sales of ophthalmic gel and eye drops
Zhejiang Xianle (note xxvii)	PRC/PRC	Limited liability company	**67.00% (indirect)**	67.00% (indirect)	Contributed capital RMB10,000,000	Manufacture and sales of steroid hormones active pharmaceutical ingredients ("APIs") and related Intermediates
Wuhan Kernel (notes (iii), (viii) , (xvi) and (xvii))	PRC/PRC	Limited liability company	**91.56% (indirect)**	91.56% (indirect)	Contributed capital RMB79,200,000	Research and development, production and sale of bio-pesticides and additives
Hubei Wellness (notes (v) & (viii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB48,000,000	Manufacture and sales of pharmaceutical products in the PRC
Grand Pharmaceutical Huangshi Feiyun Pharmaceutical Co., Ltd. ("Huangshi Feiyun") (notes (viii) & (ix))	PRC/PRC	Limited liability company	**59.90% (indirect)**	59.90% (indirect)	Contributed capital RMB125,000,000	Manufacture and sales of pharmaceutical products in the PRC
Beijing Rui Yao (notes (x) & (xii))	PRC/PRC	Limited liability company	**99.18% (indirect)**	99.84% (indirect)	Contributed capital RMB23,901,750	Investment holding
Beijing Huajin Pharmaceutical Co., Ltd. ("Beijing Huajin") (notes (viii), (x) & (xii))	PRC/PRC	Limited liability company	**71.88% (indirect)**	71.88% (indirect)	Contributed capital RMB7,886,400	Manufacture and sales of pharmaceutical products in the PRC

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ operation	Form of business structure	Percentage of effective equity interest and voting power held by the Company		Particulars of issued/paid-up capital	Principal activities
			2023	2022		
Huangshi Fuchi Water Affairs Company Limited ("Fuchi Water") (note (xi))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB1,000,000	Treatment of sewage in the PRC
Jiuhe (note (xiii))	PRC/PRC	Limited liability company	**96.84% (indirect)**	96.84% (indirect)	Contributed capital RMB20,000,000	Manufacture and sales of capsules, pharmaceutical intermediates, tablets, granules and soft capsules in the PRC
Tianjin Jingming (note (xiv))	PRC/PRC	Limited liability company	**73.18% (indirect)**	73.18% (indirect)	Contributed capital RMB1,000,000	Research and development, manufacture and sales of ophthalmic medical devices and disposal surgical product
Zhu Hai Cardionovum Medical Device Co. Ltd. ("Zhu Hai Cardionovum") (note (xv))	PRC/PRC	Limited liability company	**77.78% (indirect)**	77.78% (indirect)	Contributed capital USD1,000,000	Development, manufacture and sales of ophthalmic medical devices
Xi'an Beilin (note (xviii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB27,800,000	Manufacture and sales of Chinese medicine and health food product
Grand Decade (note (xxi))	BVI/BVI	Limited liability company	**100% (indirect)**	100% (direct)	Contributed capital HKD78,000	Investment holding
Tung Yang (note (xxii))	Hong Kong/ Hong Kong	Limited liability company	**100% (indirect)**	100% (direct)	Contributed capital HKD27,654,100	Investment holding
Beijing Kun Wu International Business Limited ("Beijing Kun Wu") (note (xxiv))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB3,800,000	Land holding
Huachen BioTech (note (xxx))	PRC/PRC	Limited liability company	**77.94% (indirect)**	77.94% (indirect)	Contributed capital RMB100,000,000	Research and development, sales and technical services of amino acid products
East Ocean Medical (notes (xxvii) and (xxxi))	Hong Kong/ Hong Kong	Limited liability company	**100% (indirect)**	100% (direct)	Contributed capital HKD117,000,000	Investment holding
Puer Weiye (note (xxxii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB18,000,000	Radioactive Pharmaceutical production and trading of radioactive pharmaceutical
Hubei Bafeng (note (xxxiii))	PRC/PRC	Limited liability company	**99.84% (indirect)**	99.84% (indirect)	Contributed capital RMB30,000,000	Research and development, production and operation of amino acid APIs and preparations
BlackSwan Vascular, Inc. (note (xxxiv))	US/US	Limited liability company	**87.50% (indirect)**	–	Contributed capital USD12,836,024	Research and development, liquid embolism

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes:

(a) Detail of subsidiaries

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

(i) Pursuant to a shareholders' resolution dated 4 January 2011, the registered capital of Wuhan Wuyao was increased from RMB31,000,000 to RMB61,000,000. Then, Grand Pharm (China) injected additional capital of RMB30,000,000 into Wuhan Wuyao. As a result, the Group's equity interest in Wuhan Wuyao was increased from 72.72% to 73.18%. The registration of this transaction under the PRC government authority was completed on 20 January 2011.

(ii) Wuhan Grand Hoyo became a subsidiary of the Group in 2010.

During the year ended 31 December 2010, a further 6.4% equity interest in Wuhan Grand Hoyo was acquired by Grand Pharm (China). As a result, the effective equity interest in Wuhan Grand Hoyo held by the Group was increased from 41.26% to 45.97%.

(iii) Grand Pharm (China) entered into an agreement with Wuhan Optics to acquire 81.0263% equity interest in Wuhan Kernel on 22 September 2011. The effective equity interest in Wuhan Kernel held by the Group is 59.69% upon the completion of the acquisition on 17 November 2011.

(iv) Pursuant to an agreement dated 14 February 2012, the Group acquired additional 2.28% equity interest in Grand Pharm (China) from the non-controlling interests of Grand Pharm (China) at a cash consideration of RMB9.66 million (approximately HK$11.91 million). The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$18,047,000 and HK$6,133,000 respectively.

(v) Grand Pharm (China) entered into an agreement with 湖北絲寶藥業有限公司 to acquire 100% equity interest in Hubei Wellness Pharmaceutical Co., Ltd. on 22 November 2012. The effective equity interest in Hubei Wellness held by the Group is 99.60% upon the completion of the acquisition on 22 November 2012.

(vi) Pursuant to share transfer agreement dated on 17 December 2012, the Group further entered into an agreement to acquire approximately 20.26% equity interest in Grand Pharm (China) at the consideration of RMB136.40 million (approximately HK$169.66 million) (representing approximately RMB6.73 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 96.21%.

(vii) Pursuant to share transfer agreement dated on 21 December 2012, the Group further entered into an agreement to acquire approximately 3.39% equity interest in Grand Pharm (China) at the consideration of RMB20.06 million (representing approximately RMB5.92 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 28 December 2012. Immediately after completion of this acquisition on 28 December 2012, the equity interest held by the Group in Grand Pharm (China) was approximately 99.6%. As a result of the acquisition detail on note (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 73.18% to 98.94%; Wuhan Grand Hoyo was increased from 45.97% to 62.15%; Hubei Fuchi was increased from 60.72% to 82.09%; Hubei Grand EBE was increased from 73.67% to 99.60% and Wuhan Kemel was increased from 59.69% to 80.70%.

(viii) Pursuant to share transfer agreement dated on 10 October 2014, Grand Pharm (China) had increased the paid-up capital to RMB470,000,000. The Group had paid RMB285,000,000 during the year ended 2014. After the payment of additional paid-up capital, the Group further acquired approximately 0.24% equity interest in Grand Pharm (China) at the consideration of RMB1.134 million (representing approximately RMB4.725 million per each percentage of equity interest in Grand Pharm (China)). This acquisition had been completed on 23 October 2014. Immediately after completion of this acquisition on 23 October 2014, the equity interest held by the Group in Grand Pharm (China) was approximately 99.84%. As a result of the acquisition detail on notes (iv), (vi) & (vii), the Group's equity interest in Wuhan Wuyao was increased from 98.94% to 99.18%; Wuhan Grand Hoyo was increased from 62.15% to 62.30%; Hubei Fuchi was increased from 82.09% to 82.29%; Hubei Grand EBE was increased from 99.60% to 99.84%, Wuhan Kemel was increased from 80.70% to 80.90%. Hubei Wellness was increased from 99.60% to 99.84%; Huangshi Feiyun was increased from 59.76% to 59.90% and Beijing Huajin was increased from 50.80% to 50.92%.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(ix) Pursuant to an agreement dated 22 February 2013, the Group established and owned 60% equity interest in Huangshi Feiyun. The effective equity interest in Huangshi Feiyun held by the Group is 59.76% on 22 February 2013.

(x) Pursuant to an agreement dated 16 July 2013, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 70.84% equity interest in Beijing Rui Yao on 31 October 2013. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao acquisition, Grand Pharm (China) will own approximately 70.56% equity interest in Rui Yao and approximately 50.80% equity interest in Beijing Huajin indirectly through Rui Yao.

(xi) The Group established and owned 99.84% equity interest in Fuchi Water. The effective equity interest in Fuchi Water held by the Group is 99.84% on 30 September 2014.

(xii) Pursuant to an agreement dated 11 December 2014, Grand Pharm (China) entered into an agreement with Beijing Kun Wu International Business Limited to acquire 29.16% equity interest in Beijing Rui Yao on 1 January 2015. Beijing Rui Yao also owning 72% equity interest in Beijing Huajin without any encumbrances and potential disputes, and upon completion of Rui Yao additional acquisition, the Group will own approximately 99.84% equity interest in Rui Yao and approximately 71.88% equity interest in Beijing Huajin indirectly through Rui Yao.

(xiii) Pursuant to an agreement dated 17 July 2015, Grand Pharm (China) entered into an agreement with Ningbo CDH Jinxiu Investment Management Company Limited (the "Ningbo CDH") to acquire 67.00% equity interest in Jiuhe on 31 July 2015 and upon completion of Jiuhe acquisition, the Group will own approximately 66.89% equity interest in Jiuhe. During the year ended 2015, a further 30.00% equity interest in Jiuhe was acquired by Grand Pharm (China). As a result, the effective equity interest in Jiuhe held by the Group was increased from 66.89% to 96.84%.

(xiv) Pursuant to an agreement dated 22 December 2014, Grand Pharm (China) entered into an agreement with Wu Liang and Fan Li Jin to acquire 73.30% equity interest in Tianjin Jingming on 1 January 2015. The effective equity interest in Tianjin Jingming held by the Group is 73.18% on 1 January 2015.

(xv) The Group established and owned 77.89% equity interest in Zhu Hai Cardionovum. The effective equity interest in Zhu Hai Cardionovum held by the Group is 77.89% on 9 October 2015.

(xvi) During the year ended 31 December 2016, the Group increase effective equity interest by 13.44% in Huang Gang Fuchi Pharmaceutical Co., Ltd. from the non-controlling interests at consideration of three subsidiaries shares of 2.59% in Wuhan Grand Hoyo; 2.11% in Wuhan Kemel and 3.47% in Hubei Grand Bio-technology Limited.

(xvii) During the year ended 31 December 2016, the Group acquired additional 1.55% and 16.05% equity interest in Wuhan Kernel from the non-controlling interests of Wuhan Kernel at a cash consideration of RMB3,000,000 and RMB20,180,000 (approximately HK$3,362,000 and HK$22,614,000). The Group recognised an decrease in non-controlling interests and decrease in other reserve of approximately HK$28,165,000 and HK$2,059,000 respectively.

(xviii) Pursuant to an agreement dated 29 June 2016, Grand Pharm (China) entered into an agreement with independent third parties to acquire 77.21% equity interest in Xi'an Beilin on 13 July 2016. Xi'an Beilin also owing 100%, 100% and 79% equity interest in Shenxi Xin Beilin Medical Company Limited (the "Shenxi Xin Beilin"), Xi'an Hanyuan Shiye Company Limited (the "Xi'an Hanyuan Shiye") and Xi'an Beilin Biological Technology Company Limited (the "Xi'an Beilin Biological") without any encumbrances and potential disputes, and upon completion of Xi'an Beilin acquisition, the Group will own approximately 77.09% equity interest in Xi'an Beilin and approximately 77.09%, 77.09% and 60.91% equity interest in Shenxi Xin Beilin, Xi'an Hanyuan Shiye and Xi'an Beilin Biological indirectly through Xi'an Beilin. During the year ended 31 December 2016, the Group derecognised Xi'an Beilin Biological Technology.

During the year ended 31 December 2017, Grand Pharm (China) acquire additional 22.79% equity interest in Xi'an Beilin from the non-controlling interests of Xi'an Beilin at a cash consideration of RMB131,512,000 (approximately HK$151,606,000), and upon completion of the further acquisition, the Group will own approximately 99.84% equity interest in Xi'an Beilin and approximately 99.84% and 99.84% equity interest in Shenxi Xin Beilin and Xi'an Huanyuan Shiye indirectly through Xi'an Beilin. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$113,123,000 and HK$38,484,000 respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xix) During the year ended 31 December 2017, Wuhan Kernel had increased the contributed capital to RMB79,200,000. After the payment of additional of contributed capital, Grand Pharm (China) disposed 4.9% equity interest in Wuhan Kernel to independent third party at a cash consideration of RMB12,740,000 (approximately HK$14,687,000). Upon the completion of the partial disposal, the Group will own approximately 91.56% equity interest in Wuhan Kernel indirectly. The Group recognised an increase in non-controlling interests and increase in other reserve of approximately HK$5,832,000 and HK$8,853,000 respectively.

(xx) During the year ended 31 December 2017, Grand Pharm (China) acquire additional approximately 7.32% equity interest in Hubei Fuchi from the non-controlling interests of Hubei Fuchi at a cash consideration of approximately RMB11,679,000 (approximately HK$13,463,000), and upon completion of the further acquisition, the Group will own approximately 89.60% equity interest in Hubei Fuchi. The Group recognised a decrease in non-controlling interests and decrease in other reserve of approximately HK$7,506,000 and HK$5,957,000 respectively. As a result of the acquisition, the Group's equity interest in Wuhan Grand Hoyo was increased from 59.71% to 60.80%; and Hubei Fuchi was increased from 82.29% to 89.60%.

(xxi) During the year ended 31 December 2018, the Company establish Grand Decade for the purpose of acquiring associate, Grand Pharma Sphere.

(xxii) During the year ended 31 December 2018, the Company acquire 100% equity interest in Tung Yang at aggregate consideration HK$2,004,227,000. Upon completion, Xudong Haipu becomes an associate of the Company.

(xxiii) Pursuant to an agreement dated 20 November 2019, the Group acquired additional of 24.6% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB73,724,700 (approximately HK$83,630,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 84.76%. The Group recognised a decrease in non-controlling interests and other reserve of approximately HK$77,803,000 and HK$5,827,000 respectively.

(xxiv) During the year ended 31 December 2019, Grand Pharm (China) entered into an agreement with 北京瑞雅科國際企業管理有限公司 to acquire 100% equity interest in Beijing Kun Wu. The effective equity interest in Beijing Kun Wu held by the Group is 99.84% upon the completion of the acquisition on 1 May 2019.

(xxv) Pursuant to an agreement dated 16 July 2020, the Group acquired additional of 3.0% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB8,990,800 (approximately HK$10,102,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 87.69%.

(xxvi) The above table lists the subsidiaries of the Group, which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors result in particulars of excessive lengths.

(xxvii) These companies are foreign and domestic owned enterprises.

(xxviii) Except the companies listed in note (xxvii), all other companies incorporated and operating in PRC are wholly domestic owned enterprises.

(xxix) Pursuant to an agreement dated 31 July 2021, the Group acquired additional of 9.98% equity interest in Wuhan Grand Hoyo from the non-controlling interests of Wuhan Grand Hoyo at a cash consideration of RMB51,980,000 (approximately HK$63,020,000), and upon completion of the further acquisition, the effective equity interest in Wuhan Grand Hoyo held by the Group is approximately 97.67%.

(xxx) In October 2021, Hubei Grand Life Science & Technology Co., Ltd. ("Grand Life Science") of the Group entered into an equity acquisition agreement with Hebei Huayang Biological Technology Co., Ltd.*, pursuant to which Grand Life Science will acquire 80% equity interest in Cangzhou Huachen BioTech Co., Ltd.* (滄州華晨生物科技有限公司, "Huachen BioTech") at a consideration of RMB107,200,000 (equivalent to approximately HK$130,852,000) to establish a presence in the glycine industry chain and lay a foundation for the establishment of the Group's leading position in the amino acid industry.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(a) Detail of subsidiaries *(Continued)*

(xxxi) East Ocean Medical became a wholly owned subsidiary of the Group in 2021. During the year ended 31 December 2021, a further 752 shares of East Ocean Medical was acquired by the Company.

(xxxii) In November 2020, the Group and Puer Weiye entered into a share purchase agreement, pursuant to which the Group will acquire 100% equity interests in Puer Weiye for a cash consideration of RMB10,000,000 (equivalents to HKD12,249,000) subject to conditions precedent. Upon completion of this acquisition, the effective equity interest in Puer Weiye held by the Group is approximately 99.84%.

(xxxiii) In July 2022, the Group entered into an equity acquisition agreement with Hubei Bafeng, pursuant to which the Group will acquire 100% equity interest in Hubei Bafeng at a cash consideration of RMB270,000,000 (equivalents to HK$313,900,000) after the relevant conditions as agreed in the acquisition agreement are fulfilled. Upon completion of acquisition, the effective equity interest in Hubei Bafeng held by the Group is approximately 99.84%. The date of completion of acquisition is 12 August 2022. Details refer to note 39(b).

(xxxiv) On 24 April 2023, the Group entered into a share purchase agreement to acquire 87.5% equity interests of BlackSwan Vascular, Inc. ("BlackSwan") at a consideration of approximately USD32,537,000 (equivalent to approximately HK$255,417,000). Upon completion of acquisition, the effective equity interest in BlackSwan held by the Group is approximately 87.50%. Details refer to note 39(a).

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests

Name of Company	Place of incorporation/ registration and operation	Proportion of ownership interests and voting rights held by non-controlling interests		Profits allocated to non-controlling interests		Accumulated non-controlling interests	
		2023	2022	**2023**	2022	**2023**	2022
Wuhan Grand Hoyo	PRC/PRC	**2.33%**	2.33%	**6,723**	5,920	**21,112**	17,464
Jiuhe	PRC/PRC	**3.16%**	3.16%	**15,146**	9,539	**16,539**	6,428
Wuhan Kernel	PRC/PRC	**8.44%**	8.44%	**4,879**	4,922	**31,584**	27,475

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Wuhan Grand Hoyo and its subsidiaries

	2023 **HK$'000**	2022 HK$'000
Current assets	**880,195**	998,895
Non-current assets	**374,778**	193,632
Current liabilities	**(326,385)**	(306,288)
Non-current liabilities	**(22,505)**	(136,720)
Equity attributable to owners of the Company	**884,971**	732,055
Non-controlling interests	**21,112**	17,464
Revenue	**1,541,877**	1,494,335
Other revenue and income	**40,908**	22,302
Expenses	**(1,294,223)**	(1,262,556)
Profit for the year	**288,562**	254,081
Profit attributable to owners of the Company	**281,839**	248,161
Profit attributable to non-controlling interests	**6,723**	5,920
Total comprehensive income for the year	**267,279**	205,165
Total comprehensive income attributable to owners of the Company	**261,051**	200,381
Total comprehensive income attributable to non-controlling interests	**6,228**	4,784
Dividend paid to non-controlling interest	**(2,580)**	–
Net cash inflow from operating activities	**289,728**	201,029
Net cash outflow to investing activities	**(76,477)**	(111,201)
Net cash outflow to financing activities	**(280,401)**	(81,840)
Effect of foreign exchange rate charges	**2,143**	(4,396)
Net cash (outflow)/inflow	**(67,587)**	3,592

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Wuhan Kernel

	2023 HK$'000	2022 HK$'000
Current assets	**258,595**	323,365
Non-current assets	**277,583**	283,200
Current liabilities	**(141,240)**	(199,366)
Non-current liabilities	**(20,725)**	(81,666)
Equity attributable to owners of the Company	**342,629**	298,058
Non-controlling interests	**31,584**	27,475
Revenue	**321,251**	301,870
Other revenue and income	**14,666**	16,764
Expenses	**(278,113)**	(260,322)
Profit for the year	**57,804**	58,312
Profit attributable to owners of the Company	**52,925**	53,390
Profit attributable to non-controlling interests	**4,879**	4,922
Total comprehensive income/(loss) for the year	**48,680**	(4,384)
Total comprehensive income/(loss) attributable to owners of the Company	**44,571**	(4,014)
Total comprehensive income/(loss) attributable to non-controlling interests	**4,109**	(370)
Dividend paid to non-controlling interest	**–**	(397)
Net cash inflow from operating activities	**91,118**	54,958
Net cash outflow to investing activities	**(22,926)**	(170,827)
Net cash (outflow to)/inflow from financing activities (excluding dividend paid to non-controlling interest)	**(104,049)**	111,900
Effect of foreign exchange rate charges	**(1,420)**	(6,481)
Net cash outflow	**(37,277)**	(10,847)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

21. PARTICULAR OF SUBSIDIARIES *(Continued)*

Notes: *(Continued)*

(b) Detail of non-wholly owned subsidiaries that have material non-controlling interests *(Continued)*

Jiu He

	2023 HK$'000	2022 HK$'000
Current assets	715,292	515,657
Non-current assets	57,294	63,197
Current liabilities	(245,326)	(374,814)
Non-current liabilities	(3,878)	(623)
Equity attributable to owners of the Company	506,843	196,989
Non-controlling interests	16,539	6,428
Revenue	1,348,942	1,039,003
Other revenue and income	5,944	964
Expenses	(875,586)	(738,109)
Profit for the year	479,300	301,858
Profit attributable to owners of the Company	464,154	292,319
Profit attributable to non-controlling interests	15,146	9,539
Total comprehensive income/(loss) for the year	471,794	(179,145)
Total comprehensive income/(loss) attributable to owners of the Company	456,885	(173,484)
Total comprehensive income/(loss) attributable to non-controlling interests	14,909	(5,661)
Dividend paid to non-controlling interest	(4,798)	(6,769)
Net cash inflow from operating activities	268,006	259,525
Net cash inflow from investing activities	9,923	10,227
Net cash outflow to financing activities (excluding dividend paid to non-controlling interest)	(377,135)	(219,084)
Effect of foreign exchange rate charges	(2,658)	(7,882)
Net cash (outflow)/inflow	(106,662)	36,017

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

22. INTANGIBLE ASSETS

	Pharmaceutical technology	Patent, trademark and capitalised development cost	Acquired technology	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost				
As at 1 January 2022	7,737	855,398	253,843	1,116,978
Acquisition of subsidiaries (note 39)	–	70,255	–	70,255
Addition	–	2,297	429,071	431,368
Exchange realignment	(591)	(67,667)	(24,042)	(92,300)
As at 31 December 2022 and 1 January 2023	7,146	860,283	658,872	1,526,301
Acquisition of assets (note 39)	–	–	317,918	317,918
Addition	–	–	305	305
Exchange realignment	(192)	(23,162)	(10,056)	(33,410)
As at 31 December 2023	**6,954**	**837,121**	**967,039**	**1,811,114**
Accumulated amortisation and impairment loss				
As at 1 January 2022	2,544	–	104,670	107,214
Provided for the year	368	–	31,973	32,341
Exchange realignment	(205)	–	(11,041)	(11,246)
As at 31 December 2022 and 1 January 2023	2,707	–	125,602	128,309
Provided for the year	350	–	28,737	29,087
Exchange realignment	(73)	–	(3,088)	(3,161)
As at 31 December 2023	**2,984**	**–**	**151,251**	**154,235**
Net carrying amounts				
As at 31 December 2023	**3,970**	**837,121**	**815,788**	**1,656,879**
As at 31 December 2022	4,439	860,283	533,270	1,397,992

The economic useful life of recognised intangible assets are as follows:

Intangible assets	Economic useful life
Pharmaceutical technology	20 years
Acquired technology	5 years–15 years
Patents, trademarks and capitalised development cost	indefinite useful lives

The patents and trademarks will expire in the coming two to five years and subject to renewal. The directors of the Company are not aware of any expected impediment with respect to the renewal of the patents and trademarks and consider that the possibility of failing in renewal is remote and the patents and trademarks will generate net cash flows for the Group for an indefinite period. Therefore, the patents and trademarks are treated as having an indefinite useful life.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

22. INTANGIBLE ASSETS *(Continued)*

The carrying amount of intangible assets were allocated to CGU as follow:

	2023 **HK$'000**	2022 HK$'000
Jiuhe	**495,562**	509,275
Tianjin Jingming	**51,613**	53,042
Xi'an Beilin	**188,268**	193,477
East Ocean	**38,816**	38,816
Shenming Medical	**9,310**	10,102
Hubei Bafeng	**66,489**	68,328
	850,058	873,040

For the purposes of impairment testing, goodwill, patents and trademarks above have been allocated to the acquired cash generating units, details of impairment assessment were set out in note 20. During the years ended 31 December 2023 and 2022, the management of the Group determined that there was no impairment loss to patents and trademarks.

23. DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised and the movements thereof during the current and prior years:

	ECL provision HK$'000	**Total** HK$'000
As at 1 January 2022	24,608	24,608
Credited to profit or loss	1,833	1,833
Exchange realignment	(1,856)	(1,856)
As at 31 December 2022 and 1 January 2023	24,585	24,585
Credited to profit or loss	1,138	1,138
Exchange realignment	(612)	(612)
As at 31 December 2023	**25,111**	**25,111**

As at 31 December 2023, the Group has unused tax losses of approximately HK$990,058,000 (2022: HK$567,126,000) available to offset against future profits. No deferred tax assets have been recognised in respect of the remaining tax losses of approximately HK$990,058,000 (2022: HK$567,126,000) due to the unpredictability of future profit streams.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 HK$'000	2022 HK$'000
Unlisted equity securities (note a)	**334,050**	542,477
Listed equity securities (note b)	**23,504**	24,843
	357,554	567,320

Notes:

(a) As at 31 December 2023 and 2022, the fair value of the unlisted equity securities was arrived on the basis of valuations carried out by an independent professional valuer, details of movements are set out in note 5(b)(vi).

(b) As at 31 December 2023 and 2022, the fair value of the listed equity securities was determined with reference to quoted market bid prices.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 HK$'000	2022 HK$'000
Listed equity security in HK (note (a))	**15,333**	14,499
Listed equity security in Australia (note (a))	**586,344**	423,596
Investments at fair value (note (b))	**170,955**	600,487
Convertible loan (note (c))	**361,958**	–
	1,134,590	1,038,582

Notes:

(a) Fair value was determined with reference to quoted market bid prices.

(b) As at 31 December 2023, the Group's investments mainly included unlisted fund with fair value measured based on valuation carried out by independent valuer, details of are set out in note 5(b)(vi), while, as at 31 December 2022, the Group's investments mainly included wealth management products with fair values determined by reference to the quoted market bid prices available on the relevant PRC market.

(c) On 22 August 2023, the Group entered into a convertible loan agreement with Grand Pharma Sphere to make available a convertible loan to Grand Pharma Sphere at an aggregate principal amount of US$48,340,000 (equivalent to approximately HK$386,485,000) with drawndown date on 22 August 2023 and maturity date on 22 August 2024. The convertible loan bears interest of 7.4% per annum and could be converted into ordinary shares of Grand Pharma Sphere with its accrued interest and principal, subject to conditions. For details, please refer to announcement dated on 21 August 2023. Details of fair value measurement are set out in note 5(b)(vi).

26. INVENTORIES

	2023 HK$'000	2022 HK$'000
Raw materials	**259,954**	306,897
Work-in-progress	**427,952**	543,611
Finished goods	**700,743**	489,958
	1,388,649	1,340,466

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. TRADE AND OTHER RECEIVABLES

	2023 HK$'000	2022 HK$'000
Trade receivables, net	**958,261**	1,093,854
Bills receivables	**1,057,238**	819,880
Deposits and prepayments (note (a))	**1,641,560**	1,853,237
Other tax receivables	**73,782**	68,700
Other receivables, net	**182,397**	190,735
	3,913,238	4,026,406
Less: non-current portion prepayments	**(845,179)**	(1,029,022)
Current portion	**3,068,059**	2,997,384

Notes:

(a) During the year ended 31 December 2023, prepayments amounted to approximately HK$1,010,804,000 (2022: HK$947,408,000) which mainly comprised of the prepayment for the acquisition of technical know-how. The prepayments mainly paid to certain third-party pharmaceutical institutes mainly located in the PRC, Australia, Canada, Germany, Denmark and India (2022: PRC, Australia, Canada and Germany) for the acquisition of certain technical knowhow for certain medication pursuant to agreements entered into between the Group and those pharmaceutical institutes.

Specially, as at 31 December 2023, the prepayment mainly comprise of the followings:

(i) The Group had prepaid of approximately USD25,000,000 (2022: USD25,000,000) (equivalent to approximately HK$195,000,000 (2022: HK$195,000,000)) to Telix Pharmaceuticals Limited related to the milestones payments pursuant to the licensing agreement. Details of which are stated in the Company published announcement dated 1 November 2020.

(ii) The Group had prepaid of approximately EUR27,750,000 (2022: USD30,000,000) (equivalent to approximately HK$239,212,000 (2022: HK$245,831,000) to ITM Isotope Technologies Munich SE related to the milestones payments of acquisition and license of certain technical know-how. Details of which are stated in the Company published announcement dated 27 December 2021.

(iii) The Group had prepaid of approximately EUR10,000,000 (equivalent to approximately HK$83,843,000) to InnovHeart S.r.l. related to the upfront payments of acquisition of certain technical know-how for the year ended 31 December 2022.

(iv) The Group had prepaid of approximately USD5,492,000 (2022: USD5,489,000) (equivalent to approximately HK$42,884,000 (2022: HK$42,884,000)) to Conavi Medical Inc. related to the milestones payments of acquisition of certain technical know-how.

(v) During the year ended 31 December 2022, the Group had recognised a prepayment of approximately USD17,718,000 (equivalent to approximately HK$138,420,000) related to acquisition of equity interest of CNCB Healthcare Investment Fund II L.P.. Upon completion of the acquisition of equity interest in CNCB Healthcare Investment Fund II L.P. during the year ended 31 December 2023, the prepayment of approximately USD17,718,000 (equivalent to approximately HK$138,730,000) is transferred to financial assets at fair value through profit or loss.

(vi) The Group had prepaid of approximately RMB75,000,000 (equivalents to approximately HK$82,520,000) to Chongqing Duoputai Pharmaceutical Co., LTD. related to the acquisition of equity interest for the year ended 31 December 2023. Details of which are stated in the Company published announcement dated 12 December 2023.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group generally allows a credit period of 30-180 days (2022: 30–180 days) to its trade customers. The Group does not hold any collaterals over the trade and other receivables. The following is an aging analysis of trade receivables presented based on the invoice date at the reporting date.

	2023 **HK$'000**	2022 HK$'000
Trade receivables	**1,061,646**	1,155,195
Less: allowance for ECL	**(103,385)**	(61,341)
Total trade receivables	**958,261**	1,093,854

The ageing analysis of the trade receivables is as follows:

	2023 **HK$'000**	2022 HK$'000
Within 90 days	**753,866**	788,026
91–180 days	**157,602**	218,252
181–365 days	**46,793**	87,576
	958,261	1,093,854

As of 1 January 2022, the carrying amount of trade receivables from contracts with customers amounted to HK$967,703,000.

The bills receivables were all with maturity within 180 days from the reporting date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

27. TRADE AND OTHER RECEIVABLES *(Continued)*

	2023 HK$'000	2022 HK$'000
Other receivables	**225,771**	221,168
Less: allowance for ECL	**(43,374)**	(30,433)
Total other receivables	**182,397**	190,735

Allowance for ECL in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivable balances directly.

The Group does not hold any collateral or other credit enhancement over its trade and other receivables balances. Trade and other receivables are non-interest bearing.

The Directors considered that the residual amounts of trade and other receivables are fully recoverable and no provision for impairment.

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	2023 HK$'000	2022 HK$'000
Cash at banks	**1,339,708**	1,443,957
Cash on hand	**–**	57
	1,339,708	1,444,014

At the end of the reporting period, cash and cash equivalents comprise of the followings:

	2023 HK$'000	2022 HK$'000
HK$	**5,058**	19,782
USD	**57,165**	121,402
Australian dollars (the "AUD")	**2,934**	2,182
Euro dollars (the "EURO")	**3,040**	621
RMB	**1,271,511**	1,300,027
	1,339,708	1,444,014

As at 31 December 2023, included in pledged bank deposits of approximately HK$3,389,000 (2022: HK$1,357,000) are pledged as collateral for bills payables.

As at 31 December 2023, the annual effective interest rate on pledged bank deposits is 1.13% (2022: 1.15%).

The remittance of cash and cash equivalents denominated in RMB out of the PRC is subject to the foreign exchange control restrictions imposed by the government of the PRC.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

29. TRADE AND OTHER PAYABLES

	2023 HK$'000	2022 HK$'000
Trade payables	**720,063**	687,731
Bills payables	**610,348**	185,129
Accruals and other payables (note)	**1,427,233**	1,517,066
Other tax payables	**72,053**	98,201
Total	**2,829,697**	2,488,127

Note:

Included in accruals and other payables, a contingent consideration payable of approximately HK$77,953,000 arising from share purchase agreement to acquire 87.5% equity interests of BlackSwan Vascular, Inc. The contingent consideration is payable based on the achievement of certain revenue targets and approval targets. The contingent consideration payable was recognised initially with reference to management's best estimates of future revenue projections, and probabilities of achieving the specified targets. As at 31 December 2023, the contingent consideration payables based on the assumption of achievement of certain revenue targets and approval targets was recognised at approximately USD9,930,000 (equivalent to approximately HK$77,953,000) in aggregate.

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period.

	2023 HK$'000	2022 HK$'000
Within 90 days	**361,607**	516,952
Over 90 days	**358,456**	170,779
	720,063	687,731

The average credit period on purchases of goods is 90 days.

The bills payables are mature within 180 days from the end of the reporting period.

30. CONTRACT LIABILITIES

	2023 HK$'000	2022 HK$'000
Amount received in advance in relation to sales of pharmaceutical products (note)	**198,173**	318,824

Notes:

(a) As at 1 January 2022, contract liabilities amounted to approximately HK$202,106,000.

(b) Contract liabilities in relation to sales of finished goods are expected to be settled within one year. The entire amount of contract liabilities as at 1 January 2023 was all recognised as revenue during current year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

31. BANK AND OTHER BORROWINGS

	2023 HK$'000	2022 HK$'000
Bank borrowings (secured) (note i)	**2,588,654**	3,741,383
Bank borrowings (unsecured) (note i)	**695,862**	–
Other borrowings (unsecured) (note ii and iii)	**23,498**	664,031
	3,308,014	4,405,414
Carrying amount repayable:		
On demand or within one year	**2,317,986**	3,243,126
More than one year but not exceeding two years	**451,636**	910,705
More than two years but not more than five years	**538,392**	251,583
	3,308,014	4,405,414
Less: non-current portion	**(990,028)**	(1,162,288)
Current portion	**2,317,986**	3,243,126

(i) As at 31 December 2023 and 2022, certain bank loans are guaranteed by China Grand Enterprises Incorporation, a related company with common controlling shareholder of the Company, and secured by the plant and machinery, buildings, right-of- use assets, interests in subsidiaries and pledged bank deposits of the Group in the PRC as detailed in note 42.

On 29 April 2021 and 23 June 2021, the Group has borrowed secured bank borrowings of HK$430,000,000 and USD75,000,000 (equivalent to HK$582,098,000) that were charged at fixed interest rate of 1.4% plus HIBOR and 1.6% plus SOFR 1 month (2022: 1.6% plus HIBOR) respectively. The bank borrowings of HK$430,000,000 were fully settled during the year ended 31 December 2023.

On 1 September 2023, the Group has borrowed secured bank borrowing of HK$791,000,000 that were charged at variable interest rate of 0.65% plus HIBOR for first six months and 1.65% plus HIBOR for next six months.

Except above, remaining bank borrowings of the Group are denominated in RMB.

As at 31 December 2023 and 2022, the bank loans are granted by banks in the PRC and Hong Kong.

Except for the bank loans of approximately HK$642,004,000 (2022: HK$1,952,531,000) that were charged at fixed interest rate 2.38% to 4.98% (2022: 2.70% to 5.50%) per annum, all other bank loans bear variable interest rates from 2.65% to 7.07% (2022: 2.70% to 7.68%) per annum.

(ii) The Group has entered into the TRS transaction with Natixis during the year ended 31 December 2021. As a result, unsecured other borrowings of USD100,000,000 (equivalent to HK$777,256,000) was raised. The Group shall pay a floating amount to Natixis, on a semi-annual basis, calculated with reference to the Equity Notional Amount at the USD-LIBOR-BBA for a designated maturity of 6 months (subject to a minimum of zero) plus a spread of 2.5% per annum (for the first two years) or 4.5% per annum (for the period after the first two years). The loan was fully settled during the year ended 31 December 2023.

(iii) On 24 April 2023, the Group entered into an share purchase agreement to acquire 87.5% equity interests of BlackSwan Vascular, Inc. Upon completion of the acquisition, the Group recognised the other borrowings of approximately USD2,096,000 (equivalent to approximately HK$16,450,000) with principle of USD2,000,000 charged at fixed interest rate 5% per annum. During the year ended 31 December 2023, BlackSwan Vascular, Inc. has raised other borrowings of approximately USD813,000 (equivalent to approximately HK$6,366,000) charged at fixed interest rate of 5% per annum. As at 31 December 2023, the other borrowing of approximately USD3,009,000 (equivalent to approximately HK$23,498,000), in aggregate of principal and accrued interest, remained outstanding. The other borrowings are unsecured.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

32. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the current reporting periods and at the date of transition of HKFRS 16:

	As at 31 December 2023		As at 31 December 2022	
	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**34,611**	**39,395**	9,785	13,559
After 1 year but within 2 years	**18,305**	**21,180**	9,663	12,838
After 2 years but within 5 years	**23,915**	**29,058**	24,370	30,638
After 5 years	**19,394**	**21,599**	26,050	29,353
	61,614	**71,837**	60,083	72,829
	96,225	**111,232**	69,868	86,388
Less: total future interest expenses		**(15,007)**		(16,520)
Present value of lease obligations		**96,225**		69,868

	As at 31 December 2023 HK$'000	As at 31 December 2022 HK$'000
Current liabilities	**34,611**	9,785
Non-current liabilities	**61,614**	60,083
	96,225	69,868

The carrying amount of the lease liabilities approximate their fair value. As at 31 December 2023, the Group leased right-of-use assets under lease liabilities with net book value approximately HK$91,204,000 (2022: HK$57,114,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

33. AMOUNTS DUE FROM/(TO) RELATED COMPANIES

Details of amounts due from related companies are as follows:

Name of related companies (note (a)):	2023 HK$'000	2022 HK$'000
Amounts due from related companies under common control of members/shareholder of the Group		
Hebei Grand Jiufu Biochemical Co., Ltd.	**31,016**	10,772
Jiangsu Grand Xinyi Pharmaceutical Company Limited	**8,621**	9,044
Huadong Medicine Co. Ltd	**10,900**	13,408
Guangdong Leiyunshang Pharmaceutical Company Limited	**836**	672
Shenyang Yaoda Leiyunshang Pharmaceutical Company Limited	**36**	37
Henan Grand Bio-Pharm.Co., Ltd	**157**	152
Guiyang Yuanda Real Estate Development Co., Ltd.	**–**	14
Yuanda Shuyang Pharmaceutical Co., Ltd.	**–**	7
China Grand Group Co., Ltd.	**944**	182
Beijing Haiwan Banshan Hotel Management Co., Ltd.	**16**	–
Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd.	**289**	–
Jiangsu Jiuyang Biopharmaceuticals Co., Ltd.	**70**	–
Xi'an Yuanda Detian Pharmaceutical Co., Ltd.	**1,068**	–
	53,953	34,288
Less: allowance for ECL	**(1,486)**	(541)
	52,467	33,747

Note:

(a) The name of related companies are English translation of Chinese name or words which included for identification purpose only and should not be regarded as the official English name or official translation of such Chinese name or words.

Details of impairment assessment as at 31 December 2023 and 2022 are set out in note 5(b)(iv).

The Group had policy regarding impairment losses on amounts due from related parties which was based on the evaluation of collectability and on the management's judgement including the current creditworthiness and the past collection history of each related party.

Members of the shareholder of the Group have controlling interests over the related companies.

The amounts due from/(to) related companies are unsecured, interest-free and recoverable/repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

34. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Intangible assets	Property, plant and equipment and right-of-use assets	Investment properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2022	144,096	37,735	16,018	197,849
Acquisition of subsidiaries (note 39)	10,538	9,621	–	20,159
Charged to profit or loss	25,303	7,467	3,801	36,571
Exchange realignment	(29,858)	(3,240)	(1,333)	(34,431)
As at 31 December 2022 and 1 January 2023	150,079	51,583	18,486	220,148
Charged to profit or loss	–	6,649	883	7,532
Exchange realignment	(4,121)	(1,430)	(503)	(6,054)
As at 31 December 2023	**145,958**	**56,802**	**18,866**	**221,626**

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to approximately HK$9,482,551,000 (2022: approximately HK$8,349,100,000) and the estimated tax liabilities of approximately HK$474,128,000 (2022: approximately HK$417,455,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

35. AMOUNT DUE TO THE IMMEDIATE HOLDING COMPANY

The amount is unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

36. DEFERRED INCOME

The movement of deferred income is set out below:

	HK$'000
As at 1 January 2022	326,818
Compensation received during the year (note (b), (d) and (e))	19,867
Credit to profit or loss	(52,119)
Exchange realignment	(29,285)
As at 31 December 2022 and 1 January 2023	265,281
Compensation received during the year (note (c))	2,103
Credit to profit or loss	(18,393)
Exchange realignment	(8,886)
As at 31 December 2023	**240,105**

Notes:

(a) On 5 February 2010, Grand Pharm (China) received a notice from Wuhan Municipal Government requesting it to relocate its existing production facilities to other places. According to the required land resumption procedures, Grand Pharm (China) submitted to the relevant municipal authorities an application for resumption of state-owned land use rights on 10 November 2010. Pursuant to the submission by Grand Pharm (China), the Land Reserve Centre had agreed to resume the land and buildings, structure and attachments (including immovable plant and equipment) located thereon and thereunder at the place where the production facilities of Grand Pharm (China) are situated (the "PRC Property").

On 25 November 2010, Grand Pharm (China) entered into an agreement with the Land Reserve Centre (the "Agreement") which provides for detailed provisions as to Grand Pharm (China)'s agreement to surrender the PRC Property to the Land Reserve Centre and to relocate its production facilities to other locations and the Land Reserve Centre's agreement to compensate for the resumption of the PRC Property and the relocation of the production facilities by Grand Pharm (China) (the "Relocation"). The compensation, as mutually agreed between Grand Pharm (China) and the Land Reserve Centre, amounts to RMB855,000,000 (the "Compensation") and will be settled by instalments in the way as further detailed below.

Pursuant to the Agreement, the Compensation for the Relocation of RMB855,000,000 is comprising (i) a relocation commencement fee of RMB100,000,000; (ii) compensation for loss of profits of RMB85,500,000; and (iii) other compensation of RMB669,500,000, which shall be payable by the Land Reserve Centre to Grand Pharm (China) as follows:

(i) RMB171,000,000, which includes the relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), is payable within 30 working days from the effective date of the Agreement (the "First Instalment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2010 upon the fulfillment of certain conditions by the Group, which includes the procurement and provision of documents necessary for the initiation of the Relocation. The remaining amount of RMB71,000,000 (equivalent to approximately HK$83,529,000) was also received by Grand Pharm (China) during the year ended 31 December 2010.

(ii) RMB85,500,000 (equivalent to approximately HK$105,329,000), is payable within 30 working days upon completion of the responsibilities of Grand Pharm (China) as stated in Clauses 11(1)(i) and (ii) of the Agreement, which include, among other things, the surrender of all relevant documents in respect of the PRC Property to the Land Reserve Centre for deregistering the title to land within 15 days after the effective date of the Agreement, and the commencement of the relocation plan and construction of production facilities at the new location(s) (the "Second Payment"). This amount was received by Grand Pharm (China) during the year ended 31 December 2011.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

36. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(a) *(Continued)*

(iii) RMB427,500,000, being 50% of the Compensation, is payable commencing from the completion of the Second Payment, by semiannual instalments of RMB85,500,000 each, and shall pay within 30 days of the last month of each instalment period until completion of the payment for the last instalment or until completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) (in which case the instalment payments will be consolidated or accelerated), whichever is earlier. During the year ended 31 December 2011 and 2013, RMB85,500,000 and RMB283,500,000 (equivalent to approximately HK$105,330,000 and HK$357,580,000) were received by Grand Pharm (China) respectively. During the year ended 31 December 2014, RMB58,500,000 (equivalent to approximately HK$73,629,000) was received by Grand Pharm (China).

(iv) the last instalment of RMB171,000,000 is payable within 30 days upon completion of relocation and delivery of vacant possession of the PRC Property to the Land Reserve Centre by Grand Pharm (China) and the receipt of all title documents in respect of the PRC Property by the Land Reserve Centre from Grand Pharm (China). During the year ended 31 December 2014, RMB171,000,000 (equivalent to approximately HK$215,219,000) was received by Grand Pharm (China).

The Compensation received or which becomes receivable is initially recognised as deferred income and subsequently recognised as income in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the Compensation is intended to compensate. The Compensation which is intended for expenses of losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised in profit or loss of the period in which it is received or becomes receivable.

The relocation commencement fee of RMB100,000,000 (equivalent to approximately HK$114,943,000), being part of the First Instalment, was received by Grand Pharm (China) upon the fulfillment of certain conditions by the Group, which included the procurement and provision of documents necessary for the initiation of the Relocation. The relocation commencement fee was recognised in the profit for the year ended 31 December 2010 upon the fulfillment of the aforesaid conditions by the Group.

The remaining part of the Compensation of RMB755,000,000 is intended to compensate the Group for (i) loss of profit as to the amount of RMB85,500,000 and (ii) the cost of removing the production facilities, the cost of establishing new production facilities in other places and the estimated future appreciation in value of the land as included in the PRC Property and other related expenses. The Compensation related to depreciable assets is recognised in profit or loss over the periods and in the proportion in which depreciation expense on those assets is recognised. The Compensation related to the loss of profits and expenses of removing the production facilities is recognised in profit or loss in the same period as the recognition of the relevant loss or expenses. In the event that the relevant loss or expenses are unable to be identified, the recognition of the related part of the Compensation to profit or loss will be deferred until the completion of the Relocation. During the years ended 31 December 2010 and 2011, the Group has received part of the Compensation of RMB71,000,000 (equivalent to approximately HK$83,529,000) and RMB171,000,000 (equivalent to approximately HK$210,659,000) respectively. During the years ended 31 December 2012, the Group did not receive any Compensation. During the years ended 31 December 2013 and 2014, the Group has received part of Compensation of RMB283,500,000 (equivalent to approximately HK$357,580,000) and RMB229,500,000 (equivalent to approximately HK$288,848,000) respectively.

During the year ended 31 December 2020, Wuhan Wuyao received one of the construction completion reports to verify partially the completion of the Relocation. Therefore, the Group recognised approximately RMB20,464,000 (equivalent to approximately HK$22,994,000) related to depreciable assets over their useful life and approximately RMB101,910,000 (equivalent to approximately HK$114,509,000) in regards to relevant loss or expenses which were unable to identified and deferred until completion of the Relocation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

36. DEFERRED INCOME *(Continued)*

Notes: *(Continued)*

(b) Wuhan Kernel entered into an agreement with The People's Government of Xiantao which provides for detailed provisions as to promote economic development of Xiantao and expand its operation scale.

During the year ended 31 December 2021, Wuhan Kernel entered into an agreement with Xiantao Municipal Bureau of Economy and Information Technology which provides subsidies for operational expansion. The compensation, as mutually agreed between Wuhan Kernel and Xiantao Municipal Bureau of Economy and Information Technology, amounts to RMB5,800,000 (equivalent to approximately HK$6,987,000). The expansion was finished during the year then ended and the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2021 over five years.

During the year ended 31 December 2022, Wuhan Kernel entered into an agreement with The People's Government of Xiantao which provides for research and development expenditure allowance, amounts to RMB900,000 (equivalents to HK$1,048,000). The Company achieve all consideration and obtain the approval from the PRC Government.

(c) On 20 September 2019, Wuhan Wuyao entered into an agreement with The People's Government of Xiantao which provides for land bidding. The compensation, as mutually agreed between Wuhan Wuyao and The People's Government of Xiantao, amounts to RMB12,111,000 (equivalent to approximately HK$13,608,000). The acquisition of land right use was finished at 29 May 2020, the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2020 over useful lives of the land right use.

During the year ended 31 December 2023, Wuhan Wuyao entered into an agreement with The People's Government of Wuhan which provides for cultivate talents allowance, amounts to RMB1,900,000 (equivalents to HK$2,103,000). The Company achieve all consideration and obtain the approval from the PRC Government.

On 15 July 2021, Hubei Wellness entered into an agreement with The People's Government of Xiantao which provides for research and development expenditure allowance, amounting to RMB2,500,000 (equivalent to approximately HK$3,011,000). As at 31 December 2021 and 2022, the Company did not achieve all consideration and obtain the approval from the PRC Government.

(d) During the year ended 31 December 2022, Wuhan Grand Hoyo entered into an agreement with The People's Government of Wuhan which provides for plant and equipment bidding. The compensation, as mutually agreed between Wuhan Grand Hoyo and The People's Government of Wuhan, amounts to RMB15,664,500 (equivalent to approximately HK$18,237,000). The acquisition of plant and equipment was completed during the year and the Company achieve the consideration and obtain the approval from the PRC Government. The compensation was recognised in the statement of profit or loss started from 31 December 2022 over useful lives of the plant and equipment.

(e) During the year ended 31 December 2022, Nanjing AuroRNA Biotech Co., Ltd. entered into an agreement with Nanjing Biotech and Pharmaceutical Valley which provides for research and development expenditure allowance, amounting to RMB500,000 (equivalent to approximately HK$582,000). As at 31 December 2022, the Company did not achieve all consideration and obtain the approval from Nanjing Biotech and Pharmaceutical Valley.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

37. SHARE CAPITAL

	Number of shares at		Share capital at	
	31 December 2023 '000	31 December 2022 '000	**31 December 2023 HK$'000**	31 December 2022 HK$'000
Authorised				
Ordinary shares of HK$0.01 each	**100,000,000**	100,000,000	**1,000,000**	1,000,000
Issued and fully paid				
As at beginning and the end of the year	**3,549,571**	3,549,571	**35,496**	35,496

Notes:

As at 31 December 2023, the Company, through a trust, held 47,761,500 (2022: 30,300,000) shares in treasury for the purpose of a share award scheme. The fair value of the purchased shares was deducted from equity as "Treasury shares reserve" for an amount of approximately HK$268,503,000 (2022: HK$187,489,000).

38. DERIVATIVE FINANCIAL INSTRUMENT

As at 31 December 2022, all of the derivative financial instruments are interest rate swaps. The Groups entered into cross currency swap contracts with banks to manage the exposure to the interest rate risk on the Groups' floating-rate borrowings by swapping a proportion of those borrowings from floating rates to fixed rates. No hedge accounting is adopted and there is no offsetting during the year.

	Notional amount		Fair value	Period	Floating interest rate	Fixed interest rate	Interest period
	RMB'000	HK$'000	HK$'000				
Liability							
RMB/HK$ cross currency swap							
At 31 December 2022	769,168	904,000	31,370	9 September 2021 to 4 September 2023	HIBOR	1.8%	Monthly

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

39. ACQUISITION OF SUBSIDIARIES

(a) Acquisition of an asset

(i) On 24 April 2023, the Group entered into an share purchase agreement to acquire 87.5% equity interests of BlackSwan Vascular, Inc. ("BlackSwan"), from its original shareholder, at a consideration of approximately USD32,537,000 (equivalent to approximately HK$255,417,000), an aggregate amount of base cash consideration of USD22,607,000 (equivalent to approximately HK$177,464,000) and contingent consideration of approximately USD9,930,000 (equivalent to approximately HK$77,953,000).

Upon completion of the acquisition, BlackSwan has become a non-wholly owned subsidiary of the Group, and its financial position and performance has been consolidated into the Group's consolidation financial statement. BlackSwan is a US incorporated company mainly engaged in the research of development of liquid embolism. At the acquisition date, BlackSwan owned product license of Lava™ and Kona™ which are identifiable intangible assets

Assets acquired and liabilities recognised at the date of acquisition

	2023 HK$'000
Property, plant and equipment	578
Intangible assets	317,918
Trade and other receivables	17
Cash and cash equivalents	1,040
Trade and other payable	(11,198)
Bank and other borrowing	(16,450)
Non-controlling interest	(36,488)
Total identifiable net assets acquired	255,417

Net cash outflow on acquisition of a subsidiary

	2023 HK$'000
Consideration paid in cash	177,464
Less: Cash and cash equivalent balances acquired	(1,040)
	176,424

The Group elected to apply the optional concentration test in accordance with HKFRS 3 "Business Combinations" and concluded that the group of 2 intangible assets is a group of similar identifiable assets because the assets are similar in nature and risks associated with managing and creating outputs are not significantly different. Consequently, the Group determined that substantially all of the fair value of the gross assets (excluding cash and cash equivalents and deferred tax assets and goodwill resulting from the effects of deferred tax liabilities) acquired is concentrated in a group of similar identifiable assets and concluded that the acquired set of activities and assets is not a business.

Therefore, the Group considered this would be an acquisition of assets in substance and as a result the difference between purchase consideration paid and the net assets acquired would be recognised as adjustments to the carrying value of the intangible asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) Business Combination

(i) In July 2022, Grand Pharma (China) entered into an equity acquisition agreement with Hubei Bafeng, pursuant to which, Grand Pharma (China) will acquire 100% equity interest in Hubei Bafeng at an amount of not more than RMB270,000,000 (equivalents to approximately HK$313,900,000 after the relevant conditions as agreed in the acquisition agreement are fulfilled. Hubei Bafeng is principally engaged in the research and development, production and operation of amino acid APIs and preparations and was acquired with the objective of further reinforcing the Group's leading position in the high-quality amino acid segment. The acquisition was completed on 12 August 2022. The acquisition has been accounted for as acquisition of business using the acquisition method.

Assets acquired and liabilities recognised at the date of acquisition

	HK$'000
Property, plant and equipment (note 16)	85,197
Right-of-use assets (note 17)	17,263
Intangible assets (note 22)	70,255
Prepayments	2,516
Inventories	27,805
Deposits, prepayments and other receivables	29,183
Cash and cash equivalents	44,677
Deferred tax liabilities (note 34)	(20,159)
Trade and other payables	(70,908)
Total identifiable net assets acquired	185,829
Goodwill (note 20)	128,071
	313,900

Net cash outflow arising on acquisition

	HK$'000
Consideration paid in cash	313,900
Less: Cash and cash equivalent balances acquired	(44,677)
	269,223

Acquisition-related costs amounting to approximately HK$220,000 have been recognised as an expense in the current year, within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Since the acquisition, Hubei Bafeng contributed approximately HK$46,487,000 to the Group's revenue and approximately HK$9,774,000 to the consolidated profit and loss for the year ended 31 December 2022.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY

	2023 HK$'000	2022 HK$'000
Non-current assets		
Interests in associates	**4,928,819**	4,764,474
Interests in subsidiaries	**2,373,578**	2,734,124
Right-of-use assets	**1,833**	533
	7,304,230	7,499,131
Current assets		
Financial assets at fair value through profit or loss	**15,333**	14,499
Other receivables	**1,013**	163,929
Cash and cash equivalents	**639**	1,507
	16,985	179,935
Current liabilities		
Lease liabilities	**1,309**	431
Financial guarantee	**7,491**	1,727
Other payable	**4,010**	19,375
Other borrowings	**–**	664,031
Amount due to the immediate holding company	**2,331**	2,331
	15,141	687,895
Net current assets/(liabilities)	**1,844**	(507,960)
Total assets less current liabilities	**7,306,074**	6,991,171
Non-current liabilities		
Lease liabilities	**567**	–
	567	–
Net assets	**7,305,507**	6,991,171
Capital and reserves attributable to owners of the Company		
Share capital	**35,496**	35,496
Reserves	**7,270,011**	6,955,675
Total equity	**7,305,507**	6,991,171

The financial statement was approved and authorised for issue by the board of directors of the Company on 19 March 2024 and are signed on its behalf by

Tang Weikun
Director

Zhou Chao
Director

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

40. STATEMENT OF FINANCIAL POSITION AND RESERVE OF THE COMPANY *(Continued)*

Movement of reserve of the Company

	Share premium HK$'000	Contributed surplus HK$'000	Treasury shares HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2022	6,523,049	121,273	(143,503)	390,886	6,891,705
Total comprehensive income for the year	–	–	–	498,406	498,406
Purchase of treasury shares	–	–	(43,986)	–	(43,986)
Dividend paid (note 13)	–	–	–	(390,450)	(390,450)
As at 31 December 2022 and 1 January 2023	6,523,049	121,273	(187,489)	498,842	6,955,675
Total comprehensive income for the year	–	–	–	892,290	892,290
Purchase of treasury shares	–	–	(81,014)	–	(81,014)
Dividend paid (note 13)	–	–	–	(496,940)	(496,940)
As at 31 December 2023	**6,523,049**	**121,273**	**(268,503)**	**894,192**	**7,270,011**

Note: Under the Companies Act 1981 of Bermuda (as amended), no dividend shall be paid or distribution be made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

41. MATERIAL RELATED PARTY TRANSACTIONS

(a) In addition to the balances with associates as disclosed in note 19, related companies as disclosed in note 33 and immediate holding company as disclosed in note 35 during the years ended 31 December 2023 and 2022, the Group entered into following transactions with its related parties:

	2023 **HK$'000**	2022 HK$'000
Sales of goods to Yangxin Fuxin (note (i))	**1,154**	4,675
Purchases of goods from Yangxin Fuxin (note (i))	**10,505**	20,056
Sales of goods to the companies with common controlling shareholder:		
Huadong Medicine Co. Ltd and its related companies (note (ii))	**155,755**	129,427
中國遠大集團有限責任公司 and its related companies (unofficially translated as "China Grand Enterprises Incorporation" (note (ii))	**15,484**	4,449
Purchase of goods from the companies with common controlling shareholder:		
Hebei Grand Jiufu Biochemical Co., Ltd (note (iii))	**113,881**	248,604
Sirtex Medical Singapore Pte Ltd. and its related companies (note (iv))	**58,048**	24,720
Processing services from the companies with common controlling shareholder:		
Hebei Grand Jiufu Biochemical Co., Ltd (note (iii))	**9,983**	–

Notes:

(i) Transactions were conducted with terms mutually agreed with the contracting parties.

(ii) The transactions constitute continuously connected transactions under Chapter 14A of the Listing Rules.

(iii) The transactions are connected transaction in 2022 and continuing connected transaction in 2023 respectively under Chapter 14A of the Listing Rules.

(iv) The transactions are connected transaction in 2023 under Chapter 14A of the Listing Rules.

(b) Details of the financial guarantee given by China Grand Enterprises Incorporation to banks in respect of the loans granted to the Group as at 31 December 2023 and 2022 are set out in note 31.

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2023 **HK$'000**	2022 HK$'000
Short-term benefits	**11,236**	12,245
Post-employment benefits	**812**	569
	12,048	12,814

The remuneration of directors and key executives is determined by the board of directors having regard to the performance of individuals and market trends.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

42. PLEDGE OF ASSETS

The Group has pledged the following assets to secure the bank borrowings and banking facilities granted to the Group:

	2023 HK$'000	2022 HK$'000
Right-of-use assets	18,533	19,349
Buildings (note 16)	97,287	107,846
Interests in subsidiaries	120,066	123,028
Pledged bank deposits (note 28)	3,389	1,357
	239,275	251,580

43. COMMITMENTS

(a) Operating lease commitment

The Group as lessor

The Group leases out certain of its office premises under operating lease arrangement. The rental income earned during the year was approximately HK$962,000 (2022: HK$557,000). The Group had future minimum lease receipts from tenants under non-cancellable operating lease which fall due as follows:

	2023 HK$'000	2022 HK$'000
Within one year	377	570
In the second to fifth year inclusive	–	77
	377	647

(b) Capital commitment

	2023 HK$'000	2022 HK$'000
Capital expenditure in respect of the investments contracted for but not provided in the consolidated financial statements	1,246,599	140,487

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

44. RETIREMENT BENEFITS SCHEMES

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Under the MPF Scheme, employees are required to contribute 5% of their monthly salaries or up to a maximum of HK$1,500 (2022: HK$1,500) and they can choose to make additional contributions. Employers' monthly contributions are calculated at 5% of the employee's monthly salaries or up to a maximum of HK$1,500 (2022: HK$1,500) (the "mandatory contributions"). Employees are entitled to 100% of the employer's mandatory contributions upon their retirement at the age of 65, death or total incapacity.

Employees of the subsidiaries and an associate in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries and an associate were required to contribute a certain percentage of the payroll of their staff to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions.

There were no forfeited contributions utilised to offset employers' contributions for the year. And at the end of the reporting period, there was no forfeited contribution available to reduce the contributions payable in the future years.

The total costs charged to profit or loss of approximately HK$110,781,000 (2022: HK$92,670,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

45. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amount due to the immediate holding company	Lease liabilities	Bank and other borrowings	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2022	2,331	19,034	3,626,541	3,647,906
Accrued interest	–	4,516	132,977	137,493
Financing cash outflows	–	(10,857)	(2,199,261)	(2,210,118)
Interest paid	–	(4,516)	(132,977)	(137,493)
New leases entered	–	64,579	–	64,579
Financing cash inflows	–	–	3,116,608	3,116,608
Exchange realignment	–	(2,888)	(138,474)	(141,362)
As at 31 December 2022 and 1 January 2023	2,331	69,868	4,405,414	4,477,613
Accrued interest	–	6,748	198,397	205,145
Financing cash outflows	–	(26,822)	(3,424,327)	(3,451,149)
Interest paid	–	(6,748)	(197,610)	(204,358)
New leases entered	–	55,129	–	55,129
Financing cash inflows	–	–	2,369,788	2,369,788
Acquisition of a subsidiary (note 39)	–	–	16,450	16,450
Exchange realignment	–	(1,950)	(60,098)	(62,048)
As at 31 December 2023	**2,331**	**96,225**	**3,308,014**	**3,406,570**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

46. LITIGATION

With reference to the disclosure in the annual reports of the Company between 2016 to 2022, Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company, is undertaking certain litigations related to a product quality incident, and it is also claiming the original shareholders of Tianjin Jingming for the indemnification of those possible loss suffered by the Company. Up to 31 December 2023, the court has concluded 74 cases, and remaining 1 case are under hearing processes at the people's court. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB39,216,000 in according to the court orders. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident until 30 June 2015, and in April 2021 Grand Pharm (China) had claimed the original shareholders of Tianjin Jingming for the indemnification of those possible loss suffered. According to the final judgement by the court, the original shareholders of Tianjin Jingming should compensate to Tianjin Jingming approximately RMB27,090,000 as the existing compensate and liquidated damages at the point of the judgement. After the execution of the enforcement order from the people's court, Grand Pharm (China) has got properties and cash at approximately RMB7.27 million in aggregate from the original shareholders of Tianjin Jingming, and the outstanding amount is still under enforcement processes. Also Grand Pharm (China) has the right to raise litigation claiming the original shareholders of Tianjin Jingming for the subsequent payment of the indemnification related to such product quality incident made by Tianjin Jingming. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

According to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5,000,000 (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the share transfer consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group raised a litigation against those vendors in related to the said Performance Guarantee, and after the first trial, second trial and retrial from the court, the court granted the final judgement in December 2020. It was concluded that the Group can get back the RMB10,000,000 share transfer consideration deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB11,200,000 share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. Up to now, the Group has followed the judgement from the court and got back the RMB10,000,000 deposited in the bank account jointly controlled by the Group and the vendors.

In June 2016, the Group has successfully applied to the court to freeze RMB20,000,000 (equivalent to approximately HK$22,414,000) assets of the original shareholders of Tianjin Jingming, an indirect non-wholly owned subsidiary of the Company since January 2015 in order to secure the Group's pending responsibilities regarding certain litigations related to an incident as stated in a press release issued by the China National Food and Drug Administration (the "NMPA") on 14 April 2016, which is about a product quality incident related to some Ophthalmic Perfluoro propane Gases produced by Tianjin Jingming. According to the terms of the sales and purchase agreement in relation to the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for such product incident. The Group is claiming them for their responsibilities and also indemnified those related losses suffered by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

46. LITIGATION *(Continued)*

(a) Writ issued in PRC by China Pharm (China) and original shareholders of Tianjin Jingming

Although such product incident is still under investigation, being taking up the social responsibilities and fulfilling related requirements, the Group had recalled all products of the related batches and also temporary suspended the production and sales of such related products. According to the terms of the Tianjin Jingming acquisition agreement, Tianjin Jingming had already fully settled the penalty of approximately RMB14,430,000 (equivalent to approximately HK$16,361,000) imposed by the NMPA. As at the date of this report, Tianjin Jingming is undertaking certain claim actions for approximately RMB16,540,000 (equivalent to approximately HK$18,762,000) given to the above incident. Given that (i) referring to the opinions from the professional organised by the NMPA, it is unable to identify the impurity that caused the product incident with the existing technology and it will need further investigation and research to find out the cause thereof; (ii) Ophthalmic Perfluoro propane Gases is not the core product of the Group, the Board considers that the suspension of the production of such product and the recall of the relevant batches by Tianjin Jingming do not have any material impact on the Group's operations or financial position; and (iii) according to the terms of the Tianjin Jingming Acquisition Agreement, the original shareholders of the Tianjin Jingming should responsible for the compensation of such product incident. Hence, the Directors are of the view that the said incident and related litigations do not have material impact to the Group. For the detail information, please refer to the Group's interim report date on 20 September 2016.

On 22 August 2016, original shareholders of Tianjin Jingming filed its objection to the Rulings of Enforcement to the Wuhan Intermediate People's Court.

On 5 September 2016, the Group received the Wuhan Intermediate People's Court's dismissal to its objection.

(b) Writs issued in PRC by Tianjin Jingming and certain plaintiffs

In April and September 2016, the Group received writs issued by certain plaintiffs against Tianjin Jingming (as defendant) and demand for payment with claiming of plaintiffs legal charges.

On 17 January 2017, Tianjin Jingming received judgements dated 17 January 2017 issued by Beijing Haidian District People's Court. The court made orders to request Tianjin Jingming to provide the compensation payment with the relevant legal charges of approximately RMB3,952,000 (equivalent to approximately HK$4,619,000).

As at the date of this report, the court has concluded 71 cases, and remaining 1 case are under hearing processes at the people's court. Among the final and effective judgements, Tianjin Jingming has paid the compensation and the related legal charges of approximately RMB38,733,000 in according to the court orders. The other related litigations of the product quality incident have not yet been concluded. Given that (1) such product is not the core product of the Group, and (2) according to the terms of the agreement for the acquisition of Tianjin Jingming, the original shareholders of Tianjin Jingming should be responsible for the compensation of such product incident, and GrandPharma (China) is also claiming the original shareholders of the Tianjin Jingming for the indemnification of those possible loss suffered. Hence, the Directors are of the view that the said incident and the related litigations do not have material impact to the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2023

46. LITIGATION *(Continued)*

(c) Writs issued in PRC by Grand Pharm (China)

Except the above litigation related to the product incident of Tianjin Jingming, according to the terms of the agreement for the acquisition of Tianjin Jingming, the vendors have undertaken to the Group that the net profit after tax (the "Actual Profit") from domestic sales (only include the net profit generated from domestic sales and shall not include the profit generated from the sales of irrigating solutions (灌注液)) of Tianjin Jingming for the period commencing on 1 January 2015 and ending on 30 June 2015 shall not be less than RMB5 million (the "Performance Guarantee"). If the above Performance Guarantee cannot be met, the Group can claim for a refund of part of the consideration in according to the formula set out in the announcement of the Company dated 22 December 2014. The Group was in a litigation against those vendors in related to the said Performance Guarantee, and in July 2017 obtained the judgement of first instance from the court and received the final judgement from the court in February 2018. It is concluded that the Group can get back the RMB10 million share transfer consideration currently deposited in the bank account jointly controlled by the Group and the vendors. The vendors should also additionally refund approximately RMB21.2 million share transfer consideration to the Group in according to the terms of the agreement for the acquisition of Tianjin Jingming. The vendors subsequently applied for rehearing of the aforesaid judgement, and the matter will be reheard according to the court's judgement in December 2019, but it has reached final judgement from Hubei Higher People's Court (湖北省高級人民法院) that the appeal from the vendors has been rejected and uphold the verdict.

Save as disclosed above, as at 31 December 2023, so far as the Directors were aware, the Group was not engaged in any litigation or claims of material importance, and no litigation or claims of material importance are pending or threatened against the Group.

47. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into new lease agreements for the use of leased properties and motor vehicles for fixed terms of 2 years to 9 years. On the lease commencement, the Group recognised approximately HK$55,129,000 of right-of-use assets and approximately HK$55,129,000 of lease liabilities.

The Group entered in the above non-cash activities which are not reflected in the consolidated statement of cash flows.

48. EVENTS AFTER THE REPORTING PERIOD

On 1 March 2024, the Group entered into the convertible loan agreement with Grand Pharma Sphere Pte Ltd. as the borrower, being a subsidiary of the Company, pursuant to which the Group has agreed to make available to Grand Pharma Sphere Pte Ltd. the convertible loan in the aggregate principal amount of US$28,660,000 (equivalent to approximately HK$223,548,000).

Save as disclosed above and elsewhere in the annual report, no subsequent events occurred after 31 December 2023 which may have a significant effect, on the assets and liabilities of future operations of the Group.

49. COMPARATIVE INFORMATION

Certain comparative figures, including disaggregation of revenue by type of goods and services have been reclassified, to conform to current year's presentation.

50. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 March 2024.