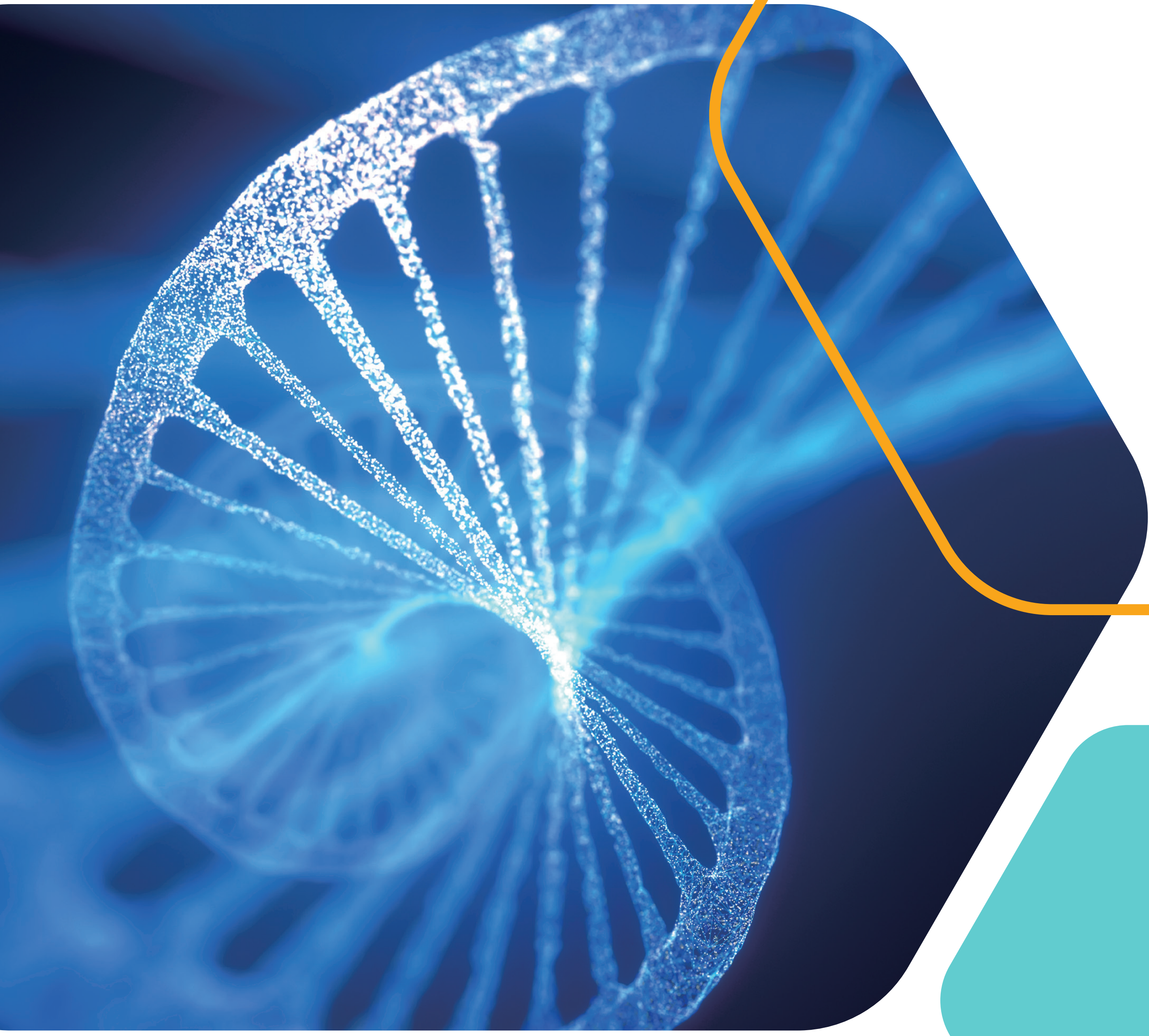
翰森製藥
HANSOH PHARMA



ANNUAL REPORT · 2023

翰森製藥集團有限公司 | Stock Code: 3692
Hansoh Pharmaceutical Group Company Limited (Incorporated in the Cayman Islands with limited liability)

Contents

Corporate Overview

The Company is one of the leading R&D and innovation-driven pharmaceutical companies in the PRC, devoting itself to meet the unmet medical needs of patients and improve the health and well-being of human beings through continuing innovation.

The Company has established a leading position in some of the largest and fastest-growing therapeutic areas in the PRC with significant unmet medical needs, including oncology, anti-infective diseases, CNS and metabolic diseases, and has successfully transformed itself into an innovative biopharma company that focuses on developing and selling innovative drugs. As at the end of the Reporting Period, the Group has been approved to market a total of seven innovative drugs, all of which were included in the NRDL. During the Reporting Period, the Group obtained marketing approvals for a total of six new products, including one innovative drug (with two indications approved), and has newly obtained 23 clinical approvals which belong to 10 innovative drugs. The revenue of innovative drugs and collaborative products amounted to approximately RMB6,865 million and its proportion of total revenue increased to approximately 67.9%, becoming a core driver for sustainable growth of the Company's performance.

The Group's major achievements during the Reporting Period were as follows:

In January 2023, HS-10390 tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of Focal Segmental Glomerulosclerosis and Immunoglobulin A Nephropathy, with the specific indications to be determined after the clinical trials.

In January 2023, the following 4 innovative drugs including new indications of the Group have been included in the 2022 NRDL released by the NHSA: Aumolertinib Mesilate Tablets (trade name: Ameile (阿美樂®)), Inebilizumab Injections (trade name: XINYUE (昕越®)), Flumatinib Mesylate Tablets (trade name: Hansoh Xinfu (豪森昕福®)) and PEG-loxenatide for injection (trade name: Fulaimei (孚來美®)). Among these drugs, Ameile, used for the first-line treatment of adult patients with locally advanced or metastatic NSCLC whose tumors have EGFR exon 19 deletions or exon 21 (L858R) substitution mutation-positive (indication approved in 2021), has been included in the 2022 NRDL for the first time; XINYUE, used for the treatment of adult patients with NMOSD who are AQP4 antibody-positive (indication approved in 2022), has also been included in the 2022 NRDL for the first time.

In May 2023, HS-10506 Tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of depression and insomnia, with the specific indication to be determined after the completion of clinical research.

In June 2023, HS-20117 (license-in as PM1080), a Category 1 innovative drug developed by the Group under the exclusive license from Biotheus, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumor.

In June 2023, HS-10516 Capsules (license-in as NKT2152), a Category 1 innovative drug developed by the Group under the exclusive license from NiKang Therapeutics, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of renal cell carcinoma.

In June 2023, Dapagliflozin Tablets, developed by the Group, has been granted drug registration approval issued by the NMPA, and is indicated to improve glycemic control in adults with type 2 diabetes mellitus.

In June 2023, HS-10518 Capsules (license-in as TU2670), a Category 1 innovative drug developed by the Group under the exclusive license from TiumBio, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the management of moderate to severe pain associated with endometriosis and management of heavy menstrual bleeding associated with uterine leiomyomas.

Corporate Overview

In June 2023, Pegmolesatide Injection (trade name: Saint Luolai (聖羅萊®)), a Category 1 innovative drug self-developed by the Group, has been granted drug registration approval issued by the NMPA, and is indicated to treat adult patients with anemia in CKD who have not received ESA and not on dialysis, as well as those who are receiving short-acting erythropoietin treatment and on dialysis.

In July 2023, the new drug application of Ibrexafungerp Tablets (R&D code: HS-10366) developed by the Group under the exclusive license from SCYNEXIS, has been accepted by the NMPA, and it is intended to be used for the treatment of adult and postmenarchal pediatric females with vulvovaginal candidiasis (VVC).

In August 2023, Jiangsu Hansoh, a wholly-owned subsidiary of the Company, entered into an exclusive collaboration agreement (the "**Collaboration Agreement**") with Antengene Corporation (Hong Kong) Limited and Antengene (Zhejiang) Pharmaceutical Technology Company Limited* (德琪(浙江)醫藥科技有限公司), both being subsidiaries of Antengene. Pursuant to the Collaboration Agreement, the Group will be exclusively responsible for the commercialization of selinexor and any product containing or comprising selinexor (marketed as XPOVIO®) in the Chinese Mainland.

In September 2023, Nintedanib Esilate Soft Capsules developed by the Group has been granted drug registration approval by the NMPA, and is indicated for systemic sclerosis-associated interstitial lung disease and chronic fibrosing interstitial lung diseases with a progressive phenotype.

In September 2023, HS-20105, a Category 1 therapeutic biological product self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of advanced solid tumors, with specific indication to be determinated after the completion of clinical research.

In October 2023, HS-20106 Injections (license-in as KER-050), a Category 1 therapeutic biological product developed by the Group under the exclusive license from Keros Therapeutics, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of low blood cell counts, or cytopenias, including anemia and thrombocytopenia, in patients with myelodysplastic syndromes, and in patients with myelofibrosis.

In October 2023, Shanghai Hansoh, a wholly-owned subsidiary of the Group, entered into a license agreement with GlaxoSmithKline Intellectual Property (No.4) Limited, a wholly-owned subsidiary of GSK, pursuant to which GSK shall obtain an exclusive worldwide license (excluding the Chinese Mainland, Hong Kong, Macau, and Taiwan regions) to develop, manufacture and commercialize HS-20089. HS-20089, a novel B7-H4 directed ADC, is being developed for the treatment of advanced solid tumor in a phase I clinical study in China.

In November 2023, Tedizolid Phosphate for Injection developed by the Group has been granted drug registration approval by the NMPA, and is indicated for acute bacterial skin and skin structure infections (ABSSSI).

In November 2023, HS-10511 Tablets, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of hypertrophic cardiomyopathy (HCM), with the specific indication to be determined after the completion of clinical research.

Corporate Overview

In December 2023, the Group further entered into a license agreement with GSK, pursuant to which GSK shall obtain an exclusive worldwide license (excluding the Chinese Mainland, Hong Kong, Macau, and Taiwan regions) to develop, manufacture and commercialize HS-20093. HS-20093, a novel B7-H3-targeted ADC is being developed for the treatment of lung cancer, sarcoma, head and neck cancers and other solid tumors in multiple phase I and II clinical studies in China.

In December 2023, the following 3 innovative drugs of the Group have been included in the 2023 NRDL published by the NHSA: Pegmolesatide Injection (brand name: Saint Luolai (聖羅萊)) has been included in the NDRL for the first time; Tenofovir Amibufenamide Tablets (brand name: Hengmu (恒沐®)) continues to be included in the 2023 NRDL; and Morinidazole Sodium Chloride for Injection (brand name: Mailingda (邁靈達®)) has been included in the general list of the 2023 NRDL.

The Company continues to improve its environmental, social and governance (ESG) performance. In the latest ESG rating report of MSCI in 2023, the Company's rating was upgraded to AA. In addition, in the current year, the Company was also listed in the Sustainability Yearbook (China Edition) 2023 published by S&P Global and ranked in the top 1% of the industry in terms of ESG score, and honoured as the "Industry Mover".

The website of the Group: **www.hspharm.com/**

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Ms. Zhong Huijuan (鍾慧娟)
(Chairlady and Chief Executive Officer)
Ms. Sun Yuan (孫遠)
Dr. Lyu Aifeng (呂愛鋒)

Independent Non-executive Directors

Mr. Lin Guoqiang (林國強)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

AUDIT COMMITTEE

Mr. Chan Charles Sheung Wai (陳尚偉) *(Chairman)*
Mr. Lin Guoqiang (林國強)
Ms. Yang Dongtao (楊東濤)

REMUNERATION COMMITTEE

Ms. Yang Dongtao (楊東濤) *(Chairlady)*
Ms. Zhong Huijuan (鍾慧娟)
Mr. Lin Guoqiang (林國強)

STRATEGY AND DEVELOPMENT COMMITTEE

Ms. Zhong Huijuan (鍾慧娟) *(Chairlady)*
Dr. Lyu Aifeng (呂愛鋒)
Mr. Chan Charles Sheung Wai (陳尚偉)
Ms. Yang Dongtao (楊東濤)

ESG COMMITTEE

Dr. Lyu Aifeng (呂愛鋒) *(Chairman)*
Ms. Yang Dongtao (楊東濤)
Mr. Chan Charles Sheung Wai (陳尚偉)

NOMINATION COMMITTEE

Ms. Zhong Huijuan (鍾慧娟) *(Chairlady)*
Mr. Lin Guoqiang (林國強)
Mr. Chan Charles Sheung Wai (陳尚偉)

JOINT COMPANY SECRETARIES

Ms. Zhong Shengli (鍾勝利)
Ms. Li Yan Wing Rita (李昕穎)

AUTHORISED REPRESENTATIVES

Ms. Sun Yuan (孫遠)
Ms. Li Yan Wing Rita (李昕穎)

LISTING INFORMATION

Ordinary Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 3692

Convertible Bonds
US$600,000,000 zero-coupon convertible bonds due in 2026 issued on January 22, 2021
The Stock Exchange of Hong Kong Limited
Convertible Bonds Code: 40546

Corporate Information

REGISTERED OFFICE IN THE CAYMAN ISLANDS

PO Box 309, Ugland House
Grand Cayman, KY1-1104
Cayman Islands

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

287 Xiangke Road
Pudong New District
Shanghai, 201210
The People's Republic of China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

5/F, Manulife Place
348 Kwun Tong Road
Kowloon
Hong Kong

AUDITOR

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

HONG KONG LEGAL ADVISOR

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37/F, Hysan Place
500 Hennessy Road
Causeway Bay
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL BANK

Lianyungang Branch of the Bank of Communications
No.45 Huanghe Road
Economic & Technical Development Zone
Lianyungang
Jiangsu
The People's Republic of China

COMPANY'S WEBSITE

www.hspharm.com

Financial Highlights

RESULTS

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
REVENUE	**10,103,806**	9,382,410	9,935,141	8,690,234	8,682,746
Cost of sales	**(1,030,863)**	(867,010)	(870,042)	(801,561)	(729,540)
Gross profit	**9,072,943**	8,515,400	9,065,099	7,888,673	7,953,206
Other income	**1,125,424**	448,687	393,188	220,637	221,219
Selling and distribution expenses	**(3,531,163)**	(3,550,230)	(3,427,818)	(3,103,018)	(3,266,380)
Administrative expenses	**(709,844)**	(597,460)	(943,423)	(758,641)	(777,692)
Research and development costs	**(2,097,046)**	(1,693,314)	(1,797,012)	(1,252,246)	(1,120,681)
Other (expenses)/gains, net	**(27,480)**	(116,513)	62,866	102,894	(8,747)
Finance cost	**(66,679)**	(58,142)	(52,818)	–	–
PROFIT BEFORE TAX	**3,766,155**	2,948,428	3,300,082	3,098,299	3,000,925
Income tax expense	**(488,652)**	(364,681)	(587,180)	(529,392)	(444,183)
PROFIT FOR THE YEAR	**3,277,503**	2,583,747	2,712,902	2,568,907	2,556,742

ASSETS AND LIABILITIES

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	**33,039,079**	30,001,879	27,160,171	20,792,060	19,575,204
Total liabilities	**7,244,306**	7,354,935	7,131,326	2,916,462	6,530,882
Total equity	**25,794,773**	22,646,944	20,028,845	17,875,598	13,044,322

Chairlady's Statement

In recent years, with the strong support of various national policies, China's pharmaceutical innovation and transformation has accelerated, and the industry as a whole has maintained a high-quality development trend. During the Reporting Period, the Group grasped the development trend of the industry, adhered to the core guidelines of innovation-driven and high-quality development, focused on proprietary R&D and explored global cooperation. Therefore, the Group made significant progress in drug research and development, commercialization and licensing collaborations, with revenues of the Group amounting to approximately RMB10,104 million and profits amounting to approximately RMB3,278 million, whose performance holds the top tier position in the industry.

During the Reporting Period, the proportion of revenue from sales of innovative drugs and collaborative products further increased from 53.4% in the previous year to 67.9%, indicating that the Group's innovative transformation has stepped into the harvesting period. As at the end of the Reporting Period, all seven of the Group's innovative drugs had been approved for marketing in China and were all included in the NRDL. We have more than 30 innovative drug projects in various therapeutic areas such as anti-tumor, anti-infection, central nervous system diseases, metabolic and autoimmune diseases, etc., and many of these products are in the stage of pivotal trials, and we have already established a rich R&D pipeline layout.

The Group adheres to the business philosophy focused on sustainable development and commits to investing in ESG management. During the Reporting Period, the Group's MSCI ESG rating was upgraded to AA, and it scored 69 points in the S&P Global CSA (Corporate Sustainability Assessment), topping the list of the pharmaceutical industry in China, and was included in the Global Sustainability Yearbook (Global Edition) 2024 published by S&P Global.

Looking forward, the Group will continue to increase investment in innovative drug R&D, to further strengthen the cornerstone of its business development, benefit patients in China and around the world with more innovative and breakthrough products. The Group will continue to enhance operational efficiency and build long-term operating value to reward our shareholders and investors.

I would like to express my gratitude to our Shareholders, members of the Board, the management of our Group, all our staff, as well as our business partners.

Ms. Zhong Huijuan
Chairlady and Chief Executive Officer

Management Discussion and Analysis

INDUSTRY REVIEW

During the Reporting Period, the orderly progress of the 14th Five-Year Plan and the deepening of reform of the medical and health care system not only expanded the supply of healthcare services and upgraded the capacity of primary healthcare, but also simultaneously enhanced the accessibility and affordability of innovative drugs. In addition, with the continuous expansion of the NRDL and the continuous support of various policies, the innovative drug market in China has grown rapidly in scale. In terms of innovation and R&D, the launch of industry-led policies such as the *Action Plan for High Quality Development of Pharmaceutical Industry (2023-2025)* * have boosted the industry's confidence in its development, and documents such as the *Technical Guiding Principles for Patient-Centred Clinical Trial Design* * have further guided the focusing of innovative resources on clinical needs and patients' benefits at the regulatory level, thus promoting the industry's high-quality development. Innovative drug companies with innovative drug products of higher clinical value and efficient and compliant commercialization capabilities are expected to achieve sustainable and high-quality performance.

BUSINESS HIGHLIGHTS

During the year ended December 31, 2023, the Group's revenue of innovative drugs and collaborative products amounted to approximately RMB6,865 million, representing a year-on-year increase of approximately 37.1%, and its proportion of total revenue increased to approximately 67.9%. In terms of innovation and R&D, the Group continued to increase R&D investment to in turn increase its innovation capability and R&D efficiency. During the Reporting Period, the Group was approved to market an innovative drug, which was included in the NRDL in the same year, and had a pool of more than 30 innovative drug projects at various clinical development stages. Meanwhile, the Group pays close attention to cutting-edge dynamics of the global pharmaceutical industry, proactively takes opportunities for co-operation in BD, accelerates the commercialisation of the Group's innovations, and continuously explores excellent opportunities to enrich its innovative product pipeline.

For the year ended December 31, 2023, the Group recorded revenue of approximately RMB10,104 million, representing an increase of approximately 7.7% compared with the corresponding period of the previous year; profit of approximately RMB3,278 million, representing an increase of approximately 26.9% compared with the corresponding period of the previous year; and earnings per share of approximately RMB0.55, representing an increase of approximately 26.6% compared with the corresponding period of the previous year. We generate our revenue primarily from sales of pharmaceutical products. Our main products are concentrated in the therapeutic areas which the Group strategically targets, including oncology, anti-infective diseases, CNS diseases, metabolic diseases and other main therapeutic areas.

For the year ended December 31, 2023, the revenue and product portfolio of our major therapeutic areas are as follows:

BUSINESS HIGHLIGHTS *(Continued)*

Therapeutic Area	Product Portfolio
Oncology (revenue from this area amounted to approximately RMB6,169 million, accounting for approximately 61.0% of the total revenue)	Ameile (Aumolertinib Mesilate Tablets), an innovative drug, Hansoh Xinfu (Flumatinib Mesylate Tablets), an innovative drug, Pulaile (Pemetrexed Disodium for Injection), Pulaitan (Enzalutamide Soft Capsules), Xinwei (Imatinib Mesylate Tablets) and Tanneng (Fosaprepitant Dimeglumine for Injection), etc.
Anti-infective diseases (revenue from this area amounted to approximately RMB1,269 million, accounting for approximately 12.6% of the total revenue)	Hengmu (Tenofovir Amibufenamide Tablets), an innovative drug, Mailingda (Morinidazole Sodium Chloride for Injection), an innovative drug and Hengsen (Micafungin Sodium for Injection), etc.
CNS diseases (revenue from this area amounted to approximately RMB1,367 million, accounting for approximately 13.5% of the total revenue)	XINYUE (Inebilizumab Injections), Ameining (Agomelatine Tablets), Ailanning (Paliperidone Extended-Release Tablets), and Oulanning (Olanzapine Tablets), etc.
Metabolic diseases and others (revenue from this area amounted to approximately RMB1,299 million, accounting for approximately 12.9% of the total revenue)	Fulaimei (PEG-Loxenatide for Injection), an innovative drug, Saint Luolai (Pegmolesatide Injection), an innovative drug, Ruibote (Ra bepra zole Sodium Enteric-coated Tablets), Fulaidi (Repaglinide Tablets), Fulairui (Canagliflozin Tablets) and Puruian (Ambrisentan Tablets), etc.

INNOVATIVE DRUG PRODUCTS

During the Reporting Period, seven of the Group's approved innovative medicines (Ameile, Hansoh Xinfu, Mailingda, Fulaimei, Hengmu, XINYUE, and Saint Luolai) have been included in the NDRL.

Ameile

Ameile (Aumolertinib Mesilate Tablets) is the first innovative third-generation EGFR-TKI drug wholly developed in China. In December 2021, Ameile obtained approval to be used as the first-line treatment for adult patients with locally advanced or metastatic NSCLC whose tumors have EGFR exon 19 deletions or exon 21 (L858R) substitute mutation positive, and has been included in the 2022 NRDL after negotiations in January 2023. In 2020, Ameile obtained approval for the treatment of patients with locally advanced or metastatic NSCLC with T790M mutation, who have progressed on or after EGFR-TKI therapy, and was also successfully renewed in the 2022 NRDL in January 2023.

INNOVATIVE DRUG PRODUCTS *(Continued)*

Ameile *(Continued)*

In February 2021, Ameile met its primary end point as first-line treatment for patients with locally advanced or metastatic EGFR-mutated NSCLC in the Phase III clinical data. Its concrete clinical data, which were presented at the ASCO meeting in June 2021, showed that the median progression free survival (mPFS) of the first-line treatment of NSCLC achieved 19.3 months. Updates from the ASCO meeting in June 2022, showed that the median progression-free survival (CNS PFS) for first-line treatment of NSCLC with CNS metastasis reached 29.0 months. In 2023, there were a number of academic publications on Ameile, including two major clinical studies presented at the Annual Meeting of the AACR 2023 and the Annual Meeting of the ASCO 2023. In addition, a series of clinical research information and achievements related to Ameile have been published at the Annual Meeting of the ELCC 2023, the Annual Meeting of the WCLC 2023, the Annual Meeting of the ESMO 2023 and the Annual Meeting of the ESMO ASIA 2023, one of which was selected as a LBA at ESMO ASIA.

Since the launch of its in two indications, Ameile is in Phase III pivotal registration clinical trials for a series of indications, including post-operative adjuvant and first-line chemotherapy combinations. In terms of other combinations, the clinical trials of Ameile in combination with the HS-10241, the Company's proprietary cMET small molecule, entered Phase III pivotal registration clinical trial stage, which is intended for the treatment of patients with locally advanced or metastatic NSCLC with EGFR mutation accompanied by MET amplification who have failed treatment with EGFR-TKI.

Ameile has been recommended as Class I or Preferred by eight national diagnosis and treatment guidelines, including the Guidelines of CSCO for the treatment of Non-small Cell Lung Cancer in 2023* (《中國臨床腫瘤會非小細胞肺癌診療指南(2023 版)》). Ameile's patent titled "EGFR Inhibitor and its Preparation and Application" was also awarded the 24th "China Patent Gold Award"*. The Group continues to advance the regulatory review process for aumolertinib marketing authorization applications by the MHRA and the EMA.

Hansoh Xinfu

Hansoh Xinfu (Flumatinib Mesylate Tablets) is the second-generation Bcr-Abl TKI. Hansoh Xinfu was included in the NRDL after negotiations in 2020 and was successfully renewed in the 2022 NRDL in January 2023. Hansoh Xinfu is used for the treatment of chronic myelogenous leukemia. Based on the results of existing clinical trials, its efficacy is better than that of imatinib. Further, no pleural effusion or cardiotoxicity which occurs in the use of other second-generation Bcr-Abl TKI has been observed, and its safety profile is more favorable. The product has been adopted for long-term application by an increasing number of patients. Hansoh Xinfu is recommended as the first-line treatment for chronic myelogenous leukemia in the Guidelines for Diagnosis and Treatment of Chronic Myelogenous Leukemia* (《慢性髓性白血病診斷與治療指南》) released by the National Health Commission and the Guidelines of CSCO for the treatment of Malignant Hematologic Diseases* (《中國臨床腫瘤會惡性血液病診療指南》).

INNOVATIVE DRUG PRODUCTS *(Continued)*

Mailingda

Mailingda (Morinidazole Sodium Chloride for Injection), the Group's first self-developed innovative drug, was included in the NRDL after negotiation in 2017, and was successfully renewed in November 2019, in December 2021 (with zero price reduction) and successfully renewed again in the general list in December 2023. Mailingda is the new generation of nitroimidazole-class drug indicated for treatment of pelvic inflammatory disease in women, as well as combined surgery for the treatment of suppurative appendicitis and gangrenous appendicitis. It has a better safety profile than the previous generation of typical drug named ornidazole. Mailingda is recommended for the treatment of intra-abdominal infection in the Chinese Guideline for the Diagnosis and Treatment of Intra-abdominal Infection (2019 Edition)* (《中國腹腔感染診治指南 (2019 版)》).

Fulaimei

Fulaimei (PEG-Loxenatide for Injection) is the first innovative drug launched leveraging on the Group's proprietary PEGylation technology. It delivers significant efficacy in lowering blood glucose with favorable safety profile, and only requires a weekly administration. It is the first long-acting GLP-1 innovative drug wholly developed in China, which provides a new treatment option to diabetes patients in China. Fulaimei was first included in the NRDL after negotiation in 2020 and was successfully renewed in the 2022 NRDL in January 2023. Fulaimei has been included in the Prevention and Therapy Guidelines for Type 2 Diabetes in China (2020 Edition)* (《中國 2 型糖尿病防治指南(2020 版)》) released by the Chinese Diabetes Society (CDS) since April 2021.

Hengmu

Hengmu (Tenofovir Amibufenamide Tablets) is the novel Tenofovir prodrug self-developed by the Group. The product is also the first wholly developed oral dose medicine indicated for the treatment of hepatitis B virus (HBV) infection in China. Hengmu was approved for marketing in June 2021 and was included in the NRDL in the same year through negotiation. It was successfully renewed in the 2023 NRDL in December 2023.

Hengmu is a novel nucleotide reverse transcriptase inhibitor. By optimizing the compound structure, Hengmu has higher cell membrane penetration rate, making it easier to enter liver cells to achieve liver-targeting effect in order to effectively improve drug plasma stability and reduce systematic exposure of tenofovir in patients. It provides a safer option for long-term treatment. The 144-week data update of Phase III pivotal study of Hengmu was selected as a LBA and presented at the 74th Annual Meeting of the American Association for the Study of Liver Diseases, and the results of the study once again demonstrated its efficacy and safety as a long-term treatment for chronic hepatitis B patients. In addition, the 48-week data of Phase III pivotal study of Hengmu was published in *Aliment Pharmacol Therapeutics* and the 96-week data was published in the *Journal of Clinical and Translational Hepatology,* both of which have demonstrated the preferential anti HBV efficacy and bone and renal safety of Hengmu.

Hengmu has been included in the Chronic Hepatitis B Prevention and Control Guidelines (2022 Edition)* (《慢性乙型肝炎防治指南(2022 年版)》) as one of the first-line recommendation of antiviral therapy for chronic hepatitis B in February 2023, and has also been included in the Guidelines of CSCO for the treatment of Hepatocellular Cancer (2022 Edition)* (《中國臨床腫瘤學會肝癌診療指南(2022 年版)》) as Class I recommendation.

INNOVATIVE DRUG PRODUCTS *(Continued)*

XINYUE

XINYUE (Inebilizumab Injections) is a targeted CD19 B-cell depleting antibody for adult patients with AQP4-IgG+ NMOSD developed by our collaborator, Viela Bio (which was acquired by Horizon Therapeutics plc in March 2021, and Horizon Therapeutics plc was acquired by Amgen in December 2023). It was approved for marketing by the U.S. Food and Drug Administration (FDA), the Japanese Ministry of Health, Labour and Welfare, and the European Commission in June 2020, March 2021 and April 2022, respectively.

On May 24, 2019, the Group obtained an exclusive license from Viela Bio to develop and commercialize XINYUE in designated territories (i.e. the Chinese Mainland, Hong Kong and Macau regions) for NMOSD as well as other designated potential indications. Our collaborator, Amgen, is currently investigating global multi-centre clinical trials in IgG4-related diseases (IgG4-RD) and myasthenia gravis (gMG), including Chinese centres. In March 2022, XINYUE was approved for marketing in the Chinese Mainland and included in the 2022 NRDL after negotiation in January 2023. XINYUE has been included in the Chinese Guidelines for the Diagnosis and Treatment of Optic Neuromyelitis Optica Spectrum Disorders (2021 Edition)* (《中國視神經脊髓炎譜系疾病診斷與治療指南(2021 年版)》) with a Class A recommendation.

Saint Luolai

Saint Luolai (Pegmolesatide Injection), a Category 1 innovative drug which has been self-developed by the Group over the past 15 years, is a long-acting peptide-based ESA promoting the proliferation of red blood cells in the body. In June 2023, Saint Luolai has been approved for two indications to treat anemia in CKD adult patients who have not received ESA and not on dialysis, as well as those who are receiving short-acting erythropoietin treatment and on dialysis. Saint Luolai was included in the 2023 NRDL in December 2023 for the first time through negotiation for its two indications.

Saint Luolai has a high selectivity agonist EPO Receptor (EPOR). It effectively binds to EPOR homodimers, promoting erythropoiesis. Saint Luolai exhibits comparable erythropoietic effects to traditional ESAs but demonstrates lower binding to non-erythropoietic heterodimers (EPOR + CD131), which may offer potential safety advantages. The data of the Phase III pivotal clinical trial of Saint Luolai were published in *eClinicalMedicine,* a sub-journal of *The Lancet,* demonstrating that, as a once-monthly peptide-based highly specific EPO receptor agonist, it has a significantly extended half-life compared to short-acting ESAs and enables once-every-4-week dosing, which enhances patient convenience while improving treatment compliance.

R&D AND INNOVATION

Focus on innovation is the core driving force of our Company's development. The Group has continuously increased its investments in R&D over the years, built complete R&D platforms, established a number of proprietary technologies, developed and commercialized a number of innovative drug products, as well as prepared a series of innovative drugs which are currently at different stages of R&D. Our professional R&D team consists of about 1,671 research fellows at four R&D centres in Shanghai, Lianyungang and Changzhou, as well as Maryland, United States. We have several national-level R&D designations, including the National Technology Center* (國家級技術中心), Post-doctoral Research Station* (博士後科研工作站) and Key National Laboratory* (國家重點實驗室).

During the year ended December 31, 2023, we submitted 37 formal patent applications in China and 57 were granted in China; we submitted 112 formal overseas patent applications and 27 were granted.

R&D AND INNOVATION *(Continued)*

R&D pipeline update

During the year ended December 31, 2023, the Group had more than 50 clinical trials of innovative drugs being investigated, covering more than 30 innovative drug products. During the Reporting Period, in the Chinese Mainland, the Group added eight new innovative drugs that entered the clinical stage for the first time:

First Approved Clinical Trial Time	Drugs in development (targets, if applicable)	Indications
January 2023	HS-10390 Tablets	focal segmental glomerulosclerosis and immunoglobulin A nephropathy
May 2023	HS-10506 Tablets	depression and insomnia
June 2023	HS-20117 Injections (cMET-EGFR)	advanced solid tumor
June 2023	HS-10516 Capsules (HIF-2α)	renal cell carcinoma
June 2023	HS-10518 Capsules (GnRH)	moderate to severe pain associated with endometriosis and management of heavy menstrual bleeding associated with uterine leiomyomas
September 2023	HS-20105 (Trop2)	advanced solid tumor
October 2023	HS-20106 Injections (ActRIIA ligand trap)	low blood cell counts, or cytopenias, including anemia and thrombocytopenia, in patients with myelodysplastic syndromes, and in patients with myelofibrosis
November 2023	HS-10511 Tablets	hypertrophic cardiomyopathy (HCM)

R&D progress of key products

The anti-tumor product HS-10241 is an oral and highly selective MET-tyrosine kinase inhibitor (TKI). The Phase I trial results of HS-10241 as mono therapy in patients with advanced NSCLC were published in the international journal *JTO Clinical and Research Reports*. In addition, Phase Ib trial results of HS-10241 in combination with Ameile demonstrated that the combination was well tolerated and showed encouraging anti-tumor activity in the treatment of advanced NSCLC previously treated with an EGFR-TKI with EGFR mutation and MET amplification. Currently, the combination with Ameile is in Phase III pivotal trial and is intended to treat patients with locally advanced or metastatic NSCLC with EGFR mutations associated with MET amplification who progressed on a prior EGFR-TKI.

The anti-tumor product HS-10365 is a highly potent and selective RET TKI. The Phase I incremental trial data of HS-10365 as mono therapy presented at the 114th Annual Meeting of the AACR 2023 showed a manageable safety profile and favorable pharmacokinetic properties. The promising anti-tumor activity was observed in patients with RET gene fusion-positive NSCLC, either with or without previous treatments. The pivotal trial of HS-10365 is ongoing for patients with locally advanced or metastatic NSCLC who are positive for the RET gene fusion.

R&D AND INNOVATION *(Continued)*

R&D progress of key products *(Continued)*

The anti-tumor product HS-20089 is a novel ADC targeting B7-H4. The Phase I trial result was selected as a LBA at the Annual Meeting of the ESMO 2023 and verbally reported on. The Phase I trial result demonstrated good tolerability and anti-tumor activity in advanced solid tumors as well as encouraging clinical efficacy in triple-negative breast cancer (TNBC). Phase II clinical trials are currently ongoing for patients with recurrent or metastatic ovarian cancers and endometrial cancers.

The anti-tumor product HS-20093 is a novel ADC targeting B7-H3 composed of a fully humanized anti-B7-H3 monoclonal antibody covalently linked to topoisomerase inhibitor (TOPOi) payload. Data from the ARTEMIS-001 Phase I trial (NCT05276609), for HS-20093 in advanced solid tumors, was presented at the ASCO 2023 in which initial clinical activity was observed in small cell lung cancer, non-small cell lung cancer and sarcoma with multiple confirmed responses and a manageable safety profile. HS-20093 is being developed for the treatment of lung cancer, sarcoma, head and neck cancers and other solid tumors in multiple phase I and II clinical trials in China.

The metabolic diseases product HS-20094, is a dual-action glucagon-like peptide-1 (GLP-1) and glucose-dependent insulinotropic polypeptide (GIP) receptor agonist. Its Phase I trial showed good safety and tolerability in the healthy subjects, and demonstrated signals of lowering blood sugar and body weight. Currently, there are two Phase II clinical trials ongoing, one is on patients with type 2 diabetes mellitus and another is on subjects who are overweight or obese.

BD

The Group adheres to in-house R&D and external BD collaboration as important parts of the ordinary and usual course of our business. In addition to investing in internal R&D, in order to enhance the product pipeline, the Group also proactively explores opportunities with relatively high commercial potential, and actively engages in platform cooperation globally, thus forming a R&D pipeline layout with differentiated competitive strengths. In terms of license-in, as at the end of the Reporting Period, the Company had introduced a cumulative total of nine clinical-stage collaborative projects and all of them have been approved for clinical trials in China, as well as two projects in the commercialisation stage. The Group also actively pursues license-out opportunities for its own pipeline products and completed two external licensing approvals during the Reporting Period.

During the Reporting Period, the expenses of BD projects incurred and recognised as R&D expenditure were approximately RMB229 million in total. US$85 million BD licensing fees was received from GSK, our collaborator.

Key License and Collaboration

In October and December 2023, the Group entered into licence agreements with GSK respectively. Pursuant to these agreements, GSK was granted exclusive worldwide licences (excluding the Chinese Mainland, Hong Kong, Macau and Taiwan regions) to develop, manufacture and commercialise HS-20089 and HS-20093, both of which are antibody-drug conjugate (ADC) and currently being investigated in various stages of clinical studies in China. The Group is eligible to receive an upfront payment of US$85 million for HS-20089 and up to US$1.485 billion, subject to achievement of relevant milestone events, with respect to HS-20089, and eligible to receive an upfront payment of US$185 million for HS-20093 and up to US$1.525 billion, subject to achievement of relevant milestone events with respect to HS-20093.

BD *(Continued)*

Key License and Collaboration *(Continued)*

In August 2023, the Group entered into the Collaboration Agreement with Antengene. Pursuant to the Collaboration Agreement, the Group will be exclusively responsible for commercialization of selinexor and any product containing or comprising selinexor (marketed as XPOVIO) in the Chinese Mainland. XPOVIO is the world's first orally selective inhibitor of the nuclear export protein, being developed for the treatment of various hematological malignancies and solid tumors. XPOVIO is approved in the Chinese Mainland in combination with dexamethasone for the treatment of adult patients with relapsed/refractory multiple myeloma who have received prior therapies and whose disease is refractory to at least one proteasome inhibitor, at least one immunomodulatory agent, and an anti-CD38 monoclonal antibody.

Progress of co-operation projects

HS-20117, for which the Group was granted an exclusive license by Biothus in China (including the Hong Kong, Macau and Taiwan regions), has been granted a clinical trial notice issued by the NMPA in June 2023.

HS-10516 Capsules, for which the Group was granted an exclusive license by NiKang Therapeutics in China (including the Hong Kong, Macau and Taiwan regions), has been granted a clinical trial notice issued by the NMPA in June 2023.

HS-10518 Capsules, for which the Group was granted an exclusive license by TiumBio in China (including the Hong Kong, Macau and Taiwan regions), has been granted a clinical trial notice issued by the NMPA in June 2023.

HS-20106 Injection, for which the Group was granted an exclusive license by Keros Therapeutics in the Chinese Mainland, Hong Kong and Macau regions, has been granted a clinical trial notice issued by the NMPA in October 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

Adhering to our core values of "responsibility, integrity, hard work and innovation", the Group has long been committed to improving the accessibility of innovative medicines in areas of critical clinical needs. At the same time, through our unremitting efforts over the past year, we have achieved remarkable results in various aspects such as innovative achievements, strengthening of governance, green development, talent cultivation and access to healthcare, thus laying a solid foundation for the Company's long-term development. We are continuously improving the disclosure of our governance, strategies, risks, indicators and targets on key ESG issues, including climate risk and drug accessibility, and are moving towards a higher level of ESG management to address the concerns of investors, community members, employees, suppliers, clinical trial subjects, the environment and ecosystems, customers, and patients at large.

In 2023, the Board of the Company insisted on fulfilling its supervisory responsibilities through the ESG Committee to regularly review the strategies and systems for risk prevention, the consistency and integration of the ESG strategies with the business strategies, and the key ESG performance reflecting the results of the comprehensive ESG enhancement, as well as to make a forward-looking response to address hidden or potential risks that were identified.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) *(Continued)*

In order to respond to the increasingly drastic global climate change and take responsibility for protecting human health, during the Reporting Period, the Company made a further commitment to achieve carbon neutrality by 2055, based on the environmental targets set for 2021. At the same time, we comprehensively enhanced our 2030 environmental targets by not only quantitatively increasing our efforts in energy conservation and hazardous substance reduction, but also adding a quantitative reduction target for wastewater pollutants. We continue to carry out third-party verification of GHG Scope 1, Scope 2 and Scope 3, optimise our processes, promote energy and material efficiency, and steadily move closer to achieving our long-term carbon neutrality goal through practical efforts.

During the Reporting Period, the MSCI ESG rating of the Group was upgraded to AA, and the Group was placed among the leading position in the industry for key issues such as corporate governance, product safety and quality, and access to healthcare. Prior to the release of the report, the Group was selected as a member of the *2024 Sustainability Yearbook (Global Edition)* published by S&P and once again ranked first in the Chinese pharmaceutical industry in the 2023 S&P Global CSA (Corporate Sustainability Assessment). During the Reporting Period, the Company's innovative drug patent, Aumolertinib, was awarded the China Patent Gold Award, the highest honor in China's intellectual property sector. In addition, we also won the Gold Award in *The Asset* ESG Corporate Awards 2023 and HRoot 2023 "Outstanding Employer" award for Greater China.

We are actively responding to the United Nations Sustainable Development Goals, and in the process of realising the ESG concept, we are integrating it more closely with our corporate development strategy, promoting good practices to our industry partners and supply chain, and striving to make high-quality green innovations benefit more patients. We will continue to adhere to the philosophy of being "patient-centred and innovation-driven" and make the contributions that are expected of us as a responsible corporate citizen.

LIQUIDITY AND FINANCIAL RESOURCES

Currently, the Group follows a set of funding and treasury policies to manage its capital resources and mitigate potential risks. The Board considers various funding sources depending on the Group's funding needs to ensure that the financial resources have been used in the most cost-effective and efficient way. We also closely monitor uses of cash resources and strive to maintain a healthy liquidity for the needs of our business and operations.

For the year ended December 31, 2023, the Group's operating activities generated a net cash inflow of RMB3,116 million. The capital expenditure during the Reporting Period was RMB348 million, mainly relating to the construction and purchase of additional buildings and workshops, as well as the purchase of equipment, motor vehicles and software required for production, R&D and administrative activities, etc. The cash flow of financing activities for the Reporting Period mainly consisted of the payment for dividends of RMB652 million.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

The Group's financial position remains sound. As at December 31, 2023, we had cash and bank balances of RMB22,435 million (as at December 31, 2022: RMB17,615 million), financial assets at fair value through profit or loss of RMB512 million (as at December 31, 2022: RMB2,544 million), other financial assets of RMB1,910 million (as at December 31, 2022: RMB1,464 million). As at December 31, 2023, our financial assets at fair value through profit or loss and other financial assets primarily comprised investments in financial products issued by commercial banks. As each of the financial products were subscribed with different banks under different terms and are of different nature and none of the financial products exceeds 5% of the applicable percentage ratios on a standalone basis, the Group's purchase of financial products during the year ended December 31, 2023 do not constitute notifiable transactions of the Company under the Listing Rules. As at December 31, 2023, the Group's gearing ratio (calculated as total liabilities divided by total assets) was approximately 21.9% (as at December 31, 2022: 24.5%).

Most of the Group's assets and liabilities are denominated in Renminbi and United States Dollars. The Group manages its foreign exchange risk by closely monitoring its net foreign exchange exposure to reduce the impact of foreign exchange fluctuations.

PLEDGE OF GROUP ASSETS

As at December 31, 2023, none of the Group's assets was subject to any encumbrance, mortgage, lien, charge or pledge.

CONTINGENT LIABILITIES

As at December 31, 2023, the Group had no material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD

During the Reporting Period, the Group did not have any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at December 31, 2023, the Group did not have any plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

During the Reporting Period, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures.

EMPLOYEES AND EMOLUMENTS POLICY

As at December 31, 2023, the Group had a total of 9,123 employees, whose remuneration is determined based on their performance and experience as well as the prevailing market salary levels.

The staff costs, including remuneration of the executive Directors, social welfare and other benefits, were approximately RMB2,681 million for the year ended December 31, 2023. We also provide regular training to employees designed to strengthen staff commitment to us and improve staff knowledge in a number of important areas of our services, such as knowledge about the Company and our products as well as sales, laws and regulations applicable to our operation, requirements under applicable Good Manufacturing Practice (GMP) or other certifications, quality control, production safety and corporate culture.

EMPLOYEES AND EMOLUMENTS POLICY *(Continued)*

The Company has conditionally approved and adopted the RSU Scheme on May 27, 2019 to recognize contributions by selected participants and give incentives thereto in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group. Participants may include employees of the Group (such as director, chief executive officer, vice president, financial controller, company secretary, members of senior management or key technical personnel) as well as any other person selected by the Board at its sole discretion from time to time (subject to compliance with the applicable Listing Rules).

On April 21, 2023, pursuant to the RSU Scheme, the Company allotted and issued 11,000,000 new ordinary shares (aggregate nominal value: HK$110) to Computershare Hong Kong Trustees Limited (the "**RSU Trustee**"), holding such shares for the benefit of the participants of the RSU Scheme pursuant to the terms of the RSU Scheme, with the issue price per share of HK$2.29 as measured by the Company, which was arrived at after taking into consideration the number of existing treasury shares and the purchase prices of the RSUs at the time of measurement, and the closing price per share of the Company of the immediately preceding business day being HK$14.96. During the Reporting Period, the RSU Trustee was instructed by the Company to purchase an aggregate of 10,028,000 shares from the open market. The RSU Trustee shall hold such shares for the benefit of selected participants. As at December 31, 2023, a balance of 9,614,700 Shares was held by the RSU Trustee for the RSU Scheme. For details of the RSU Scheme, please refer to the section headed "Statutory and General Information – D. Post-IPO RSU Scheme" in Appendix IV to the prospectus of the Company dated May 31, 2019.

During the Reporting Period, RSUs representing up to an aggregate of 20,304,400 shares had been granted by the Company pursuant to the RSU Scheme. As at December 31, 2023, RSUs representing up to an aggregate of 52,290,594 shares of the Company will be available for future grants. Among the grants during the year ended December 31, 2023, all RSUs granted to Ms. Sun Yuan (representing 1,300,000 shares) and Dr. Lyu Aifeng (representing 600,000 shares), both being executive Directors of the Company and details of which are set out in the announcement of the Company dated April 27, 2023, only involve existing RSUs of the Company held or to be held by the RSU Trustee, and no new shares were or will be allotted or issued for the vesting of RSUs for the Directors of the Company. The grant of RSUs to them form part of their remuneration package under their service contracts with the Company and are therefore exempted from the reporting, announcement and independent shareholders' approval requirements under Rules 14A.73(6) and 14A.95 of the Listing Rules.

PROSPECTS

In the future, we will continue to intensify our innovation efforts, accelerate the implementation of our R&D results, and actively engage in external collaborations to enrich our product pipeline and promote acceleration of the commercialisation process, so as to better meet the unmet medical needs of patients in China and around the world. The Company will also continue to deepen its operational reforms and adhere to regulatory compliance to ensure the healthy and sustainable development of the Company, as well as actively fulfill its corporate social responsibility and promote the realisation of value for all stakeholders.

Corporate Governance Report

The Board is pleased to present the Corporate Governance Report for the Reporting Period.

A. CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of governance that properly protects and promotes the interests of all Shareholders and enhances corporate value and accountability.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code contained in Appendix C1 to the Listing Rules and the Company has adopted the Corporate Governance Code as its own code of corporate governance.

The Company has complied with all applicable code provisions in effect during 2023 as set out in part 2 of the Corporate Governance Code during the Reporting Period, save for code provisions C.2.1 as disclosed in this report.

B. BOARD OF DIRECTORS

Board of Directors

The businesses of the Company are managed and conducted by the Board. The Board is responsible for leading and controlling the Group, promoting the success of the Company by guiding and overseeing the affairs of the Group, and making decisions objectively in the best interests of the Company.

The Board will regularly review the contribution required from a Director to perform his/her responsibilities to the Group, and whether the Director is spending sufficient time performing them. Each Director should also disclose to the Company in a timely manner for any change, the number and nature of offices held in public companies or organizations and other significant commitments.

To oversee particular aspects of the Company's affairs, the Board has established five Board committees, including the Audit Committee, the Remuneration Committee, the Strategy and Development Committee, the ESG Committee and the Nomination Committee. The Board has delegated to the Board committees the responsibilities as set out in their respective terms of reference.

The Company has arranged appropriate insurance coverage in respect of liability arising from legal action against its Directors, and will conduct annual review on such insurance coverage.

B. BOARD OF DIRECTORS *(Continued)*

Board Composition

As at December 31, 2023, the Board comprised of three executive Directors (including the Chairlady and Chief Executive Officer) and three independent non-executive Directors.

Position	Name
Executive Director	Ms. Zhong Huijuan *(Chairlady and Chief Executive Officer)* Ms. Sun Yuan Dr. Lyu Aifeng
Independent Non-executive Director	Mr. Lin Guoqiang Mr. Chan Charles Sheung Wai Ms. Yang Dongtao

Notes:

Ms. Zhong Huijuan and Ms. Yang Dongtao were re-elected as executive Director and independent non-executive Director, respectively, by the Shareholders at the annual general meeting held on June 1, 2023.

The biographical details of the Directors and the relationships of Board members are set out in the section headed "Biographical Details of Directors and Senior Management" in this Annual Report.

Independent Non-executive Directors

The Board has complied with the requirements of the Listing Rules at any time during the Reporting Period. The Company has appointed three independent non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise, and the independent non-executive Directors represent over one-third of the Board.

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

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provisions of the Corporate Governance Code so as to ensure the establishment of sound corporate governance practices and procedures by the Company. During the Reporting Period, the Board has:

(1) considered, formulated and reviewed the Company's policies and practices on corporate governance;

(2) reviewed and monitored the training and continuous professional development of Directors and senior management;

B. BOARD OF DIRECTORS *(Continued)*

Corporate Governance Functions *(Continued)*

(3) reviewed and monitored the Company's policies and practices in compliance with legal and regulatory requirements as required under the applicable requirements of the Listing Rules;

(4) reviewed and monitored the Directors' and relevant employees' compliance with the Company Code; and

(5) reviewed the Company's compliance with the Corporate Governance Code and relevant disclosure.

Responsibilities of the Board and the Management

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

Chairlady and Chief Executive Officer

Code provision C.2.1 of the Corporate Governance Code states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company has appointed Ms. Zhong Huijuan ("**Ms. Zhong**") as both the chairlady and the chief executive officer of the Company. Due to the nature and the extent of the Group's operations and Ms. Zhong's in-depth knowledge and experience in the PRC pharmaceutical industry, the Board considers that the balance of power and authority under the present arrangement is not impaired and this structure will enable the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of chairlady of the Board and the chief executive officer of the Company at a time when it is appropriate by taking into account the circumstances of the Group as a whole.

Re-election of Directors

Code provision B.2.2 states that every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the Articles of Association, one third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and any Director appointed by the Board or elected by the Shareholders to fill a casual vacancy or as an addition to the Board shall hold office until the first annual general meeting of the Company after his/her appointment and be subject to re-election at such meeting.

The Company has entered into a service contract with each of the executive Directors for a term of three years and an appointment letter with each of the independent non-executive Directors for a term of three years. Directors are subject to retirement by rotation and re-election pursuant to the Articles of Association and the Listing Rules.

B. BOARD OF DIRECTORS *(Continued)*

Re-election of Directors *(Continued)*

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association. The Nomination Committee is responsible for reviewing the Board composition, monitoring the appointment/re-election and succession planning of Directors.

Training and Continuous Professional Development

Directors

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment, in order to make sure that he/she has appropriate understanding of the business and operations of the Company and is fully aware of his/her duties and responsibilities under the Listing Rules and other relevant statutory requirements.

Directors are encouraged to participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the Reporting Period, the Company arranged internal briefings for Directors and sent reading material on relevant topics to Directors for their reference and studying, including reading materials in relation to legal and regulatory updates. Internal training sessions were also arranged for the Directors, which covered topics including but not limited to new regulations and practices related to ESG, and the amendments of the Listing Rules.

Directors	**Type(s) of Training[Note]**
Executive Directors	
Ms. Zhong Huijuan	B
Ms. Sun Yuan	B
Dr. Lyu Aifeng	B
Independent Non-executive Directors	
Mr. Lin Guoqiang	A and B
Mr. Chan Charles Sheung Wai	B
Ms. Yang Dongtao	A and B

Note:

Types of Training
A: Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops
B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications

B. BOARD OF DIRECTORS *(Continued)*

Training and Continuous Professional Development *(Continued)*

Joint Company Secretaries

The company secretaries are responsible for facilitating the Board process, as well as communications among the Board members, Shareholders and management. During the Reporting Period, Ms. Zhong Shengli, together with Ms. Li Yan Wing Rita of Tricor Services Limited, which is an external service provider specializing in integrated business, corporate and investor services, have been engaged by the Company as its joint company secretaries. The biographical information of Ms. Zhong Shengli and Ms. Li Yan Wing Rita are set out in the section headed "Biographical Details of Directors and Senior Management" of this Annual Report. Ms. Zhong Shengli and Ms. Li Yan Wing Rita have confirmed that they have taken not less than 15 hours of relevant professional training during the Reporting Period in compliance with Rule 3.29 of the Listing Rules.

The primary contact person at the Company is Ms. Zhong Shengli.

Committees

As at December 31, 2023, the Board has established the following committees: Audit Committee, Remuneration Committee, Strategy and Development Committee, ESG Committee and Nomination Committee. These committees operate in accordance with their respective terms of reference established by the Board. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the websites of the Company and of the Stock Exchange and are available to Shareholders upon request. The majority of the members of each Board committee (except the Strategy and Development Committee) are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" of this Annual Report.

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely, Mr. Chan Charles Sheung Wai (**"Mr. Chan"**) (chairman of the Audit Committee), Mr. Lin Guoqiang (**"Mr. Lin"**) and Ms. Yang Dongtao (**"Ms. Yang"**).

The major duties and responsibilities of the Audit Committee are set out clearly in its terms of reference, which primarily include assisting the Board in reviewing the financial information and reporting system, risk management and internal control system, relationship with external auditors, and reviewing arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Audit Committee also performs the responsibilities as set out in the Corporate Governance Code.

The consolidated financial statements of the Group for the year ended December 31, 2023 have been reviewed by the Audit Committee and the external auditor. The Audit Committee is of the view that the consolidated financial statements of the Group for the year ended December 31, 2023 comply with the applicable accounting standards and the Listing Rules, and that sufficient disclosures have been made.

B. BOARD OF DIRECTORS *(Continued)*

Audit Committee *(Continued)*

During the year ended December 31, 2023, two meetings were held by the Audit Committee to review the consolidated financial statements for the year ended December 31, 2022 as well as the effectiveness of the internal audit function of the Company and any recommendations on the management and control of internal risks and to review the unaudited financial statements for the six months ended June 30, 2023. All members of the Audit Committee attended the meetings of the Audit Committee.

Remuneration Committee

The Remuneration Committee consists of three members: two independent non-executive Directors, namely, Ms. Yang (chairlady of the Remuneration Committee) and Mr. Lin, and one executive Director, namely, Ms. Zhong.

The primary duties of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual executive Directors and non-executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration; reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules; and considering other matters relating to share schemes under Chapter 17 of the Listing Rules.

During the Reporting Period, the Remuneration Committee approved a written resolution under the authority of the RSU scheme to the allot and issue of 11,000,000 new shares (with an aggregate nominal value of HK$110) to and held by the RSU Trustee for the benefit of the participants of the RSU Scheme. The Remuneration Committee also held a meeting in April 2023 to consider and recommend to the Board the remuneration and other benefits paid by the Company to the Directors and senior management and grant of RSUs pursuant to the RSU Scheme. The Remuneration Committee, after evaluating the contributions made by the grantees, approved the grant of RSUs representing a total of 20,304,400 Shares to 685 grantees pursuant to the RSU Scheme, among which no RSUs were granted to the Company's Directors and senior managers with a vesting period less than 12 months since the grant date and a clawback mechanism was in place. For further details, please refer to our announcement dated April 27, 2023.

During the year ended December 31, 2023, the Remuneration Committee held one meeting, and all members of the Remuneration Committee attended the meeting of the Remuneration Committee. The emoluments of Directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time commitment in the Group's affairs and performance of each Director as well as salaries paid by comparable companies and the prevailing market conditions.

B. BOARD OF DIRECTORS *(Continued)*

Strategy and Development Committee

The Strategy and Development Committee consists of four members: two executive Directors, namely, Ms. Zhong (chairlady of the Strategy and Development Committee) and Dr. Lyu Aifeng (**"Dr. Lyu"**), and two independent non-executive Directors, namely, Mr. Chan and Ms. Yang.

The primary duties of the Strategy and Development Committee include conducting research and making suggestions for the medium-to-long-term development strategy and development plans of the Group, considering the annual operation plans and investment proposals of the Group, as well as conducting research and making suggestions for any expansion to new markets, launch of new business and R&D of new products of the Group.

During the year ended December 31, 2023, the Strategy and Development Committee held one meeting to evaluate the development of the Group in 2023 and consider the future development strategies and plans, including but not limited to, the discussion about major investments, financing, reorganization, and plans for expansion to new markets, launch of new business and development of new products. All members of the Strategy and Development Committee attended the meeting of the Strategy and Development Committee.

ESG Committee

The ESG Committee consists of three members: one executive Director, namely Dr. Lyu (chairman of the ESG Committee), and two independent non-executive Directors, namely Mr. Chan and Ms. Yang.

The primary duties of the ESG Committee include guiding and formulating the Group's ESG vision, objectives, strategy and structure to ensure the meeting of the Group's needs and compliance with applicable laws, regulations, regulatory requirements and international standards; supervising the development and implementation of the Group's ESG vision, strategy and structure; guiding and reviewing the identification and prioritization of key ESG issues of the Group; reviewing major ESG trends and related risks and opportunities; assessing the adequacy and effectiveness of the Group's ESG structure accordingly; formulating relevant policies to effectively promote the relationship between the Group and its stakeholders and to protect the reputation of the Group; reviewing the Company's ESG reports and other ESG related disclosures and making recommendations to the Board, etc..

During the year ended December 31, 2023, the ESG Committee held two meetings to review ESG enhancement initiatives and consider work plans, review and identify the material ESG issues of the Group and their priorities, identify risks relating to climate change, formulate countermeasures etc. All members of the ESG Committee attended meeting of the ESG Committee.

B. BOARD OF DIRECTORS *(Continued)*

Nomination Committee

The Nomination Committee consists of three members: one executive Director, namely Ms. Zhong (chairlady of the Nomination Committee), and two independent non-executive Directors, namely Mr. Lin and Mr. Chan.

The primary duties of the Nomination Committee include reviewing the structure, size and composition of the Board (including skills, knowledge and experience of Directors), identifying individuals suitably qualified to become members of the Board, selecting or making recommendations to the Board on nominations, appointment or re-appointment of Directors and succession planning for Directors, and assessing the independence of independent non-executive Directors.

During the year ended December 31, 2023, the Nomination Committee held one meeting to nominate candidates to the Board, to review the independence of the Company's independent non executive Directors and to review the structure, size and composition of the Board and the Board Diversity Policy. All members of the Nomination Committee attended meeting of the Nomination Committee.

To ensure independent views and input are available to the Board, Nomination Committee is responsible for evaluating the Board performance on an annual basis. Evaluation is based on the following factors of Director to ensure a strong independent element on the Board and improve Board effectiveness: (1) professional qualification and industry experience; (2) sufficient time devoted to the Board; (3) participate into training continuously and review the relevant policy of the Company regularly. During the Reporting Period, the Board has reviewed the board independence mechanism and considered that the implementation of the mechanism was effective.

Director Nomination Policy

The Company has adopted a Director nomination policy which aims to render clear basis and procedures for the nomination and appointment of Directors. The Board will take into account factors such as character and integrity, qualifications, skills, experience, independence and diversity of the candidates, and whether or not the candidate is willing and able to devote adequate time to discharge duties as a member of the Board and Board committee(s) upon receipt of the proposal of appointment of new Directors or the nomination proposal made by Shareholders at general meetings of the Company. When Directors are re-elected at general meetings, apart from the above standards, the Board will also review the overall contributions and services of retiring Directors to the Company and their level of participation and performance in the Board.

The Nomination Committee is responsible for reviewing the Director nomination policy to ensure its effectiveness.

B. BOARD OF DIRECTORS *(Continued)*

Board Diversity Policy

The Company has adopted the Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of the Board in order to enhance its effectiveness. Pursuant to the Board Diversity Policy, the Board seeks to achieve its diversity through the consideration of a number of factors when selecting candidates to the Board, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service.

The Directors have a mix of knowledge and skills of, including, management, strategic development, business development, sales, R&D, industry research, investment management, finance, corporate finance, risk management, education, chemistry and the pharmaceutical industry. They obtained degrees in various areas including chemistry, organic chemistry, biomedical engineering, biomedical sciences, business administration, commerce, engineering, economics and corporate management. The age of Directors ranges from 37 years old to 81 years old.

The Nomination Committee is responsible for reviewing the Board Diversity Policy, monitoring the implementation of the Board Diversity Policy and reviewing the Board Diversity Policy from time to time to ensure its continued effectiveness. As at December 31, 2023, the Board comprises 6 Directors, of which 50% of them are female and 50% of them are male. Having reviewed the implementation and effectiveness of Board Diversity Policy and the Board's composition, the Nomination Committee considered that the requirements of the Board Diversity Policy had been met and therefore, no measurable objective for the implementation of the Board Diversity Policy is required to be set. However, from time to time, the Nomination Committee will monitor the Board's composition and consider setting measurable objectives and reviewing such objectives to ensure their appropriateness and ascertain the progress made towards achieving Board diversity.

As at December 31, 2023, the employees of the Group (including senior management) comprise about 62.4% male and 37.6% female. To promote diversity, the Company takes effective actions to recruit and attract a wide range of diverse talents and ensure that candidates from different backgrounds and gender identities are fairly and impartially considered. The Company also provides diversity training to employees and implements employee development plan, as well as compensation and promotion decisions regardless of gender and marital status.

Attendance of Board Meetings and Committee Meetings

Pursuant to the Corporate Governance Code, board meetings should be held at least four times a year at approximately quarterly intervals. During the Reporting Period, the Board has held four meetings.

Pursuant to the Corporate Governance Code, the chairman of the Board should at least hold meetings annually with the independent non-executive Directors without the presence of the other Directors. During the Reporting Period, the chairlady of the Board held one meeting with the independent non-executive Directors in compliance with the Corporate Governance Code.

Details of the attendance of Directors at the Board meetings, committee meetings and general meetings during the year under review are set out below:

B. BOARD OF DIRECTORS *(Continued)*

Attendance of Board Meetings and Committee Meetings *(Continued)*

Number of meetings attended/held

Directors	Board	Audit Committee	Remuneration Committee	Strategy and Development Committee	ESG Committee	Nomination Committee	General Meeting
Number of meetings held	4	2	1	1	2	1	1
Executive Directors							
Ms. Zhong Huijuan	4/4	–	1/1	1/1	–	1/1	1/1
Ms. Sun Yuan	4/4	–	–	–	–	–	1/1
Dr. Lyu Aifeng	4/4	–	–	1/1	2/2	–	1/1
Independent Non-executive Directors							
Mr. Lin Guoqiang	4/4	2/2	1/1	–	–	1/1	1/1
Mr. Chan Charles Sheung Wai	3/4*	2/2	–	1/1	2/2	1/1	1/1
Ms. Yang Dongtao	4/4	2/2	1/1	1/1	2/2	–	1/1

* On April 27, 2023, Mr. Chan Charles Sheung Wai was unable to attend the Board meeting due to other business engagement and appointed Ms. Yang Dongtao to attend and vote on his behalf in respect of the matters being considered at the 2nd meeting of the Board in 2023, and attendance of Mr. Chan Charles Sheung Wai was not counted for that meeting.

Compliance with the Model Code for Securities Transactions by Directors

The Company has adopted the Company Code on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules. Specific enquiry has been made to all Directors and all of them have confirmed that they have complied with the Company Code for the Reporting Period.

No incident of non-compliance of the Company Code by the employees was noted by the Company.

Remuneration of Senior Management

There were 5 employees classified as senior management for the year ended December 31, 2023. The remuneration of the senior management by band is set out below:

	Number of employee(s)
Below RMB500,000	0
RMB500,000 to RMB1,000,000	0
RMB1,000,001 to RMB1,500,000	0
Above RMB1,500,000	5
	5

C. ACCOUNTABILITY AND AUDIT

Directors' Responsibility in respect of the Financial Statements

The Board acknowledges its responsibility for preparing the accounts which seek to give a true and fair view of the state of affairs of the Company and the Group, with necessary supporting assumptions or qualifications. The Directors also ensure the timely publication of the financial statements of the Company.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavors to ensure a balanced, clear and understandable assessment of the Company's position and prospects when the Company presents financial reports and other information to general public and regulators pursuant to the Listing Rules and other statutory requirements.

The Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board continues to prepare the financial statements on a going concern basis.

Risk Management and Internal Control

The Company is dedicated to establishing and maintaining a robust internal control system. The Company has adopted and implemented risk management policies in various aspects of our business operations to address various potential risks in relation to our strategic plan, R&D, infrastructure, procurement, manufacturing, distribution and retail. Our risk management system also covers general finance management, human resources, information technology, projects, logistics, subsidiaries and policy matters.

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

The Company has established a three-layer organizational framework (business departments, functional departments and internal control and audit department) to identify, analyze, categorize, control, and monitor various risks relating to our strategy, operation, market development, financial matters, legal matters, investment and financing, information security, anti-bribery and anti-money laundering. For risk identified, the Group promptly implements internal controls and continually optimizes related processes to mitigate potential risks.

Please refer to "Business–Production and Quality Control–Risk Management" in the Prospectus for details of risk management policies.

The internal audit department of the Company examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. The Directors have conducted an annual review of the effectiveness of the risk management and internal control system of the Group during the year ended December 31, 2023, covering all major functions including finance, operation and compliance. Based on the review results, the Directors are of the opinion that the system is effective and sufficient.

The Company has also adopted an information disclosure policy which has set out comprehensive guidelines in respect of handling and dissemination of inside information. The Board has established an inside information team entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to false media report or market speculation which may materially affect the trading price or volume of the shares.

C. ACCOUNTABILITY AND AUDIT *(Continued)*

Auditor and Auditors' Remuneration

The statement of the external auditors of the Company about their reporting responsibilities on the financial statements is set out in this Annual Report on pages 55 to 59.

During the Reporting Period, the remuneration payable to the external auditor of the Group, being Ernst & Young, is set out as follows:

	Fee paid/payable for the Reporting Period *(RMB'000)*
Service category	
Audit services	**3,230**
Non-audit services	**500**
– Engineering settlement	**500**
Total	**3,730**

D. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has adopted the shareholder communication policy with an aim to ensure that the Shareholders of the Company and as appropriate, the general investors to have timely access to the same and readily comprehensible comprehensive information about the Company.

The Company has reviewed the implementation and effectiveness of the above Shareholder communication policy during the Reporting Period and is satisfied that the policy has been implemented effectively, having considered the availability of multiple channels of communication and engagement in place below.

The Company conveys the information to the Shareholders and investors mainly through the following channels:

- the website of the Stock Exchange on which the information disclosed to the market and submitted to the Stock Exchange is published;
- the website of the Company (**www.hspharm.com**);
- the interim reports and annual reports; and
- the annual general meeting and other general meetings.

To facilitate the exchange of views between the Shareholders and the Board, the chairlady of the Board and chairman/chairlady of the Board committees (or their delegates (if applicable)), appropriate executive management personnel and the external auditor will attend the annual general meetings and answer the questions raised by the Shareholders.

D. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS *(Continued)*

Rights of Shareholders

Pursuant to Article 12.3 of the Articles of Association, any two or more members holding not less than one-tenth of the paid-up capital of the Company and carrying the right of voting at general meetings of the Company, or any one member which is a recognized clearing house (or its nominee(s)) shall be entitled to require the convening of a general meeting with a written requisition deposited at the principal office of the Company in Hong Kong and specifying the objects of the meeting and signed by the requisitionist. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition.

Shareholders may also contact the Investor Relations Department of the Company from time to time to understand the information published by the Company. The Company will inform the Shareholders of the designated e-mail address and enquiry hotline of the Company so that they can make any inquiries of the Company.

Enquiry to the Board

Enquiry may be made to the Board at the principal place of business of the Company in Hong Kong at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong.

The Company publishes on its website (**www.hspharm.com**) the latest company news relating to the Group. The public is welcome to provide opinions and make inquiries through the Company's website.

Amendments to the Constitutional Documents

At the annual general meeting of the Company held on June 1, 2023, a special resolution was passed by the shareholders of the Company, (i) to approve amendments to certain provisions of the memorandum of articles of association of the Company for the purpose of, among others, reflecting and aligning to the requirements of Appendix A1 to the Listing Rules, and (ii) to adopt the second amended and restated memorandum and articles of association of the Company incorporating and consolidating the proposed amendments to the memorandum and articles of association. Details of the amendments were set out in the Company's announcement dated April 27, 2023 and circular dated April 28, 2023. The latest version of Articles of Association are also available on the websites of the Company and the Stock Exchange.

Dividend Policy

The Company has adopted a dividend policy pursuant to the Corporate Governance Code. The Board may declare and pay dividends by way of cash or by other means that the Board considers appropriate. While deciding on the declaration or payment of any dividends and the amount of any dividends, the Board will take into account, among other things, the Company's results of operations, cash flows and financial condition, operating and capital expenditure requirements, distributable profits, contractual and legal restrictions and other factors that the Directors may consider relevant.

Directors' Report

The Board is pleased to submit this report and audited consolidated financial statements of the Group for the year ended December 31, 2023.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group is principally engaged in the R&D, production and sales of a series of pharmaceutical products in China. The shares of the Company were listed on the Main Board of The Stock Exchange on June 14, 2019.

Operating segment information of the Company for the year ended December 31, 2023 is presented in Note 4 to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation, principal businesses and shares in issue/ registered capital, is set out in Note 1 to the consolidated financial statements. There are no substantial changes in the principal business of the Group during the Reporting Period.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended December 31, 2023 and the financial positions of the Company and the Group as at the same date are set out on pages 60 to 66 of the consolidated financial statements.

The Board recommends a final dividend of HK$14.22 cents per share for the year ended December 31, 2023 (2022: HK$5 cents). Subject to the approval of the Shareholders at the AGM, the proposed final dividend will be payable on Wednesday, July 17, 2024 to Shareholders whose names appear on the register of members of the Company at the close of business on Tuesday, June 25, 2024, being the record date. Together with an interim dividend of HK$7.07 cents per share, the full-year dividend for 2023 amounted to HK$21.29 cents per share.

The Group is not aware of any arrangement under which a Shareholder has waived or agreed to waive any dividends.

BUSINESS REVIEW

Details of the business review and performance of the Group during the Reporting Period (including the description of the main risks and uncertainties facing the Group, material events affecting the Company that have occurred since the end of 2023, the key financial performance indicators and prospects) are set out in the "Chairlady's Statement" and "Management Discussion and Analysis" sections on pages 8 to 19 of this Annual Report, which form part of this report.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on Thursday, June 13, 2024. The notice of AGM will be published on the websites of the Company (**www.hspharm.com**) and the Stock Exchange (**www.hkexnews.hk**) to the Shareholders at least 21 days before the AGM.

Directors' Report

CLOSURE OF REGISTER OF MEMBERS

To determine the right to attend and vote at the AGM, the Company will close the register of members between Friday, June 7, 2024 and Thursday, June 13, 2024 (both days inclusive), during which period no transfer of shares will be registered. To ensure the effect of right to attend and vote at the AGM, all Shareholders shall return all the documents together with the related stocks to the Company's branch share registrar and transfer office, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 pm on Thursday, June 6, 2024.

In order to ascertain the Shareholders' entitlements to the proposed final dividend, the register of members of the Company will be closed from Friday, June 21, 2024 to Tuesday, June 25, 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all share transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, June 20, 2024.

SUMMARY OF FINANCIAL INFORMATION

According to the audited consolidated financial statements and after reclassification as appropriate, the published results, assets, liabilities and net assets of the Group for the past five fiscal years is presented on the "Financial Highlights" section of this Annual Report on page 7. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

The Company had 5,933,350,070 ordinary shares in issue as at December 31, 2023. The changes in the share capital and share option (if any) of the Company during the year, together with the reasons therefor, are set out in Note 28 to the consolidated financial statements.

USE OF PROCEED FROM ISSUANCE OF CONVERTIBLE BONDS

In January 2021, the Company successfully completed the issuance and listing of US$600 million zero-coupon convertible bonds due in 2026 to the professional investors only. The net proceeds from the bonds were approximately US$595.65 million, which have been and will be used for R&D expenditure, including but not limited to allocating funding to clinical trials for innovative drugs, innovative drugs development and/or in-license opportunities, upgrading and expanding existing manufacturing facilities and procuring equipment for its production facilities and for general corporate purposes. In December 2022, the Company repurchased bonds with an aggregate principal amount of US$4 million. As at December 31, 2023, US$591.65 million was utilized and the net proceeds had been fully utilized. As at December 31, 2023, the net proceeds utilized by the Group were as follows:

Purpose	Percentage of the total amount	Net proceeds (US$100 million)	Utilized from the issuance date to December 31, 2023 (US$100 million)	Repurchased from the issuance date to December 31, 2023 (US$100 million)	Unutilized as at December 31, 2023 (US$100 million)	Expected time frame
R&D expenditure, including but not limited to allocating funding to clinical trials for innovative drugs, innovative drugs development and/or in-license opportunities	65%	3.8717	3.8317	0.0400	–	Not applicable
Upgrading and expanding existing manufacturing facilities (including R&D facilities) and procuring equipment for its production facilities	25%	1.4891	1.4891	–	–	Not applicable
General corporate purposes	10%	0.5957	0.5957	–	–	Not applicable
Total	100%	5.9565	5.9165	0.0400	–	

The net proceeds were used according to the purpose previously disclosed by the Company. To the best knowledge of the Directors, there has neither been any material change nor delay in the use of proceeds during the year ended December 31, 2023. Due to the changes in the market environment and the Company's intensified efforts in innovation and transformation, the Company's investment in R&D has increased year-on-year, accelerating the rate of utilization as compared to prior estimates.

USE OF PROCEEDS FROM PLACING

On April 22, 2020, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and Citigroup Global Markets Limited (the "**Placing Agents**"), pursuant to which the Placing Agents agreed to place 130,380,000 ordinary shares in the Company, or, failing which, to purchase themselves on a fully underwritten basis to not fewer than six placees who are professional, institutional or other investors selected and procured by the Placing Agents and whose ultimate beneficial owners are independent third parties (the "**Placing**"). The Placing price was HK$26.75 per share.

The net proceeds from the Placing were approximately HK$3,477.20 million, which have been and will be used on R&D, including but not limited to our existing and future domestic and overseas drug development programs, expanding our R&D team, and investment in technologies to further enhance our R&D capabilities and enrich our product pipeline, as disclosed in the announcement of the Company dated April 22, 2020. HK$934.17 million was utilized as at December 31, 2023 and HK$2,543.03 million remains unutilized. As at December 31, 2023, the net proceeds utilized by the Group were as follows:

Purpose	Percentage of the total amount	Net proceeds (HK$100 million)	Utilized from the issuance date to December 31, 2023 (HK$100 million)	Unutilized as at December 31, 2023 (HK$100 million)	Expected time frame
R&D, including but not limited to our existing and future domestic and overseas drug R&D, projects, expanding our R&D team, and investment in technologies	100%	34.7720	9.3417	25.4303	The balance is expected to be fully utilized by 2030

The net proceeds were used, and the remaining proceeds will be used, according to the purpose previously disclosed by the Company. To the best knowledge of the Directors, there has neither been any material change nor delay in the use of proceeds during the year ended December 31, 2023.

PRE-EMPTIVE RIGHT

There are no provisions for pre-emptive rights under the Articles of Association or the laws of Cayman Islands (the jurisdiction in which the Company was incorporated) which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

TAX RELIEF AND EXEMPTION

The Company has no knowledge of any tax relief and exemption provided to the Shareholders due to their holding of the Company's securities.

RESERVES

Details of movements in the reserves of the Group and the Company during the Reporting Period are set out in Notes 31 and 39 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

The Company may pay dividends out of its share premium account and retained earnings.

As at December 31, 2023, the Company had distributable reserves for share premium of RMB14,095,522,000 (2022: RMB13,931,541,000).

Details of movements in the reserves of the Company during the year ended December 31, 2023 are set out in Note 39 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the sales to the Group's five largest customers and the purchases from the Group's five largest suppliers accounted for less than 30% of the total sales and 30% of the total purchases of the year, respectively.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The business of the Group is subject to national, provincial and local environmental laws and regulations in China. The main pollutants generated during the production process of the Group's products include waste water, waste gas and solid waste. The Group has established a pollution control system in order to comply with the applicable laws and regulations to adopt compliant and harmless disposal methods for different types of hazardous wastes. For hazardous waste solvent that can be recycled, we carry out resource recycling, while other hazardous waste solvent that cannot be recycled is entrusted to institutions with hazardous waste treatment qualifications for incineration or recycling. For non-hazardous waste, we entrust the environmental sanitation department of the plant to carry out disposal in a unified manner. The Group seeks to reduce, treat and recycle the waste generated in the production process and improve the Group's production technique to reduce the pollutants discharged to the environment.

The Company will publish an "Environmental, Social and Governance Report" in accordance with Rule 13.91 and the "Environmental, Social and Governance Reporting Guide" contained in Appendix C2 to the Listing Rules as soon as practicable and in any event within 5 months from the end of the financial year of the Company.

DONATIONS

During the Reporting Period, the Group made charitable and other donations in an aggregate amount of approximately RMB32 million.

Directors' Report

RELATIONSHIP WITH STAKEHOLDERS

The Group recognizes that the interests of stakeholders are vital to the sustainable development of its business operation and is committed to maintaining effective communication with the major stakeholders, including customers, suppliers and employees to enhance the relationship and cooperation for the long-term development of the Group.

The Group's customers are pharmaceutical product distributors. According to the industry practice, we will not engage our distributors to provide marketing and promotional services for our products. The Group's in-house sales and marketing team enhances the professionals' knowledge and understanding of the usage, clinical effects and advantages of the Group's drug products through its promotion efforts. The Group generally entered into annual distribution agreements with distributors. The Group believes that this distribution model helps extend the Group's coverage in a cost-effective manner while retaining proper control over distribution network and marketing and promotion process.

Employees are considered as the most important and valuable assets of the Group. The remuneration package for employees generally includes salary and bonuses. The Group conducts periodic performance reviews for employees, and their remuneration is performance-based. Employees also receive welfare benefits including medical care, housing subsidies, pension, occupational injury insurance and other miscellaneous benefits. The Group also provides regular training to employees, which are designed to improve staff dedication and increase staff knowledge in a number of important areas of our services, in order to enhance the productivity of employees.

COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

As the Group mainly operates in China through its subsidiaries, it is subject to the Chinese laws and regulations relating to the R&D, production and distribution of pharmaceutical products, including but not limited to those on the quality, safety, manufacture, environmental protection, intellectual property, labor and personnel. Meanwhile, as a company incorporated in the Cayman Islands and listed on the Stock Exchange, the Company is governed by the Company Law of the Cayman Islands, the Listing Rules and the Securities and Futures Ordinance.

During the year ended December 31, 2023, to the best knowledge of the Board, the Group does not have any incidence of non-compliance with the relevant laws and regulations that would have a significant impact on the Group's business.

DIRECTORS

The Directors during the Reporting Period and as at the date of this report are as follows:

Executive Directors:

Ms. Zhong Huijuan (*the Chairlady and Chief Executive Officer*)
Ms. Sun Yuan
Dr. Lyu Aifeng

Independent Non-executive Directors:

Mr. Lin Guoqiang
Mr. Chan Charles Sheung Wai
Ms. Yang Dongtao

Directors' Report

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 49 to 54 of this Annual Report.

CHANGE IN DIRECTORS' INFORMATION

There is no change in the Directors' biographical details which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Reporting Period.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules, and the Company is of the view that such independent non-executive Directors are independent.

SERVICE CONTRACTS OF DIRECTORS

None of the Directors has entered into any unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS AS WELL AS COMPETING BUSINESS

Save as disclosed in the section headed "Related Party Transactions" and Note 34 to the "Related Party Transactions" of the consolidated financial statements in this Annual Report, no contracts of significance (as defined in Appendix D2 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of 2023 or at any time during 2023.

Save as disclosed in the "Relationship with our Controlling Shareholders – The Associate's Investee Group" section of the Prospectus, none of our Directors or their respective associates (as defined under the Listing Rules) has any interest in a business which competes or is likely to compete with our Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

DEED OF NON-COMPETITION

The controlling Shareholders of the Company (i.e., Ms. Zhong, Stellar Infinity and Sunrise Investment) provided confirmation to the Company respectively, that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on May 27, 2019 ("Deed of Non-competition"). The independent non-executive Directors have reviewed their compliance status, and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition during the Reporting Period.

RELATED PARTY TRANSACTIONS

Details of related party transactions are set out in Note 34 to the consolidated financial statements. Pursuant to Chapter 14A of the Listing Rules, none of such related party transactions constitutes a connected transaction or continuing connected transaction (as the case may be).

EVENTS AFTER THE REPORTING PERIOD

In January 2024, the Group's self-developed Category 1 innovative drug HS-10509 tablets and Category 1 oral small molecule innovative drug HS-10501 tablets, have both been granted a clinical trial notice issued by the NMPA, and are intended to be used for the treatment of schizophrenia and type 2 diabetes and obesity in adults respectively, with specific indications to be determined after the clinical trial.

In February 2024, HS-10398 capsules, a Category 1 innovative drug self-developed by the Group, has been granted a clinical trial notice issued by the NMPA, and is intended to be used for the treatment of immunoglobulin A nephropathy and membranous nephropathy, with the specific indications to be determined after the clinical trials.

On January 22, 2024, the Company redeemed the outstanding convertible bonds in the aggregate principal amount of US$590,622,000 pursuant to the terms and conditions of zero coupon convertible bonds due 2026 and bondholders' notice of redemption, representing approximately 99.10% in principal amount of the Convertible Bonds outstanding as at that date. The Convertible Bonds in the principal amount of US$5,378,000 remain outstanding.

On March 14, 2024, the Group entered into a license agreement with Biotheus, pursuant to which the Group obtained an exclusive license from Biotheus to use HS-20117 (license-in as PM1080) for the development, production, and commercialization of bispecific antibody-drug conjugate product on a global basis, with the right to sublicense.

On April 3, 2024, HS-10504 tablets, a Category 1 innovative drug self-developed by the Group has been granted a clinical trial notice issued by the NMPA and is intended to be used for the treatment of advanced non-small cell lung cancer. The specific indication will be determined after the completion of clinical research.

On April 19, 2024, the Company allotted and issued 2,300,000 new Shares to the RSU Trustee to hold such Shares on trust for the benefit of the participants of the RSU Scheme pursuant to the terms of the RSU Scheme.

Save as disclosed above, there is no material event affecting the Company during the period from December 31, 2023 to the Latest Practicable Date of this report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2023, the interests and/or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required to be entered into the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix C3 of the Listing Rules were as follows:

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

1. Interest in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[1]
Ms. Zhong Huijuan[2]	Person with influence over a trust	3,900,000,000	65.73%
Ms. Sun Yuan[2][3]	Beneficiary of a trust	3,900,000,000	65.73%
	Beneficial owner	2,500,300	0.04%
Dr. Lyu Aifeng[4]	Beneficial owner	2,133,000	0.04%

Notes:

(1) The calculation is based on the total number of 5,933,350,070 issued shares of the Company as at December 31, 2023.

(2) These ordinary shares in the Company are beneficially owned by Stellar Infinity which is a wholly-owned subsidiary of Sunrise Investment, which in turn is wholly owned by Sunrise Trust Trustee as trustee for The Sunrise Trust, a discretionary trust set up by Ms. Sun Yuan ("**Ms. Sun**"). Ms. Zhong Huijuan ("**Ms. Zhong**") is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Ms. Sun are deemed or taken to be interested in all the shares of the Company which are beneficially owned by Stellar Infinity for the purpose of Part XV of the SFO.

(3) In addition to the ordinary shares held by Stellar Infinity, Ms. Sun also holds 408,100 ordinary shares of the Company vested according to the RSU Scheme and is entitled to 2,092,200 RSUs subject to vesting conditions.

(4) Dr. Lyu Aifeng ("**Dr. Lyu**") holds 955,500 ordinary shares of the Company vested according to the RSU Scheme and is entitled to 1,177,500 RSUs subject to vesting conditions.

2. Interest in shares or underlying shares of associated corporation of the Company

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares or underlying shares in the associated corporation	Percentage of shareholding interest in the associated corporation
Ms. Zhong Huijuan	Sunrise Investment[1]	Person with influence over a trust	100	100%
Ms. Sun Yuan	Sunrise Investment[1]	Beneficiary of a trust	100	100%

Notes:

(1) Sunrise Investment is wholly owned by the Sunrise Trust Trustee, which is the trustee for the Sunrise Trust, a discretionary trust set up by Ms. Sun. Ms. Zhong is the person who has consent right on key matters in respect of the Sunrise Trust under the trust deed in respect of the Sunrise Trust. Accordingly, Ms. Zhong and Ms. Sun are deemed or taken to be interested in all the shares of Sunrise Investment which are beneficially owned by the Sunrise Trust Trustee for the purpose of Part XV of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

2. Interest in shares or underlying shares of associated corporation of the Company *(Continued)*

Save as disclosed above, as at December 31, 2023, so far as is known to the Directors, none of the Directors and the chief executives of the Company had or were deemed to have any interest and/or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under Divisions 7 and 8 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at December 31, 2023, the interests and/or short positions of persons (other than the Directors and chief executives of the Company) in the shares or underlying shares of the Company (within the meaning of Part XV of the SFO) which were required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Name of shareholder	Capacity/Nature of interest	Number of shares or underlying shares	Approximate percentage of shareholding interest[1]
Stellar Infinity[2]	Beneficial owner	3,900,000,000	65.73%
Sunrise Investment[2]	Interest in controlled corporation	3,900,000,000	65.73%
Sunrise Trust Trustee[2]	Interest in controlled corporation	3,900,000,000	65.73%
JQC International Limited[3]	Interest in controlled corporation	950,000,000	16.01%
JQC Holding Limited[3]	Interest in controlled corporation	950,000,000	16.01%
Cantrust (Far East) Limited[3]	Trustee	950,000,000	16.01%
Mr. Cen Junda[3]	Founder of a discretionary trust who can influence how the trustee exercises his discretion	950,000,000	16.01%
Apex Medical[3]	Beneficial owner	950,000,000	16.01%

Notes:

(1) The calculation is based on the total number of 5,933,350,070 issued shares of the Company as at December 31, 2023.

(2) Stellar Infinity is a wholly-owned subsidiary of Sunrise Investment, which in turn is wholly owned by the Sunrise Trust Trustee, the trustee of the Sunrise Trust. Therefore, each of Sunrise Investment and the Sunrise Trust Trustee is deemed to be interested in the Shares of the Company held by Stellar Infinity pursuant to the SFO.

(3) On September 1, 2023, Mr. Cen Junda has transferred all of his interests in Apex Medical, an entity which is the beneficial owner of 950,000,000 shares in the Company, to JQC International Limited, which is indirectly wholly-owned by Cantrust (Far East) Limited (as trustee of a discretionary trust which Mr. Cen Junda is the founder). Accordingly, Mr. Cen Junda has become a person with influence over a trust and is deemed or taken to be interested in all the shares of JQC International Limited which are ultimately beneficially owned by Cantrust (Far East) Limited for the purpose of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES *(Continued)*

Save as disclosed above, as at December 31, 2023, so far as is known to the Directors, no person (not being a Director or chief executive of the Company) had or was deemed to have any interest and/or short position in the shares or underlying shares of the Company which was required to be notified to the Company under Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

At no time during the Reporting Period, were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other corporations.

PERMITTED INDEMNITY PROVISION

In addition to the indemnities provisions as set out in the Articles of Association, Directors' liability insurance is currently in place, and was in place during the Reporting Period, to protect the Directors of the Company against potential costs and liabilities arising from claims against them.

SUFFICIENT PUBLIC FLOAT

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 16.21% of the Company's issued share capital.

During the Reporting Period, according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

RESTRICTED SHARE UNIT SCHEME

The following is a summary of the principal terms of the RSU Scheme conditionally approved and adopted on May 27, 2019. For details of the RSU Scheme, please refer to Appendix IV "Statutory and General Information – D. Post-IPO RSU Scheme" of the Prospectus.

1. Purpose

The purpose of the RSU Scheme is to recognize contributions by selected participants and give incentives to them in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

RESTRICTED SHARE UNIT SCHEME *(Continued)*

2. Participants

Persons eligible to receive awards under the RSU Scheme include the following:

(i) employees (including director, chief executive officer, vice president, financial controller, company secretary, members of senior management or key technical personnel) of the Group; and

(ii) any other person selected by the Board at its sole discretion from time to time (subject to the compliance of the applicable Listing Rules).

3. Total number of shares available

No award shall be granted pursuant to the RSU Scheme if, as a result of such grant (assumed accepted), the aggregate number of shares underlying all grants made pursuant to the RSU Scheme (excluding awards that have lapsed or been cancelled in accordance with the rules of the RSU Scheme) will exceed 114,118,384 Shares, representing 2% of the number of shares in issue on the June 14, 2019.

The number of RSUs available for grant under the scheme mandate of the RSU Scheme at the beginning and the end of the Reporting Period are 69,652,854 shares and 52,290,594 shares respectively.

The number of RSUs granted under the RSU Scheme, being the only share schemes of the Company, during the Reporting Period divided by weighted average number of issued shares for the year is 0.34%.

As at the Latest Practicable Date, the Company had 53,279,994 Shares available for issue under the RSU Scheme, representing approximately 0.90% of the total issued share capital of the Company as at the Latest Practicable Date.

4. Maximum entitlement of each participant

The total number of RSU awarded to each Participant (including both exercised, cancelled and outstanding awards) in any twelve (12)-month period shall not exceed 1% of the Shares in issue.

RESTRICTED SHARE UNIT SCHEME *(Continued)*

5. Vesting period

The vesting period of the RSUs granted is either (I) three years or (II) thirty months and would follow one of the following vesting schedule: (i) 40% shall vest on the first anniversary of the grant date and the remaining 30% and 30% shall vest on the second and third anniversary of the grant date, respectively; (ii) 30% shall vest on the first anniversary of the grant date and the remaining 30% and 40% shall vest on the second and third anniversary of the grant date, respectively; (iii) approximately 34% shall vest on the first anniversary of the grant date and the remaining approximately 33% and approximately 33% shall vest on the second and third anniversary of the grant date, respectively; (iv) approximately 19% shall vest six months after the grant date and the remaining approximately 33%, 33% and 15% shall vest on the first, second and third anniversary of the grant date, respectively; or (v) approximately 34% shall vest six months after the grant date, approximately 33% shall vest eighteen months after the grant date and approximately 33% shall vest thirty months after the grant date, respectively.

6. Exercise period

The concept of exercise period is inapplicable to the RSU Scheme. The selected participants are required to pay the purchase price for the RSUs that will vest in the period at the time of vesting.

7. Performance targets

Subject to certain performance indicators and other requirements set out in the grant letter entered into between the selected participants and the Company, including based on the Company's annual results and the selected participant's individual annual performance.

8. Rights attached to the RSUs and the converted Shares

A selected grantee under the RSU Scheme ("**Grantees**") does not have any contingent interest in any Shares underlying a grant. Furthermore, a Grantee may not exercise any voting right in respect of any of the Shares underlying the grant, unless otherwise specified by the Board, nor do they have any rights to any cash or non-cash income, dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the grant prior to vesting.

Any Shares transferred to a Grantee upon vesting shall be subject to the provisions of the Articles and will rank pari passu with the fully paid Shares in issue on the date of the transfer. The holders of the Shares will be entitled to participate in all dividends or other distributions paid or made on or after the date of transfer.

9. Amount payable

No amount is payable upon acceptance of the awards, and the purchase consideration is payable on exercise during the vesting period.

RESTRICTED SHARE UNIT SCHEME *(Continued)*

10. Present status of the RSU Scheme

As at December 31, 2023, pursuant to the RSU Scheme, the Company had granted to Directors, executives and employees of the Group outstanding RSUs representing 35,405,000 Shares, accounting for approximately 0.597% of the total issued share capital of the Company as at December 31, 2023.

Details of the RSUs granted under the RSU Scheme during the Report Period are as follows:

					During the Reporting Period				
Category	Grant date	Vesting Period	Purchase Price	Outstanding as at January 1, 2023	Granted	Vested/ Exercised	Cancelled	Lapsed	Outstanding as at December 31, 2023
1. Director									
Ms. Sun Yuan	April 29, 2022	3 years[3]	HK$2.6	1,200,300	0	408,100	0	0	792,200
	April 27, 2023	3 years[3]	HK$2.84	0	1,300,000[8]	0	0	0	1,300,000
Dr. Lyu	June 15, 2020	3 years[4]	HK$5.36	90,000	0	90,000	0	0	0
Aifeng	June 28, 2021	3 years[3]	HK$6.4	0	0	0	0	0	0
	April 29, 2022	3 years[5]	HK$2.6	995,000	0	400,500	17,000	0	577,500
	April 27, 2023	3 years[3]	HK$2.84	0	600,000[8]	0	0	0	600,000
2. Employees	April 22, 2020	3 years[6]	HK$5.36	2,566,720	0	2,530,480	0	36,240	0
	May 12, 2021	3 years[3]	HK$6.4	0	0	0	0	0	0
	April 29, 2022	3 years[5]	HK$2.6	26,310,200	0	9,909,260	489,840	1,652,000	14,259,100
	October 29, 2022	30 months[7]	HK$2.6	520,800	0	174,300	0	22,300	324,200
	April 27, 2023	3 years[3]	HK$2.84	0	18,404,400[8]	0	0	1,231,600	17,172,800
3. Service provider[1]	April 29, 2022	3 years[5]	HK$2.6	681,600	0	298,320	4,080	0	379,200
Total:				**32,364,620**	**20,304,400**	**13,810,960**	**510,920**	**2,942,140**	**35,405,000**

RESTRICTED SHARE UNIT SCHEME *(Continued)*

10. Present status of the RSU Scheme *(Continued)*

(1) The service providers are all former employees who have accepted re-employment after retirement or who continue to provide consultancy advice to the Company after retirement. The Company values their familiarity with the businesses and operation of the Group and considers that their contribution to the Group is similar to that of the employees of the Group.

(2) The fair value of the RSUs granted and the weighted-average closing price immediately before the dates on which the awards were exercised or vested are set out in Note 29 to the Financial Statements.

(3) Vesting schedule: approximately 34% shall vest on the first anniversary of the grant date and the remaining approximately 33% and approximately 33% shall vest on the second and third anniversary of the grant date, respectively.

(4) Vesting schedule: 40% shall vest on the first anniversary of the grant date and the remaining 30% and 30% shall vest on the second and third anniversary of the grant date, respectively.

(5) Vesting schedule: approximately 19% shall vest six months after the grant date and the remaining approximately 33%, 33% and 15% shall vest on the first, second and third anniversary of the grant date, respectively.

(6) Vesting schedule: 30% shall vest on the first anniversary of the grant date and the remaining 30% and 40% shall vest on the second and third anniversary of the grant date, respectively.

(7) Vesting schedule: approximately 34% shall vest six months after the grant date, approximately 33% shall vest eighteen months after the grant date and approximately 33% shall vest thirty months after the grant date, respectively.

(8) Closing price immediately prior to the grant date is HK$14.56.

(9) All RSUs granted to Ms. Sun Yuan (representing 1,300,000 Shares) and Dr. Lyu Aifeng (representing 600,000 Shares), both being executive directors of the Company, mentioned in the announcement dated April 27, 2023 only involve existing shares of the Company held or to be held by the RSU Trustee, and no new shares were or will be allotted or issued for the vesting of these RSUs. The grant of RSUs to them form part of their remuneration package under their service contracts with the Company and are therefore exempted from the reporting, announcement and independent shareholders' approval requirements under Rules 14A.73(6) and 14A.95 of the Listing Rules.

No grant has been made to (i) any related entity participant or service provider with options and awards granted in excess of 0.1% of the Company's issued shares over the 12-month period, and (ii) any other participant with options and awards granted in excess of the 1% individual limit, as such terms are used in the Listing Rules.

RESTRICTED SHARE UNIT SCHEME *(Continued)*

11. Basis for determining purchase price

The Board shall determine the purchase price at a discount with reference to the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for one calendar month immediately preceding the grant date.

12. Remaining life of the RSU Scheme

Unless otherwise terminated or amended, the RSU Scheme shall be valid and effective for the period of 10 years commencing on the listing date until June 14, 2029.

CORPORATE GOVERNANCE

Details of the principal corporate governance practices adopted by the Company are set out in the section of "Corporate Governance Report" of this Annual Report.

AUDITOR

The consolidated financial statements for the year ended December 31, 2023 have been audited by Ernst & Young, which will retire at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution on the re-appointment of Ernst & Young as the auditor of the Company will be proposed at the AGM. The Company has not changed its auditor in the past 3 years.

For and on behalf of the Board
Ms. Zhong Huijuan *(Chairlady and Chief Executive Officer)*

April 22, 2024

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Ms. ZHONG Huijuan (鍾慧娟), aged 63, is the founder of our Group and currently the chairlady of the Board, chief executive officer and an executive Director of the Company. Ms. Zhong is the chairlady of both the Nomination Committee and the Strategy and Development Committee and a member of the Remuneration Committee. Ms. Zhong was appointed as a Director on December 2, 2015. Ms. Zhong was appointed as a director of Jiangsu Hansoh in September 1998. Ms. Zhong is primarily responsible for our Group's strategic development and planning, overall operations and decision making, board governance and supervision of key management issues. Ms. Zhong is the mother of Ms. Sun.

Ms. Zhong has approximately 30 years of experience in the pharmaceutical industry in China, with substantial experience in pharmaceutical enterprise operation and management, as well as extensive industry knowledge on the development and expansion of our oncology and psychotropic drug portfolio in their respective therapeutic areas. Under Ms. Zhong's leadership, our Group has developed into one of the few R&D-driven pharmaceutical companies with an established leadership position in some of the largest and fastest-growing therapeutic areas in China with significant unmet clinical needs.

Ms. Zhong is a standing supervisor of the China Quality Association for Pharmaceuticals (中國醫藥質量管理協會).

Over the years, Ms. Zhong received numerous awards and recognitions for her contributions to both the pharmaceutical industry and pharmaceutical industrial and commercial enterprises. She received State Council Special Allowance in February 2013. In December 2013, she also received the "All China Federation of Industry Commerce Scientific and Technological Progress Award (first prize)" (中華全國工商業聯合會科技進步獎一等獎). In December 2014, Ms. Zhong received the "State Science and Technology Award (second prize)" (國家科技進步獎二等獎) from the State Council.

In July 1982, Ms. Zhong obtained her undergraduate degree in chemistry from Jiangsu Normal University (江蘇師範大學) (formerly known as Xuzhou Normal University (徐州師範學院)) in Xuzhou. She then obtained her EMBA from Nanjing University (南京大學) in December 2005.

Ms. SUN Yuan (孫遠), aged 37, is an executive Director of our Company. Ms. Sun was appointed as a Director on December 2, 2015. Ms. Sun has served as a director of Jiangsu Hansoh from October 2011 to October 2019. Ms. Sun is primarily responsible for providing guidance on R&D strategies, business development, investment strategies and the scientific development of our Group, which includes monitoring and introducing latest industry development and pharmaceutical technologies to the Group and exploring overseas business opportunities. Ms. Sun is the daughter of Ms. Zhong.

Ms. Sun has approximately 15 years of experience in healthcare investment management and industry research. Prior to joining our Group in October 2011, Ms. Sun had worked as an analyst in Hony Capital since June 2009.

Ms. Sun received her bachelor's degree in biomedical sciences from Cambridge University in June 2007.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Executive Directors *(Continued)*

Dr. LYU Aifeng (呂愛鋒), aged 47, is an executive Director of our Company. Dr. Lyu is the chairman of the ESG Committee and a member of the Strategy and Development Committee. Dr. Lyu was appointed as a Director on March 11, 2016, and mainly assists the Chief Executive Officer, Ms. ZHONG Huijuan, in managing the daily business operations of the Company, as well as the operation and management of certain subsidiaries. Dr. Lyu was appointed as president of Jiangsu Hansoh, the general manager of Shanghai Hansoh and the executive director of Hansoh Health Technology Co., Ltd. in December 2015, April 2016 and September 2019, respectively.

Dr. Lyu has more than 20 years of technical and management experience in R&D and product quality control systems in the pharmaceutical industry. Dr. Lyu joined our Group in July 1998 and has served in various positions, including director of product development in August 2001, and director of research institution in March 2009.

Dr. Lyu is currently the vice chairman of the Professional Committee of Industrial Pharmacy of the Chinese Pharmaceutical Association (中國藥學會工業藥劑學專業委員會) and the vice president of the 8th Council of the China Biochemical Pharmaceutical Industry Association (中國生化製藥工業協會第八屆理事會), and was elected as a representative of the 14th Jiangsu Provincial People's Congress (江蘇省人民代表大會).

Dr. Lyu has obtained numerous awards and recognitions. Dr. Lyu obtained the "State Science and Technology Progress Award (second prize)" (國家科技進步獎二等獎) in 2013 and 2014. Dr. Lyu was recognized as a "Young Expert with Outstanding Contributions" (有突出貢獻的中青年專家) by the People's Government of Jiangsu Province (江蘇省人民政府) in March 2015. He was also chosen for the "100 Million Talents Programme" (國家百千萬人才工程) by the PRC Ministry of Human Resources and Social Security (中華人民共和國人力資源和社會保障部) in October 2017. He was further selected for the "Ten Thousand Talents Programme" (國家萬人計劃) by the PRC Ministry of Science and Technology (中華人民共和國科學技術部) in May 2018.

Dr. Lyu obtained both his bachelor of science degree in chemistry and his master of science degree in organic chemistry from Nanjing University (南京大學), in July 1998 and June 2005, respectively. Dr. Lyu also obtained his doctorate degree in biomedical engineering from Southeast University (東南大學) (formerly known as Nanjing Institute of Technology (南京工學院)) in Nanjing in June 2015.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Independent Non-Executive Directors

Mr. LIN Guoqiang (林國強), aged 81, is an independent non-executive Director of our Company. Mr. Lin has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Lin is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Lin is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Lin has more than 50 years of research experience in chemistry. Mr. Lin joined the Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in 1968. He was promoted to researcher of such institute in 1990, served as deputy director from 1988 to 1993 and director of such institute from 1993 to 1999. Mr. Lin was a visiting scholar at the Royal Institute of Technology in Sweden in 1980, and also a visiting scientist at both the University of Pittsburgh and R&D Department of SmithKline in the U.S. in 1986. Since 1992, Mr. Lin has been the director and executive editor of the publication "Tetrahedron/Tetrahedron Letters" in China and served as deputy chief editor of "China Science: Chemistry" (《中國科學: 化學》) from 2008 to 2017. Mr. Lin was also elected as academician of the Chinese Academy of Sciences (中國科學院院士) in 2001.

Mr. Lin has received numerous awards, including State Natural Science Awards and Science Progress Awards. Examples are set out in the table below:

Honor/Award	Awarding Body	Timing of Granting the Award
Second Prize of State Natural Science Award of 2016	State Council	December 2016
Second Prize of State Scientific and Technological Progress Award of 2013	State Council	December 2013
Third Prize of State Scientific and Technology Progress Award of 1995	State Scientific and Technological Commission	December 1995
Second Prize of State Scientific and Technology Progress Award of 1987	State Science & Technology Award Judging Panel	July 1987
Third Prize of State Invention Award of 1987	State Scientific and Technological Commission	January 1987

Mr. Lin obtained his bachelor's degree in organic chemistry from Shanghai University of Science and Technology (上海科學技術大學) in July 1964, and obtained his master's degree in organic chemistry from Shanghai Institute of Organic Chemistry of the Chinese Academy of Sciences (中國科學院上海有機化學研究所) in July 1968.

Biographical Details of Directors and Senior Management

DIRECTORS *(Continued)*

Independent Non-Executive Directors *(Continued)*

Mr. CHAN Charles Sheung Wai (陳尚偉), aged 70, is an independent non-executive Director of our Company. Mr. Chan has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Mr. Chan is the chairman of the Audit Committee and a member of the Strategy and Development Committee, the ESG Committee and the Nomination Committee. Mr. Chan is primarily responsible for providing independent opinion and judgment to our Board.

Mr. Chan has more than 40 years of experience in corporate finance, financial regulations and risk management. Mr. Chan started his career as an auditor at the Canadian office of Arthur Andersen in 1977 and was promoted to partnership in 1988. He subsequently joined the China & Hong Kong office of Arthur Andersen as an audit partner in 1994. From July 2002 to June 2012, Mr. Chan was a partner of the China & Hong Kong office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Hong Kong Stock Exchange from 1998 to 2001 and also as a member of the Election Committee for the first Legislative Council of Hong Kong in 1998. From 1996 to 1999, Mr. Chan was a council member of the Hong Kong Institute of Certified Public Accountants. He also served as a member of the Accounting Standards Committee, Auditing Standards Committee and the chairman of the China Technical Committee of the Hong Kong Institute of Certified Public Accountants.

Mr. Chan has been an independent non-executive director of Maoyan Entertainment (Stock Code: 1896), Sun Art Retail Group Limited (Stock Code: 6808) and Shanghai Bio-heart Biological Technology Co., Ltd. (Stock Code: 2185), and as an independent director of Shunfeng Holdings Company Limited (stock code: 002352), a company listed on the Shenzhen Stock Exchange. From September 2013 to April 2020, he served as an independent director of Changyou.com Ltd, a company listed on the NASDAQ (Stock Code: CYOU). From May 2016 to May 2019, he served as an independent non-executive director of CITIC Securities Company Limited (Stock Code: 6030), and from July 2012 to October 2022, he served as an independent non-executive director of SRE Group Limited (Stock Code: 1207), both listed on the Stock Exchange.

In May 1977, Mr. Chan obtained a Bachelor of Commerce degree from the University of Manitoba, in Canada. He is a member of both the Chartered Accountants of Canada and the Hong Kong Institute of Certified Public Accountants.

Ms. YANG Dongtao (楊東濤), aged 66, is an independent non-executive Director of our Company. Ms. Yang has been appointed as an independent non-executive Director of our Company with effect from May 31, 2019. Ms. Yang is the chairlady of the Remuneration Committee and a member of the Audit Committee, the Strategy and Development Committee and the ESG Committee. Ms. Yang is primarily responsible for providing independent opinion and judgment to our Board.

Ms. Yang has over 40 years of experience in the field of education. She was an assistant professor at the Department of Chemical Machinery of the East China University of Science and Technology (華東理工大學化工機械系) from January 1982 to May 1983. She was also a lecturer from May 1983 to March 1992, an Associate Professor from March 1992 to March 1999, and a professor from March 1999 to February 2007 at the Management Department of Nanjing University School of Business (南京大學商學院管理學系). Ms. Yang has been a professor of the Human Resources Management Department of Nanjing University School of Business (南京大學商學院人力資源管理系) since February 2007. Since May 2016, she has also been the vice president of the Jiangsu Province Human Resources Society (江蘇省人力資源學會).

Ms. Yang is currently an independent director of Nanjing Chixia Development Co., Ltd.* (南京棲霞建設股份有限公司) (Stock Code: 600533), a company listed on the Shanghai Stock Exchange, and was an independent director of Jiangsu Novoray New Materials Co., Ltd. (江蘇聯瑞新材料股份有限公司) (Stock Code: 688300) from May 2017 to February 2021 and Perfect Group Corp., Ltd. (倍加潔集團股份有限公司) (Stock Code: 603059) from October 2016 to September 2022, both are companies listed on the Shanghai Stock Exchange.

Ms. Yang received her bachelor of engineering from Southeast University (東南大學) (formerly known as Nanjing Institute of Technology (南京工學院)) in Nanjing in July 1982. She obtained both her master's degree in economics and her doctorate degree in corporate management from Nanjing University (南京大學) in February 1992 and December 1998, respectively.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT

The members of our senior management team and details of each of their experience are as follows:

Dr. LEE Chih-Hung (李志宏), aged 64, is the chief of science officer of the Group, responsible for the Group's global innovative drug research and development. Dr. Lee joined the Group in April 2022 and was appointed to his current position.

Dr. Lee has more than 30 years of extensive management experience in the field of BIC/FIC drug research and development. Before joining the Group, Dr. Lee served as a senior director of Abbott/AbbVie, Limited from December 1992 to April 2022, responsible for innovative drug research and development in multiple therapeutic areas (oncology, immunology, neuroscience, pain, liver, kidney, dermatology and Anti-Aging), and he was involved in the establishment of the Kidney Disease Research Centre and the US West Coast Oncology Research Centre during his tenure at AbbVie.

Dr. Lee obtained the doctoral degree in organic chemistry from the The University of Chicago in 1990 and his MBA from Lake Forest Graduate School in 2013.

Dr. SUN Weiyong (孫偉勇), aged 53, is the chief commercial officer of the Group, responsible for the Group's global business development. Dr. Sun joined the Group in March 2021 and was appointed to his current position.

Dr. Sun has more than 20 years of extensive experience in the field of medicine and BD. Before joining the Group, Dr. Sun served as a senior director of Daiichi Sankyo Company, Limited from April 2002 to March 2021, responsible for BD and innovative drug research and development in the United States and Japan respectively. From December 2000 to October 2001, he worked as a postdoctoral fellow at the Medical College of Wisconsin in the United States.

Dr. Sun obtained a bachelor's degree in clinical medicine from Beijing Medical University (北京醫科大學) (currently known as Peking University Health Science Center (北京大學醫學部)) in July 1993, and master's and doctoral degrees from the Cell Biochemistry Laboratory of the University of Tokyo in March 1999 and March 2002 respectively. He obtained a master's degree in business administration from Columbia University in May 2015.

Mr. XU Chuanhe (徐傳合), aged 60, is a senior vice president of our Group and has been appointed to this position since March 2009. Mr. Xu is primarily responsible for matters related to business management of our Group.

Mr. Xu has more than 20 years of experience in pharmaceutical sales management. Mr. Xu joined our Group in August 1997 and was appointed as deputy general manager of the sales division in October 1997.

Mr. Xu obtained his bachelor of science degree from China Pharmaceutical University (中國藥科大學) (formerly known as Nanjing Medical College (南京藥學院)) in Nanjing in July 1985 and his EMBA from Wuhan University (武漢大學) in December 2008.

Biographical Details of Directors and Senior Management

SENIOR MANAGEMENT *(Continued)*

Mr. HU Min (胡旻), aged 47, is a chief financial officer of the Group. Mr. Hu joined our Group in September 2019 and was appointed to his current position.

Mr. Hu has years of experience in finance, auditing, consulting and capital markets in the pharmaceutical and healthcare industries. Before joining our Group, Mr. Hu served as an audit partner for the pharmaceutical and healthcare industries at Deloitte Touche Tohmatsu China. Mr. Hu holds qualifications of certified public accountant of China and the United States.

Mr. Hu obtained his bachelor of economics from Xiamen University (廈門大學) in July 1999.

Mr. LU Yifeng (陸一峰), aged 50, is the vice president of the Group, responsible for the Group's production operations and import and export business of APIs. Mr. Lu joined the Group in September 2023 and was appointed to his current position.

Mr. Lu has more than 20 years of extensive experience in production and marketing management. Before joining the Group, Mr. Lu served as the president of Changjiang Runfa Health Industry Co., Ltd. from 2016 to 2023, responsible for the general management and in charge of the operation of the pharmaceutical business. From 2013 to 2016, he worked as an executive vice president with the VMR Group in the United States. He also held management positions with the Danaher Group and the Ecolab Group in the United States.

Mr. Lu obtained a bachelor's degree in mechanical engineering from Tsinghua University (清華大學) in June 1997 and an MBA degree from the University of Illinois Urbana-Champaign in the United States in June 2003.

JOINT COMPANY SECRETARIES

Ms. ZHONG Shengli (鍾勝利), aged 56, has served as a joint company secretary and a senior vice president of our Group since August 2018 and March 2012, respectively.

Ms. Zhong Shengli joined our Group in July 2010 as an investment director and was responsible for investment management.

Before joining our Group, Ms. Zhong Shengli served as a senior manager for Ping An Bank with more than ten years of work experience in financial institutions.

Ms. Zhong Shengli obtained her bachelor of arts degree from Beijing Foreign Studies University (北京外國語大學) (formerly known as Beijing Foreign Studies College (北京外國語學院)) in July 1991 and her master degree in economics from Peking University (北京大學) in January 2007. Ms. Zhong Shengli is an Affiliated Person of Hong Kong Chartered Governance Institute ("**HKCGI**") (formerly "The Hong Kong Institute of Chartered Secretaries").

Ms. LI Yan Wing Rita (李昕穎) was appointed as a joint company secretary of our Company with effect from the Listing Date. Ms. Li is an executive director of Corporate Services of Tricor Services Limited and has over 20 years of experience in the corporate secretarial field, providing professional corporate secretarial services to listed companies as well as multi-national, private and offshore companies. She is currently the company secretary or joint company secretary of several companies listed on the Stock Exchange.

Ms. Li is a chartered secretary, a chartered governance professional and a fellow of both HKCGI and The Chartered Governance Institute (formerly "The Institute of Chartered Secretaries and Administrators"). She is also a holder of the Practitioner's Endorsement from HKCGI. Ms. Li received her bachelor of arts degree from City University of Hong Kong in November 1994.

Independent Auditor's Report

Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

安永會計師事務所
香港鰂魚涌英皇道 979號
太古坊一座 27樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

To the shareholders of Hansoh Pharmaceutical Group Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Hansoh Pharmaceutical Group Company Limited (the "**Company**") and its subsidiaries (the "**Group**") set out on pages 60 to 135, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended 31 December 2023, 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 ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

Key audit matter	How our audit addressed the key audit matter
Expected credit losses on trade receivables As at 31 December 2023, the Group's net trade receivables amounted to approximately RMB3,209,633,000, which represented approximately 10% of the total assets of the Group. According to Hong Kong Financial Reporting Standard 9 *Financial Instruments* ("**HKFRS 9**"), a forward-looking ECL approach was applied by the Group. The measurement of ECLs involves significant judgement and assumptions used in the ECL approach as the ECLs should reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money. The Group's disclosures about the ECLs on the trade receivables are included in Note 2.4 Material accounting policies, Note 3 Significant accounting judgements and estimates, Note 18 Trade and bills receivables and Note 35 Financial instruments by category to the consolidated financial statements, which specifically disclose the accounting policies, management's judgements and estimates, and the overdue receivables and the related provision.	Our procedures in relation to management's assessment of ECLs on trade receivables included: – Obtained an understanding of relevant controls that the Group had implemented to manage and monitor its credit risk; – Inquired of management about the status of each of the material balances of trade receivables which was past due as at year end and challenged the reasonableness of management's grouping of various customers by searching their credit profiles, understanding on-going business relationships, and checking historical and subsequent settlement records; – With the assistance of our internal valuation specialists, assessed the appropriateness of the valuation methodology and key assumptions adopted by management in determining ECLs on the trade receivables; and – Tested the inputs used by management to prepare the provision matrix, including the ageing and historical collection records of trade receivables by comparing individual items in the analysis, on sampling basis, to supporting billings and collections. We also read and assessed the relevant disclosures made in the consolidated financial statements, including disclosures of the basis for the estimation.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

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 when it becomes available 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.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Siu Fung Terence Ho.

Ernst & Young
Certified Public Accountants
Hong Kong

26 March 2024

Consolidated Statement of Profit or Loss

Year ended 31 December 2023

	Notes	**2023** ***RMB'000***	2022 *RMB'000*
REVENUE	5	**10,103,806**	9,382,410
Cost of sales		**(1,030,863)**	(867,010)
Gross profit		**9,072,943**	8,515,400
Other income	5	**1,125,424**	448,687
Selling and distribution expenses		**(3,531,163)**	(3,550,230)
Administrative expenses		**(709,844)**	(597,460)
Research and development costs		**(2,097,046)**	(1,693,314)
Other expenses	5	**(27,480)**	(116,513)
Finance costs	7	**(66,679)**	(58,142)
PROFIT BEFORE TAX	6	**3,766,155**	2,948,428
Income tax expense	10	**(488,652)**	(364,681)
PROFIT FOR THE YEAR		**3,277,503**	2,583,747
Attributable to:			
Owners of the parent		**3,277,503**	2,583,747
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic (RMB)		**0.55**	0.44
Diluted (RMB)		**0.52**	0.44

Consolidated Statement of Comprehensive Income

Year ended 31 December 2023

	2023 *RMB'000*	2022 *RMB'000*
PROFIT FOR THE YEAR	**3,277,503**	2,583,747
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**427,921**	632,886
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**427,921**	632,886
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**427,921**	632,886
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,705,424**	3,216,633
Attributable to:		
Owners of the parent	**3,705,424**	3,216,633

Consolidated Statement of Financial Position

31 December 2023

	Notes	**2023**	2022
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,045,060**	3,195,646
Right-of-use assets	14(a)	**234,663**	254,247
Intangible assets	15	**177,416**	33,422
Investment in associate	16	**–**	241,071
Financial assets at fair value through profit or loss	20	**684,706**	412,579
Prepayments for purchase of property, plant and equipment		**13,927**	33,294
Total non-current assets		**4,155,772**	4,170,259
CURRENT ASSETS			
Inventories	17	**575,782**	447,890
Trade and bills receivables	18	**3,214,251**	3,578,392
Prepayments, other receivables and other assets	19	**236,208**	181,886
Financial assets at fair value through profit or loss	20	**512,409**	2,544,426
Other financial assets	21	**1,909,966**	1,463,752
Cash and bank balances	22	**22,434,691**	17,615,274
Total current assets		**28,883,307**	25,831,620
CURRENT LIABILITIES			
Trade and bills payables	23	**163,763**	222,296
Convertible bonds	27	**4,183,198**	–
Other payables and accruals	24	**2,375,680**	2,265,631
Contract liabilities	25	**38,471**	25,097
Lease liabilities	14(b)	**16,087**	15,543
Tax payable		**85,650**	90,935
Total current liabilities		**6,862,849**	2,619,502
NET CURRENT ASSETS		**22,020,458**	23,212,118
TOTAL ASSETS LESS CURRENT LIABILITIES		**26,176,230**	27,382,377
NON-CURRENT LIABILITIES			
Convertible bonds	27	**39,742**	4,282,742
Lease liabilities	14(b)	**64,708**	79,571
Deferred tax liabilities	26	**255,020**	350,661
Other non-current liabilities		**21,987**	22,459
Total non-current liabilities		**381,457**	4,735,433
NET ASSETS		**25,794,773**	22,646,944

Consolidated Statement of Financial Position
31 December 2023

	Notes	2023 *RMB'000*	2022 *RMB'000*
EQUITY			
Equity attributable to owners of the parent			
Share capital	28	**52**	52
Treasury shares	30	**(108,629)**	(28,027)
Reserves	31	**25,903,350**	22,674,919
		25,794,773	22,646,944
Non-controlling interests		**–**	–
Total equity		**25,794,773**	22,646,944

Name of director
Director

Name of director
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2023

	Notes	Share capital RMB'000	Share premium* Note 31(a) RMB'000	Share option reserve* Note29 RMB'000	Treasury shares Note30 RMB'000	Merger reserve/other reserve* Note 31(b) RMB'000	Exchange fluctuation reserve* Note 31(c) RMB'000	Statutory surplus reserves* Note 31(d) RMB'000	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2023		**52**	**13,931,541**	**313,478**	**(28,027)**	**(59,391)**	**(290,999)**	**890,179**	**7,890,111**	**22,646,944**
Profit for the year		–	–	–	–	–	–	–	3,277,503	3,277,503
Exchange differences on translation of foreign operations		–	–	–	–	–	427,921	–	–	427,921
Total comprehensive income for the year		–	–	–	–	–	427,921	–	3,277,503	3,705,424
Issue of new shares		–	25,227	–	–	–	–	–	–	25,227
Exercise of vested restricted share units		–	138,754	(159,496)	33,502	–	–	–	–	12,760
Share-based payments	29	–	–	171,365	–	–	–	–	–	171,365
Repurchase of shares under share award scheme	30	–	–	–	(114,865)	–	–	–	–	(114,865)
Dividends declared	11	–	–	–	761	–	–	–	(652,843)	(652,082)
Transfer from retained profits		–	–	–	–	–	–	8,407	(8,407)	–
At 31 December 2023		**52**	**14,095,522**	**325,347**	**(108,629)**	**(59,391)**	**136,922**	**898,586**	**10,506,364**	**25,794,773**

	Notes	Share capital RMB'000	Share premium* Note 31(a) RMB'000	Share option reserve* Note29 RMB'000	Treasury shares Note30 RMB'000	Merger reserve/other reserve* Note 31(b) RMB'000	Exchange fluctuation reserve* Note 31(c) RMB'000	Statutory surplus reserves* Note 31(d) RMB'000	Retained profits* RMB'000	Total equity RMB'000
At 1 January 2022		52	14,023,877	134,062	(57,969)	(57,100)	(923,885)	853,383	6,056,425	20,028,845
Profit for the year		–	–	–	–	–	–	–	2,583,747	2,583,747
Exchange differences on translation of foreign operations		–	–	–	–	–	632,886	–	–	632,886
Total comprehensive income for the year		–	–	–	–	–	632,886	–	2,583,747	3,216,633
Exercise of vested restricted share units		–	(92,336)	–	105,479	–	–	–	–	13,143
Share-based payments	29	–	–	179,416	–	–	–	–	–	179,416
Repurchase of shares under share award scheme	30	–	–	–	(76,618)	–	–	–	–	(76,618)
Dividends declared	11	–	–	–	1,081	–	–	–	(713,265)	(712,184)
Transfer from retained profits		–	–	–	–	–	–	36,796	(36,796)	–
Others		–	–	–	–	(2,291)	–	–	–	(2,291)
At 31 December 2022		52	13,931,541	313,478	(28,027)	(59,391)	(290,999)	890,179	7,890,111	22,646,944

* These reserve accounts comprise the consolidated reserves of RMB25,903,350,000 (2022: RMB22,674,919,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 *RMB'000*	2022 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,766,155**	2,948,428
Adjustments for:			
Impairment of trade receivables, net	5	**22,383**	7,152
Impairment of inventories, net	5	**1,645**	3,180
Depreciation of items of property, plant and equipment	6	**334,869**	315,538
Depreciation of right-of-use assets	6	**20,750**	20,230
Amortisation of deferred income		**(472)**	(472)
Amortisation of intangible assets	6	**10,762**	8,834
Gain on disposal of items of property, plant and equipment	5	**(2,103)**	(11,243)
Loss on derecognition of financial assets at amortised cost	5	**3,346**	–
Gain on disposal of associates	5	**(10,776)**	–
Share of losses of associates	5	**2,123**	13,859
Fair value gains of financial assets at fair value through profit or loss	5	**(150,794)**	(67,583)
Loss resulting from derecognition of convertible bonds	5	**134,712**	159,124
Investment income	5	**(115,166)**	(22,431)
Interest income from deposits with initial terms of over three months when acquired		**(806,664)**	(241,154)
Finance costs	7	**66,679**	58,142
Share-based payments	6	**171,365**	179,416
		3,448,814	3,371,020
Decrease in trade and bills receivables		**341,758**	90,446
Increase in prepayments, other receivables and other assets		**(54,322)**	(21,679)
Increase in inventories		**(129,537)**	(40,943)
Decrease in trade and bills payables		**(58,533)**	(26,034)
Increase/(decrease) in other payables and accruals		**144,492**	(310,468)
Increase in contract liabilities		**13,374**	2,896
Cash generated from operations		**3,706,046**	3,065,238
Income tax paid		**(589,578)**	(324,033)
Net cash flows from operating activities		**3,116,468**	2,741,205

Consolidated Statement of Cash Flows

Year ended 31 December 2023

	Notes	2023 *RMB'000*	2022 *RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**10,963**	21,097
Proceeds from disposal of financial assets at amortised cost		**(3,346)**	–
Proceeds from disposal of shareholdings in associates		**249,724**	–
Purchases of items of property, plant and equipment		**(219,598)**	(272,821)
Purchases of intangible assets		**(142,926)**	(19,002)
Purchases of shareholdings in associates		**–**	(66,646)
Purchases of equity investments designated at fair value through profit or loss		**(238,903)**	(186,205)
Increase in bank deposits with initial term of over three months when acquired		**(987,393)**	(5,987,279)
(Increase)/decrease of financial products included in other financial assets		**(401,753)**	532,146
Decrease/(increase) of financial products included in financial assets at fair value through profit or loss		**2,029,209**	(137,529)
Interest income received from deposits with initial terms of over three months when acquired		**541,621**	111,172
Investment income received from financial products included in other financial assets		**115,166**	22,431
Investment income received from financial products included in financial assets at fair value through profit or loss		**121,208**	47,563
Net cash flows from/(used in) investing activities		**1,073,972**	(5,935,073)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase of convertible bonds	27	**–**	(24,813)
Payments received for subscription of shares under share award scheme		**37,987**	13,143
Dividends paid		**(652,082)**	(712,184)
Lease payments		**(18,963)**	(17,672)
Repurchase of shares under share award scheme		**(114,865)**	(76,618)
New bank loans		**900,000**	–
Repayment of bank loans		**(900,000)**	–
Interest paid		**(5,772)**	–
Net cash flows used in financing activities	32	**(753,695)**	(818,144)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,436,745**	(4,012,012)
Cash and cash equivalents at beginning of year		**2,666,132**	6,718,709
Effect of foreign exchange rate changes, net		**(122,364)**	(40,565)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**5,980,513**	2,666,132
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	**2,246,714**	2,464,318
Non-pledged time deposits with original maturity of less than three months when acquired	22	**3,733,799**	201,814
Cash and cash equivalents as stated in the consolidated statement of cash flows		**5,980,513**	2,666,132

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated in the Cayman Islands with limited liability under the Companies Law of the Cayman Islands. The registered address of the Company is the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The holding company of the Company is Stellar Infinity Company Ltd. and the ultimate parent company of the Company is Harmonia Holding Investing (PTC) Limited. Both Stellar Infinity Company Ltd. and Harmonia Holding Investing (PTC) Limited are incorporated in BVI.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 June 2019.

The Company is an investment holding company. The Company and its subsidiaries (together, the "**Group**") were principally engaged in the research and development, production and sale of a series of pharmaceutical products in the People's Republic of China (the "**PRC**").

As at the date of this report, the Company has direct and indirect interest in its subsidiaries, all of which are private limited liability companies (or if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong).

Particulars of the principal subsidiaries now comprising the Group are set out below:

Company name	Place of incorporation/ registration and operation	Issued ordinary/ registered share capital	Date of incorporation	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("**Jiangsu Hansoh**")	PRC/ Chinese Mainland	RMB 1,000,000,000	July 1995	–	100%	Pharmaceutical
Shanghai Hansoh Biomedical Co., Ltd. ("**Shanghai Hansoh**")	PRC/ Chinese Mainland	RMB 260,000,000	October 2011	–	100%	Pharmaceutical
Hansoh Pharma International Limited ("**Hansoh International**")	PRC/ Hong Kong	HK$100	December 2015	–	100%	Investment holding and trading
Hansoh (Shanghai) Health Technology Co., Ltd. ("**Hansoh Health**")	PRC/ Chinese Mainland	US$ 90,000,000	September 2019	–	100%	Investment holding and trading
Changzhou Hengbang Pharmaceutical Co., Ltd. ("**Changzhou Hansoh**")	PRC/ Chinese Mainland	RMB 100,000,000	April 2018	–	100%	Pharmaceutical

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2023 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

During the reporting period, seven subsidiaries were controlled by agreements ("**VIE**"), which are not listed in the above table because they did not principally affect the results for the year ended 31 December 2023 or form a substantial portion of the net assets of the Group.

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

2.1 BASIS OF PREPARATION *(Continued)*

Basis of consolidation *(Continued)*

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(Continued)*

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

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

(d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has not yet applied the temporary exception during the current year because the entities comprising the Group are operating in jurisdictions in which the Pillar Two tax law has not yet been enacted or substantively enacted. The Group will disclose known or reasonably estimable information related to its exposure to Pillar Two income taxes in the consolidated financial statements by the time when the Pillar Two tax law has been enacted or substantively enacted and will disclose separately the current tax expense or income related to Pillar Two income taxes when it is in effect.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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

Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[1, 4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[1, 4]
Amendments to HKAS 7 and HKFRS 7	*Supplier Finance Arrangements*[1]
Amendments to HKAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

These revised HKFRSs are not expected to have any significant impact on the Group's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

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 Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Fair value measurement

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Fair value measurement *(Continued)*

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Buildings	20-30 years
Leasehold improvements	Over the shorter of the lease terms and 5 years
Machinery and equipment	3-10 years
Computer and office equipment	3-5 years
Motor vehicles	4 years

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

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

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

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Acquired in-process research and development costs

The Group has acquired rights to develop and commercialise product candidates. Upfront payments that relate to the acquisition of a new drug compound, as well as pre-commercial milestone payments are recognized in line with the Group's accounting policies for capitalisation of research and development costs. If the costs have not yet reached capitalisation timing, the Group should charge them to the statement of profit or loss as incurred, unless there is conclusive evidence that these product candidates could be sold probably giving rising to economic benefits for the Group in the future. Royalties owed on sales of the products licensed pursuant to the agreements are expensed in the period the related revenues are recognised.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

Leasehold land	50 years
Property	3-12 years

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

(b) Lease liabilities

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

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

The Group's lease liabilities are presented in separate lines on the consolidated statement of financial position.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Leases *(Continued)*

Group as a lessee (Continued)

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

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for lease of low-value assets to leases of office equipment that is considered to be low value.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying assets to the lessee are accounted for as finance leases.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Investments and other financial assets *(Continued)*

Subsequent measurement (Continued)

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

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

Financial assets at fair value through profit or loss

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

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

Derecognition of financial assets

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

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are 1 year past due. The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. Debt investments graded in the top investment categories (Very Good and Good) by the Chinese Credit Rating Agency are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk of debt investments since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from the Chinese Credit Rating Agency both to determine whether the credit risk of debt instruments have significantly increased and to estimate ECLs.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

General approach (Continued)

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

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables and convertible bonds.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

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

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

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

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

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the statement of profit or loss.

Derecognition of financial liabilities

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

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

Treasury shares

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion and disposal. If the cost of inventories is higher than the net realisable value, the provision of inventories is recognised in profit or loss.

Cash and cash equivalents

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

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

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Income tax

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

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except that deferred tax is not recognised for the Pillar Two income taxes.

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

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

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

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

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(a) Sale of pharmaceutical products

Revenue from the sale of pharmaceutical products is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance of the pharmaceutical products by the customer.

Some contracts for the sale of pharmaceutical products provide customers with rights of return, giving rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) Collaboration arrangements

The Group's collaborative arrangements may contain more than one performance obligation, including grants of licenses to intellectual property rights, agreement to provide research and development services and other deliverables. The collaborative arrangements do not include a right of return for any deliverable. As part of the accounting for these arrangements, the Group must develop assumptions that require judgement to determine the stand-alone selling price for each performance obligation identified in the contract. In developing the stand-alone selling price for a performance obligation, the Group considers competitor pricing for a similar or identical product, market awareness of and perception of the product, expected product life and current market trends. In general, the consideration allocated to each performance obligation is recognised when the respective obligation is satisfied either by delivering a good or providing a service, limited to the consideration that is not constrained. Non-refundable payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as advances from customers.

Licenses of intellectual property: Upfront non-refundable payments for licensing the Group's intellectual property are evaluated to determine if the license is distinct from the other performance obligations identified in the arrangement. For licenses determined to be distinct, the Group recognises revenues from non-refundable, up-front fees allocated to the license at a point in time, when the license is transferred to the licensee and the licensee is able to use and benefit from the license.

Research and development services: The portion of the transaction price allocated to research and development service performance obligations is recognised as collaboration revenue at a point in time upon delivery of such services.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from contracts with customers (Continued)

(b) Collaboration arrangements (Continued)

Milestone payments: At the inception of each arrangement that includes development milestone payments, the Group evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestones related to the development-based activities may include initiation of various phases of clinical trials. Due to the uncertainty involved in meeting these development-based targets, they are generally fully constrained at contract inception. The Group will assess whether the variable consideration is fully constrained in each reporting period based on the facts and circumstances surrounding the clinical trials. Upon changes to the constraint associated with the developmental milestones, variable consideration will be included in the transaction price when a significant reversal of revenue recognised is not expected to occur and allocated to the separate performance obligations. Regulatory milestones are fully constrained until the period in which those regulatory approvals are achieved due to the inherent uncertainty with the approval process. Regulatory milestones are included in the transaction price in the period in which regulatory approval is obtained.

Royalties: For arrangements that include sales-based royalties, including milestone payments based on the level of sales, and the license is deemed to be the predominant item to which the royalties relate, the Group recognises revenue at the later of (i) when the related sales occur, and (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Other income

Rental income is recognised on a time proportion basis over the lease terms.

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

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Share-based payments

The Company operates a share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in Note 29 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operates in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. As at the end of each reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of each reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

2.4 MATERIAL ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year or period are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. There were no deferred tax assets relating to recognised tax losses as at 31 December 2023 (2022: Nil). The amount of tax losses that are not recognised as deferred tax assets as at 31 December 2023 was RMB2,457,444,000 (2022: RMB1,146,087,000). Further details are contained in Note 26 to the financial statements.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty *(Continued)*

Provision for expected credit losses on trade receivables (Continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in Note 18 to the financial statements.

Fair value measurements of financial instruments in Level 3

Unlisted equity investments amounting to RMB684,706,000 as at 31 December 2023 (31 December 2022: RMB412,579,000) are measured at fair values with fair values being determined based on unobserved 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 affect the reported fair values of these investments. Further disclosures are detailed in Notes 20 and 36.

Fair value of share-based payments

Estimating the fair value of share-based payments requires the determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. For the measurement of the fair value of share-based payments transactions with employees at the grant date, the Group uses a binomial model. The assumptions and models used for estimating the fair value for share-based payment transactions are disclosed in Note 29 to the financial statements.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred. Determining the amounts of development costs to be capitalised requires the use of judgements and estimation.

4. OPERATING SEGMENT INFORMATION

Information about geographical areas

Since over 90% of the Group's revenue and operating profit were generated from the sale of pharmaceutical products in Chinese Mainland and most of the Group's identifiable operating assets and liabilities were located in Chinese Mainland, no geographical segment information in accordance with HKFRS 8 *Operating Segments* is presented.

4. OPERATING SEGMENT INFORMATION *(Continued)*

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's revenue during the reporting period.

5. REVENUE, OTHER INCOME AND OTHER EXPENSES, NET

An analysis of revenue, other income and other expenses, net is as follows:

	2023 *RMB'000*	2022 *RMB'000*
Revenue from contracts with customers		
Sales of goods – at a point in time	**9,403,962**	9,298,594
Collaboration revenue – at a point in time	**699,844**	83,816
Total	**10,103,806**	9,382,410
Other income		
Investment income	**115,166**	22,431
Government grants	**104,431**	117,087
Bank interest income	**905,005**	309,085
Others	**822**	84
Total other income	**1,125,424**	448,687
Other expenses		
Gain on disposal of items of property, plant and equipment	**2,103**	11,243
Gain on disposal of associates	**10,776**	–
Loss on disposal of financial assets at amortised cost	**(3,346)**	–
Share of losses of associates	**(2,123)**	(13,859)
Fair value gains of financial assets at fair value through profit of loss	**150,794**	67,583
Loss resulting from derecognition of convertible bonds	**(134,712)**	(159,124)
Donations	**(32,081)**	(47,386)
Foreign exchange differences, net	**4,571**	44,557
Impairment of trade receivables, net	**(22,383)**	(7,152)
Impairment of inventories, net	**(1,645)**	(3,180)
Others	**566**	(9,195)
Total other expenses	**(27,480)**	(116,513)

5. REVENUE, OTHER INCOME AND OTHER EXPENSES, NET *(Continued)*

Performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2023	2022
	RMB'000	*RMB'000*
Amounts expected to be recognised as revenue:		
Within one year	**1,317,396**	334

During the reporting period, the Group enters into multiple license agreements with pharmaceutical companies (the "**Licensees**"), pursuant to which the Licensees shall obtain exclusive licenses for developing, manufacturing, and commercialising certain innovative therapies developed by the Group in certain territories. The Group usually receives upfront payment in accordance with license agreements and is eligible to receive milestone payments and tiered royalties based on net sales in the territories. The Group recognised collaboration revenue of RMB699,844,000 (2022: RMB83,816,000) during the year ended 31 December 2023 upon fulfilling the respective performance obligations in these license agreements.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Notes	**2023** **RMB'000**	2022 RMB'000
Cost of inventories sold		**656,690**	565,756
Depreciation of property, plant and equipment	13	**334,869**	315,538
Depreciation of right-of-use assets	14	**20,750**	20,230
Amortisation of intangible assets	15	**10,762**	8,834
Impairment of trade receivables, net	18	**22,383**	7,152
Impairment of inventories, net		**1,645**	3,180
Operating lease expenses		**5,457**	8,651
Auditors' remuneration		**3,730**	3,700
Gain on disposal of items of property, plant and equipment		**(2,103)**	(11,243)
Gain on disposal of associates		**(10,776)**	–
Investment income		**(115,166)**	(22,431)
Share of losses of associates		**2,123**	13,859
Fair value gains of financial assets at fair value through profit or loss		**(150,794)**	(67,583)
Loss resulting from derecognition of convertible bonds		**134,712**	159,124
Bank interest income		**(905,005)**	(309,085)
Foreign exchange differences, net		**(4,571)**	(44,557)
Employee benefit expense (including directors' remuneration as set out in Note 8):			
Wages and salaries		**1,802,312**	1,744,635
Social welfare and other benefits*		**707,163**	672,419
Share-based payments		**171,365**	179,416
Total		**2,680,840**	2,596,470

* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

7. FINANCE COSTS

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

	2023 *RMB'000*	2022 *RMB'000*
Interest on convertible bonds	**57,529**	54,222
Interest on lease liabilities	**3,378**	3,920
Interest on bank borrowings	**5,772**	–
Total	**66,679**	58,142

8. DIRECTORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Group	
	2023 ***RMB'000***	2022 *RMB'000*
Salaries, allowances and benefits in kind	**12,609**	10,747
Performance related bonuses	**12,414**	9,638
Share-based payments	**15,636**	11,523
Pension scheme contributions	**173**	135
Total	**40,832**	32,043

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

		2023 *RMB'000*	2022 *RMB'000*
Mr. Lin Guoqiang	(ii)	**360**	360
Mr. Chan Charles Sheung Wai	(ii)	**360**	360
Ms. Yang Dongtao	(ii)	**360**	360
Total		**1,080**	1,080

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

8. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and a non-executive director

	Note	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Share-based payments *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2023						
Executive directors:						
Ms. Zhong Huijuan	(i)	**7,344**	**7,448**	**–**	**15**	**14,807**
Ms. Sun Yuan		**3,565**	**3,616**	**9,435**	**15**	**16,631**
Dr. Lyu Aifeng		**1,700**	**1,350**	**6,201**	**143**	**9,394**
Total		**12,609**	**12,414**	**15,636**	**173**	**40,832**

	Note	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Share-based payments *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2022						
Executive directors:						
Ms. Zhong Huijuan	(i)	4,670	6,450	–	15	11,135
Ms. Sun Yuan		4,691	2,153	4,325	15	11,184
Dr Lyu Aifeng		1,386	1,035	7,198	105	9,724
Total		10,747	9,638	11,523	135	32,043

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

Notes:

(i) Ms. Zhong Huijuan is also the chief executive officer of the Company.

(ii) Mr. Lin Guoqiang, Mr. Chan Charles Sheung Wai and Ms. Yang Dongtao were appointed as independent non-executive directors on 31 May 2019.

9. FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2023, the five highest paid employees of the Group included three directors (2022: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2022: two) highest paid employees who are not directors of the Company are as follows:

	2023 *RMB'000*	2022 *RMB'000*
Salaries, allowances and benefits in kind	**6,661**	5,730
Performance related bonuses	**3,749**	2,147
Share-based payments	**3,995**	6,811
Pension scheme contributions	**395**	254
Total	**14,800**	14,942

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

	Number of employees	
	2023	2022
HK$7,500,001 to HK$8,000,000	**1**	–
HK$8,000,001 to HK$8,500,000	**1**	–
HK$8,500,001 to HK$9,000,000	**–**	2
Total	**2**	2

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands., the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands.

The subsidiary incorporated in Hong Kong and subsidiaries registered as a Hong Kong tax resident are subject to income tax at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period. The first HK$2,000,000 (2022: HK$2,000,000) of assessable profits of each subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

The provision for PRC corporate income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Chinese Mainland which are granted tax concession and are taxed at preferential tax rates.

In 2014, Jiangsu Hansoh Pharmaceutical Group Co., Ltd. ("Jiangsu Hansoh"), a subsidiary of the Company, was accredited as a "High and New Technology Enterprise" ("HNTE") and was entitled to a preferential income tax rate of 15% for a period of three years from 2014 to 2016. Jiangsu Hansoh subsequently renewed its HNTE qualification in 2023, and was entitled to the preferential tax rate of 15% from 2023 to 2025.

In 2017, Shanghai Hansoh Biomedical Co., Ltd. ("Shanghai Hansoh"), a subsidiary of the Company, was initially accredited as an HNTE, and thus entitled to a preferential income tax rate of 15% from 2017 to 2019. Shanghai Hansoh subsequently renewed its HNTE qualification in 2023, and was entitled to the preferential tax rate of 15% from 2023 to 2025.

In 2021, Changzhou Hengbang Pharmaceutical Co., Ltd.("Changzhou Hansoh"), a subsidiary of the Company, was initially accredited as an HNTE, and thus entitled to a preferential income tax rate of 15% from 2021 to 2023.

The income tax expense of the Group for the year is analysed as follows:

	2023	2022
	RMB'000	*RMB'000*
Current income tax	**584,293**	280,772
Deferred income tax (Note 26)	**(95,641)**	83,909
Total	**488,652**	364,681

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense/(credit) applicable to profit before tax using the statutory tax rate for the jurisdictions in which the majority of the Group's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2023 **RMB'000**	2022 RMB'000
Profit before tax	**3,766,155**	2,948,428
Tax at the statutory tax rate (25%)	**941,539**	737,107
Preferential income tax rate applicable to certain subsidiaries	**(331,940)**	(146,083)
Additional deductible allowance for qualified research and development costs	**(410,525)**	(276,409)
Adjustments in respect of current income tax of previous years	**(30,881)**	(15,083)
Income not subject to tax	**(240,786)**	(77,810)
Expenses not deductible for tax	**59,513**	1,070
Accrual for withholding tax	**155,555**	164,963
Tax losses utilised from previous years	**(20,856)**	(142,517)
Tax losses not recognised	**367,033**	119,443
Tax charge at the Group's effective rate	**488,652**	364,681

11. DIVIDENDS

	2023 **RMB'000**	2022 RMB'000
2022 Final, Dividends declared – HK$5.00 cents (2021 Final, Dividends declared – HK$9.00 cents) per ordinary share	**268,852**	455,826
2023 Interim, Dividends declared – HK$7.07 cents (2022 Interim, Dividends declared – HK$5.00 cents) per ordinary share	**383,991**	257,439

Pursuant to the resolution of the shareholders of the Company dated 1 June 2023 and the resolution of the board of directors dated 31 August 2023, the Company declared dividends of HK$5.00 cents (2022: HK$9.00 cents) and HK$7.07 cents (2022: HK$5.00 cents) separately per ordinary share, amounting to a total of approximately RMB652,843,000 (2022: RMB713,265,000).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent of RMB3,277,503,000 (2022: RMB2,583,747,000), and the weighted average number of ordinary shares of 5,924,899,050 (2022: 5,915,822,196) in issue during the year, are adjusted to reflect the rights issue during the year.

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest and the fair value on the convertible bonds. The weighted average number of ordinary shares used in the calculation of the diluted earnings per share is the weighted average number of ordinary shares in issue of the parent, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued on the conversion of all dilutive potential shares into ordinary shares.

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

	2023	2022
	RMB'000	*RMB'000*
Earnings		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**3,277,503**	2,583,747
Interest on convertible bonds	**175,957**	–
Less: Fair value gain on the derivative component of the convertible bonds	**307,716**	–
Profit attributable to ordinary equity holders of the parent used in the diluted earnings per share calculation	**3,145,744**	2,583,747

	Adjusted number of shares	
	2023	2022
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,924,899,050**	5,915,822,196
Effect of dilution – weighted average number of ordinary shares:		
Restricted share units	**20,811,901**	13,661,114
Convertible bonds	**73,939,191**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**6,019,650,142**	5,929,483,310
Basic earnings per share (RMB per share)	**0.55**	0.44
Diluted earnings per share (RMB per share)	**0.52**	0.44

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Computer and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022							
Cost	2,278,724	10,897	1,528,095	183,446	81,468	501,687	4,584,317
Accumulated depreciation	(436,042)	(7,806)	(732,187)	(123,779)	(59,948)	–	(1,359,762)
Net carrying amount	1,842,682	3,091	795,908	59,667	21,520	501,687	3,224,555
At 1 January 2022, net of accumulated depreciation	1,842,682	3,091	795,908	59,667	21,520	501,687	3,224,555
Additions	3,529	1,569	88,988	12,376	2,610	193,149	302,221
Disposals	(5,602)	–	(539)	(7)	(587)	–	(6,735)
Transfer	38,748	28,779	276,717	(19,474)	–	(336,332)	(11,562)
Exchange realignment	–	–	2,509	180	–	16	2,705
Depreciation provided during the year	(85,463)	(8,915)	(194,020)	(18,663)	(8,477)	–	(315,538)
At 31 December 2022, net of accumulated depreciation	1,793,894	24,524	969,563	34,079	15,066	358,520	3,195,646
At 31 December 2022:							
Cost	2,310,502	41,245	1,909,442	159,584	60,948	358,520	4,840,241
Accumulated depreciation	(516,608)	(16,721)	(939,879)	(125,505)	(45,882)	–	(1,644,595)
Net carrying amount	1,793,894	24,524	969,563	34,079	15,066	358,520	3,195,646

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings *RMB'000*	Leasehold improvements *RMB'000*	Machinery and equipment *RMB'000*	Computer and office equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
At 1 January 2023							
Cost	2,310,502	41,245	1,909,442	159,584	60,948	358,520	4,840,241
Accumulated depreciation	(516,608)	(16,721)	(939,879)	(125,505)	(45,882)	–	(1,644,595)
Net carrying amount	1,793,894	24,524	969,563	34,079	15,066	358,520	3,195,646
At 1 January 2023, net of accumulated depreciation	1,793,894	24,524	969,563	34,079	15,066	358,520	3,195,646
Additions	1,306	369	45,229	5,713	3,390	150,615	206,622
Disposals	–	–	(2,719)	(14)	(749)	–	(3,482)
Transfer	12,456	6,487	97,013	6,593	157	(142,015)	(19,309)
Exchange realignment	–	–	418	34	–	–	452
Depreciation provided during the year	(100,769)	(14,232)	(192,223)	(19,524)	(8,121)	–	(334,869)
At 31 December 2023, net of accumulated depreciation	1,706,887	17,148	917,281	26,881	9,743	367,120	3,045,060
At 31 December 2023:							
Cost	2,324,265	48,100	2,043,835	171,401	52,940	367,120	5,007,661
Accumulated depreciation	(617,378)	(30,952)	(1,126,554)	(144,520)	(43,197)	–	(1,962,601)
Net carrying amount	1,706,887	17,148	917,281	26,881	9,743	367,120	3,045,060

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group was applying for the certificates of ownership for certain properties with a net book value of RMB45,728,026 as at 31 December 2023. The directors of the Company are of the opinion that the use of and the conduct of operating activities at the properties referred to above are not affected by the fact the Group had not yet obtained the relevant property title certificates. The Group is not able to assign, transfer or mortgage these assets until these certificates are obtained.

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights and property. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings generally have lease terms of 3 years to 12 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

	Leasehold land *RMB'000*	Property *RMB'000*	Total *RMB'000*
As at 1 January 2022	**170,208**	**80,632**	**250,840**
Additions	**–**	**16,824**	**16,824**
Exchange realignment	**–**	**6,813**	**6,813**
Depreciation charge	**(3,950)**	**(16,280)**	**(20,230)**
As at 31 December 2022 and 1 January 2023	**166,258**	**87,989**	**254,247**
Exchange realignment	**–**	**1,166**	**1,166**
Depreciation charge	**(3,950)**	**(16,800)**	**(20,750)**
As at 31 December 2023	**162,308**	**72,355**	**234,663**

14. LEASES *(Continued)*

The Group as a lessee *(Continued)*

(b) *Lease liabilities*

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

	2023 *RMB'000*	2022 *RMB'000*
Carrying amount at 1 January	**95,114**	84,885
New leases	**–**	16,824
Accretion of interest recognised during the year	**3,378**	3,920
Exchange realignment	**1,266**	7,157
Payments	**(18,963)**	(17,672)
Carrying amount at 31 December	**80,795**	95,114
Analysed into:		
Current portion	**16,087**	15,543
Non-current portion	**64,708**	79,571

(c) *The amounts recognised in profit or loss in relation to leases are as follows:*

	2023 *RMB'000*	2022 *RMB'000*
Interest on lease liabilities	**3,378**	3,920
Depreciation charge of right-of-use assets	**20,750**	20,230
Expense relating to short-term leases	**5,457**	8,651
Total	**29,585**	32,801

15. INTANGIBLE ASSETS

	Patents and Software *RMB'000*	Deferred Development Costs *RMB'000*	Total *RMB'000*
31 December 2023			
Cost at 1 January 2023, net of accumulated amortisation	**33,422**	**–**	**33,422**
Additions	**18,529**	**136,227**	**154,756**
Amortisation provided during the year	**(10,762)**	**–**	**(10,762)**
At 31 December 2023	**41,189**	**136,227**	**177,416**
At 31 December 2023:			
Cost	**98,963**	**136,227**	**235,190**
Accumulated amortisation	**(57,774)**	**–**	**(57,774)**
Net carrying amount	**41,189**	**136,227**	**177,416**

	Patents and Software *RMB'000*
31 December 2022	
Cost at 1 January 2022, net of accumulated amortisation	17,037
Additions	25,219
Amortisation provided during the year	(8,834)
At 31 December 2022	33,422
At 31 December 2022:	
Cost	80,434
Accumulated amortisation	(47,012)
Net carrying amount	33,422

16. INVESTMENTS IN ASSOCIATES

	2023 RMB'000	2022 RMB'000
Investments in associates	**–**	241,071

The directors of the Group consider each associate is not material to the Group. The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2023 RMB'000	2022 RMB'000
Share of the associates' losses for the period	**(2,123)**	(13,999)
Share of the associates' total comprehensive expense	**(2,123)**	(13,999)
Aggregate carrying amount of the Group's investments in the associates	**–**	241,071

17. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	**138,083**	104,842
Work in progress	**287,627**	229,737
Finished goods	**150,072**	113,311
Total	**575,782**	447,890

18. TRADE AND BILLS RECEIVABLES

	2023	2022
	RMB'000	*RMB'000*
Trade receivables	**3,240,237**	3,542,190
Impairment	**(30,604)**	(8,221)
Net carrying amount	**3,209,633**	3,533,969
Bills receivable	**4,618**	44,423
Total	**3,214,251**	3,578,392

The Group's trading terms with its customers are mainly on credit, except for new customers, whose payment in advance is normally required. The credit period is generally from 60 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2023	2022
	RMB'000	*RMB'000*
Within 90 days	**3,032,806**	3,346,334
91 days to 180 days	**25,365**	8,406
Over 180 days	**151,462**	179,229
Total	**3,209,633**	3,533,969

18. TRADE AND BILLS RECEIVABLES *(Continued)*

An ageing analysis of bills receivable as at the end of the reporting period, based on the billing date, is as follows:

	2023	2022
	RMB'000	*RMB'000*
Within 90 days	**4,618**	44,423

The Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables and bills receivable.

To measure the expected credit losses for trade receivables, trade receivables have been grouped based on shared credit risk characteristics and the ageing. The movements in the loss allowance for impairment of trade receivables are as follows:

	2023	2022
	RMB'000	*RMB'000*
At beginning of year	**8,221**	1,069
Impairment losses, net (Note 6)	**22,383**	7,152
At end of year	**30,604**	8,221

18. TRADE AND BILLS RECEIVABLES *(Continued)*

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Current	Past due			Total
		Within 90 days	90 days to 1 year	Over 1 year	
At 31 December 2023					
Expected credit loss rate	**0.70%**	**0.71%**	**5.80%**	**100.00%**	**0.94%**
Gross carrying amount *(RMB'000)*	**2,933,952**	**154,143**	**151,922**	**220**	**3,240,237**
Expected credit losses *(RMB'000)*	**20,471**	**1,096**	**8,817**	**220**	**30,604**
At 31 December 2022					
Expected credit loss rate	0.17%	0.17%	4.45%	100.00%	0.23%
Gross carrying amount *(RMB'000)*	3,199,965	303,229	38,468	528	3,542,190
Expected credit losses *(RMB'000)*	5,456	525	1,712	528	8,221

Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivable and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

At 31 December 2023, the Group endorsed and discounted certain bills receivable accepted by banks in Chinese Mainland (the "**Derecognised Bills**") to settle the trade payables and other payables with a carrying amount of RMB642,806,302 (2022: RMB507,037,000). The Derecognised Bills had a maturity of one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "**Continuing Involvement**"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, the Group has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables and other payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2023, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the reporting period and cumulatively.

19. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023	2022
	RMB'000	*RMB'000*
Prepayments	**99,344**	77,136
Deposits	**26,666**	7,137
Prepaid expenses	**3,829**	1,727
Value-added tax recoverable	**67,252**	12,979
Advance to employees	**25,481**	48,465
Other receivables	**13,636**	34,442
Total	**236,208**	181,886

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023	2022
	RMB'000	*RMB'000*
Current		
Investments in financial products (note (a))	**512,409**	2,544,426
Non-current		
Other unlisted investments, at fair value (note (b))	**684,706**	412,579

Notes:

(a) The above investments represent investments in certain financial products issued by commercial banks with expected return rates ranging from 2.45% to 4.32% (2022: 1.20% to 5.80%) per annum. The returns on all of these financial products are not guaranteed. The fair values of the investments approximate to their costs plus expected return. None of these investments are either past due or impaired.

(b) The balance as at 31 December 2023 represents unlisted equity investments in nine venture capital which specialise in making equity investments in the life science industry and three innovative biopharmaceutical manufacturers. The Group has an intention of holding them as long-term investments.

21. OTHER FINANCIAL ASSETS

	2023 RMB'000	2022 RMB'000
Investments in financial products	**1,909,966**	1,463,752

The above investments represent investments in certain financial products issued by commercial banks. These financial products had terms of less than one year and had guaranteed annual return rates ranging from 5.06% to 5.75% (2022: 0.39% to 5.34%). None of these investments are either past due or impaired.

22. CASH AND BANK BALANCES

	2023 RMB'000	2022 RMB'000
Cash and bank balances, unrestricted	**2,246,714**	2,464,318
Time deposits with original maturity of less than three months when acquired	**3,733,799**	201,814
Time deposits with original maturity of over three months when acquired (note (a))	**16,454,178**	14,949,142
Cash and bank balances	**22,434,691**	17,615,274
Denominated in:		
RMB	**7,070,597**	3,843,852
United States dollar	**14,927,985**	13,697,020
Hong Kong dollar	**60,474**	71,544
Others	**375,635**	2,858
Total	**22,434,691**	17,615,274

The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods within three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances are deposited with creditworthy banks with no history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Note:

(a) The above investments represent time deposits with initial terms of over three months when acquired (including three months) issued by commercial banks with annual return rates ranging from 3.20% to 6.03% (2022: 0.55% to 5.55%). None of these investments are either past due or impaired. None of these deposits are pledged.

23. TRADE AND BILLS PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables	**121,042**	133,959
Bills payable	**42,721**	88,337
Total	**163,763**	222,296

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000
Within 90 days	**160,294**	220,947
91 days to 180 days	**950**	–
181 days to 1 year	**554**	–
Over 1 year	**1,965**	1,349
Total	**163,763**	222,296

The trade payables are non-interest-bearing and are normally settled on 90-day terms.

24. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Accrued expenses	**1,546,526**	1,597,138
Staff payroll, welfare and bonus payables	**281,236**	267,430
Payables for purchase of items of property, plant and equipment	**62,442**	85,385
Other tax payables	**141,551**	60,131
Other payables	**343,925**	255,547
Total	**2,375,680**	2,265,631

25. CONTRACT LIABILITIES

	2023 **RMB'000**	2022 *RMB'000*
Amounts received in advance of delivery of products and services	**38,471**	25,097

Set out below is the amount of revenue and other income recognised from:

	2023 **RMB'000**	2022 *RMB'000*
Amounts included in contract liabilities at the beginning of the year	**25,097**	22,201

26. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Losses available for offsetting against future taxable profits ***RMB'000***	**Decelerated depreciation/ amortisation for tax purposes** ***RMB'000***	**Accrued expenses** ***RMB'000***	**Provision for impairment of trade receivables and inventories** ***RMB'000***	**Total deferred tax assets** ***RMB'000***
At 1 January 2023	**–**	**143,486**	**55,599**	**3,314**	**202,399**
Deferred tax recognised in the consolidated statement of profit or loss during the year	**–**	**(17,101)**	**(6,141)**	**3,057**	**(20,185)**
At 31 December 2023	**–**	**126,385**	**49,458**	**6,371**	**182,214**
At 1 January 2022	924	58,934	57,389	1,765	119,012
Deferred tax recognised in the consolidated statement of profit or loss during the year	(924)	84,552	(1,790)	1,549	83,387
At 31 December 2022	–	143,486	55,599	3,314	202,399

26. DEFERRED TAX *(Continued)*

Deferred tax liabilities

	Accelerated depreciation for tax purposes *RMB'000*	Accrual for withholding tax *RMB'000*	Total deferred tax liabilities *RMB'000*
At 1 January 2023	**(86,904)**	**(466,156)**	**(553,060)**
Deferred tax recognised in the consolidated statement of profit or loss during the year	**6,691**	**109,135**	**115,826**
At 31 December 2023	**(80,213)**	**(357,021)**	**(437,234)**
At 1 January 2022	(60,333)	(325,431)	(385,764)
Deferred tax recognised in the consolidated statement of profit or loss during the year	(26,571)	(140,725)	(167,296)
At 31 December 2022	(86,904)	(466,156)	(553,060)

The Group has no tax losses arising in Hong Kong (2022: Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group has tax losses arising in Chinese Mainland of RMB1,831,855,000 (2022: RMB835,788,000) that will expire in one to ten years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign invested enterprises established in Chinese Mainland. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Chinese Mainland and the jurisdiction of the foreign investors.

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2023 *RMB'000*	2022 *RMB'000*
Net deferred tax liabilities recognised in the consolidated statement of financial position	**255,020**	350,661

27. CONVERTIBLE BONDS

On 22 January 2021, the Company issued US$600,000,000 zero coupon convertible bonds due 2026. The bonds are convertible at the option of the bondholders into ordinary shares after 4 March 2021 on the basic conversion price of HK$59.33 per share. The bonds are redeemable at the option of the bondholders on 22 January 2024. Any convertible bonds not converted, redeemed or purchased and cancelled will be redeemed by the Company on 22 January 2026 at the price of the par value.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option.

The convertible bonds comprise two components:

The debt component was initially measured at fair value amounting to US$562,489,000 (equivalent to RMB3,634,633,000). It is subsequently measured at amortized cost using the effective interest method after considering the effect of the transaction costs.

The derivative component comprises conversion options and early redemption options (not closely related to the debt component), which were initially measured at fair value amounting to US$37,511,000 (equivalent to RMB242,387,000) and subsequently measured at fair value with changes in fair value recognised in profit or loss.

The total transaction costs of US$4,000,000 (equivalent to RMB25,847,000) related to the issue of the convertible bonds were allocated to the debt and derivative components in proportion to their respective fair values.

The convertible bonds have been split into the debt and embedded derivative components as follows:

	Debt component *RMB'000*	Embedded derivative component *RMB'000*	Total *RMB'000*
As at 1 January 2023	**3,974,835**	**307,907**	**4,282,742**
Derecognition	**118,948**	**(298,748)**	**(179,800)**
Exchange realignment	**68,885**	**2,634**	**71,519**
Interest charged	**57,529**	**–**	**57,529**
Gains arising on changes of fair value	**–**	**(9,050)**	**(9,050)**
As at 31 December 2023	**4,220,197**	**2,743**	**4,222,940**

27. CONVERTIBLE BONDS *(Continued)*

	Debt component *RMB'000*	Embedded derivative component *RMB'000*	Total *RMB'000*
As at 1 January 2022	3,611,331	131,665	3,742,996
Repurchase	(25,549)	(1,979)	(27,528)
Exchange realignment	334,831	19,097	353,928
Interest charged	54,222	–	54,222
Losses arising on changes of fair value	–	159,124	159,124
As at 31 December 2022	3,974,835	307,907	4,282,742

On 22 December 2023, the Company received Optional Put Exercise Notices from certain holders of the convertible bonds and was obligated to redeem partial convertible bonds in 30 days later upon receiving such notices. On 22 January 2024, the Company redeemed the convertible bonds at total cash consideration of US$590,622,000 (equivalent to RMB4,203,280,000). The difference of principal and carrying amount of debt component of redeemed convertible bonds are classified as other expenses of US$16,935,000 (equivalent to RMB118,948,000) and the redeemed convertible bonds of US$590,622,000 (equivalent to RMB4,183,198,000) are reclassified and presented as current liabilities as at 31 December 2023. The unredeemed convertible bonds of US$5,378,000 (equivalent to RMB39,742,000) are presented as non-current liabilities as at 31 December 2023.

28. SHARE CAPITAL

	2023 ***RMB***	2022 *RMB*
Issued and fully paid:		
5,933,350,070 shares of HK$0.00001 each (31 December 2022: 5,922,350,070 shares of HK$0.00001 each)	**52,265**	52,169

28. SHARE CAPITAL *(Continued)*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital *RMB*
At 1 January 2023	**5,922,350,070**	**52,169**
Issue of shares pursuant to the Group's Restricted Share Unit Scheme (the "**RSU Scheme**") adopted on May 27, 2019, HK$0.00001 each (note (a))	**11,000,000**	**96**
At 31 December 2023	**5,933,350,070**	**52,265**

Note:

(a) On 21 April 2023, the Company issued 11,000,000 new ordinary shares to Computershare Hong Kong Trustees Limited (the "**Trustee**") pursuant to the terms of the RSU Scheme approved and adopted on 27 May 2019, with the exercise price of HK$2.60 per restricted share for exercising on 29 April 2023.

29. SHARE-BASED PAYMENTS

The Group's RSU Scheme was adopted pursuant to a resolution passed on 27 May 2019 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 13 June 2029. At 31 December 2023, the RSU Scheme representing up to an aggregate of 52,290,594 shares of the Company will be available for grant in future.

The table below discloses movements of the RSU Scheme:

	2023 Number of restricted share unit	2022 Number of restricted share unit
Outstanding as at 1 January	**32,364,620**	5,293,560
Granted during the year	**20,304,400**	36,786,600
Forfeited during the year	**3,453,060**	1,027,200
Exercised during the year	**13,810,960**	8,688,340
Outstanding as at 31 December	**35,405,000**	32,364,620

During the year ended 31 December 2023, 20,304,400 restricted share units were granted on 27 April 2023. The closing price of the Group's shares immediately before 27 April 2023, the date of grant, was HK$14.56 per share. These restricted share units will be exercised subject to certain performance indicators and other requirements set out in the grant letter entered between employees and the Group, including requirements based on the Group's annual results and the employees' individual annual performance. Approximately 34% of the restricted share units shall vest on the first anniversary of the vesting commencement date and the remaining approximately 33% and approximately 33% shall vest on the second and third anniversaries of the vesting commencement date, respectively.

29. SHARE-BASED PAYMENTS *(Continued)*

The fair value of the restricted share units determined on 27 April 2023 using the Binomial model was HK$11.50 per unit. The following assumptions were used to calculate the fair value of the restricted share units:

	27 April 2023
Grant date share price	HK$14.34
Exercise price	HK$2.84
Exercise life	3 years
Exercise volatility	46.15%-51.81%
Dividend yield	–
Risk-free interest rate	3.21%-3.29%

The binomial model has been used to estimate the fair value of the restricted share units. The variables and assumptions used in computing the fair value of the restricted share units are based on the directors' best estimate. Changes in estimates and assumptions may result in changes in fair value of the restricted share units.

At the end of each reporting period, the Group revises its estimates of the number of restricted share units that are expected to vest ultimately. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to the share-based payment reserve.

30. TREASURY SHARES

As instructed by the board of directors, the Trustee is appointed to acquire a certain number of shares from the open market for the RSU Scheme, and the purchased shares will be held by the Trustee, recognized as treasury shares, until such shares are vested in accordance with the provisions of the Scheme.

A summary of movements in the Company's treasury shares is as follows:

	Number of shares	**Treasury shares *RMB'000***
At 1 January 2023	**2,397,660**	**28,027**
Shares repurchased for the RSU Scheme	**10,028,000**	**114,865**
Exercised	**(2,810,960)**	**(33,502)**
Dividends declared	**–**	**(761)**
At 31 December 2023	**9,614,700**	**108,629**

	Number of shares	Treasury shares *RMB'000*
At 1 January 2022	4,000,000	57,969
Shares repurchased for the RSU Scheme	7,086,000	76,618
Exercised	(8,688,340)	(105,479)
Dividends declared	–	(1,081)
At 31 December 2022	2,397,660	28,027

31. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity.

(a) Share premium

The proceeds from the issue of shares that exceed the nominal value of the shares were credited into the share premium.

(b) Merger reserve

The merger reserve of the Group represents the capital contributions from the then shareholders of the subsidiaries.

(c) Exchange fluctuation reserve

The functional currencies of certain overseas subsidiaries are currencies other than the Renminbi ("**RMB**"). As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into RMB at the weighted average exchange rates for the period. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

(d) Statutory surplus reserves

In accordance with the Company Law of the People's Republic of China (the "**PRC**"), a subsidiary of the Group which is a domestic enterprise is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC Generally Accepted Accounting Principles, to its statutory surplus reserves until the reserves reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

Except for the transactions mentioned in Note 18, there were no major non-cash transactions during the years ended 31 December 2023 and 2022.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(b) Changes in liabilities arising from financing activities

	Dividends payable *RMB'000*	Lease liabilities *RMB'000*	Convertible bonds *RMB'000*
At 1 January 2023	**–**	**95,114**	**4,282,742**
Changes from financing cash flows:			
Dividend paid to the shareholders	**(652,082)**	**–**	**–**
Principal portion of lease payments	**–**	**(18,963)**	**–**
Total changes from financing cash flows	**(652,082)**	**(18,963)**	**–**
Other changes:			
Dividend declared to the shareholders	**652,082**	**–**	**–**
Interest charged on convertible bonds	**–**	**–**	**57,529**
Gains arising on changes of fair value	**–**	**–**	**(188,850)**
Accretion of interest recognised during the year	**–**	**3,378**	**–**
Exchange realignment	**–**	**1,266**	**71,519**
Total other changes	**652,082**	**4,644**	**(59,802)**
At 31 December 2023	**–**	**80,795**	**4,222,940**
At 1 January 2022	–	84,885	3,742,996
Changes from financing cash flows:			
Dividend paid to the shareholders	(712,184)	–	–
Repurchase of convertible bonds	–	–	(24,813)
Principal portion of lease payments	–	(17,672)	–
Total changes from financing cash flows	(712,184)	(17,672)	(24,813)
Other changes:			
Dividend declared to the shareholders	712,184	–	–
Interest charged on convertible bonds	–	–	54,222
Losses arising on changes of fair value	–	–	159,124
Gain on repurchase of convertible bonds	–	–	(2,715)
Additions to lease liabilities	–	16,824	–
Accretion of interest recognised during the year	–	3,920	–
Exchange realignment	–	7,157	353,928
Total other changes	712,184	27,901	564,559
At 31 December 2022	–	95,114	4,282,742

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

(c) Total cash outflow for leases

The total cash outflow for leases included in the consolidated statement of cash flows is as follows:

	2023	2022
	RMB'000	*RMB'000*
Within operating activities	**5,457**	8,651
Within investing activities	**–**	–
Within financing activities	**18,963**	17,672
Total	**24,420**	26,323

33. COMMITMENTS

Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	2023	2022
	RMB'000	*RMB'000*
Contracted, but not provided for acquisition of property, plant and equipment	**80,445**	39,341

Other business agreements

The Group enters into collaboration agreements with institutions and companies to license intellectual property. The Company may be obligated to make future development, regulatory and commercial milestone payments and royalty payments on future sales of specified products associated with its collaboration agreements. Payments under these agreements generally become due and payable upon achievement of such milestones or sales. These commitments are not recorded on the consolidated statement of financial position because the achievement and timing of these milestones are not fixed and determinable. When the achievement of these milestones or sales have occurred, the corresponding amounts are recognised in the consolidated financial statements.

34. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Name of and relationship with a related party

Name	**Relationship**
江蘇恒瑞醫藥股份有限公司 ("**Jiangsu Hengrui Medicine**")	Investee of a close family member of a director

(b) Transactions with a related party

The following transactions were carried out with a related party:

	2023 *RMB'000*	2022 *RMB'000*
Collaboration revenue – at a point in time		
Jiangsu Hengrui Medicine	**4,717**	–
Expense for services received		
Jiangsu Hengrui Medicine	**10,000**	–

The directors of the Company are of the opinion that the above sales to related parties were conducted in the ordinary course of business and on normal commercial terms.

(c) Compensation of key management personnel of the Group:

	2023 *RMB'000*	2022 *RMB'000*
Salaries, allowances and benefits in kind	**66,405**	52,894
Performance related bonuses	**39,781**	14,566
Share-based payments	**78,589**	80,920
Pension scheme contributions	**4,421**	3,607
Total compensation paid to key management personnel	**189,196**	151,987

Further details of directors' emoluments are included in Note 8 to the financial statements.

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period were as follows:

2023

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
		Debt investments		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	3,209,633	3,209,633
Bills receivable	–	4,618	–	4,618
Financial assets at fair value through profit or loss	1,197,115	–	–	1,197,115
Financial assets included in prepayments, other receivables and other assets	–	–	65,783	65,783
Other financial assets	–	–	1,909,966	1,909,966
Cash and bank balances	–	–	22,434,691	22,434,691
Total	1,197,115	4,618	27,620,073	28,821,806

Financial liabilities

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
		Designated as such upon initial recognition	
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	163,763	–	163,763
Financial liabilities included in other payables and accruals	1,952,893	–	1,952,893
Lease liabilities	80,795	–	80,795
Convertible bonds – debt component	4,220,197	–	4,220,197
Convertible bonds – embedded derivative instruments	–	2,743	2,743
Total	6,417,648	2,743	6,420,391

35. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

2022

Financial assets

	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Total
		Debt investments		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables	–	–	3,533,969	3,533,969
Bills receivable	–	44,423	–	44,423
Financial assets at fair value through profit or loss	2,957,005	–	–	2,957,005
Financial assets included in prepayments, other receivables and other assets	–	–	103,023	103,023
Other financial assets	–	–	1,463,752	1,463,752
Cash and bank balances	–	–	17,615,274	17,615,274
Total	2,957,005	44,423	22,716,018	25,717,446

Financial liabilities

	Financial liabilities at amortised cost	Financial liabilities at fair value through profit or loss	Total
		Designated as such upon initial recognition	
	RMB'000	*RMB'000*	*RMB'000*
Trade and bills payables	222,296	–	222,296
Financial liabilities included in other payables and accruals	1,938,070	–	1,938,070
Lease liabilities	95,114	–	95,114
Convertible bonds – debt component	3,974,835	–	3,974,835
Convertible bonds – embedded derivative instruments	–	307,907	307,907
Total	6,230,315	307,907	6,538,222

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Financial assets

	Carrying amount		Fair value	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial assets at fair value through profit or loss	**1,197,115**	2,957,005	**1,197,115**	2,957,005
Debt investments at fair value through other comprehensive income	**4,618**	44,423	**4,596**	44,055
Total	**1,201,733**	3,001,428	**1,201,711**	3,001,060

Financial liabilities

	Carrying amount		Fair value	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Convertible bonds	**4,222,940**	4,282,742	**4,222,940**	4,282,742

Management has assessed that the fair values of cash and cash equivalents, time deposits with original maturity of over three months when acquired, trade and bills receivables, trade and bills payables, other financial assets, deposits and other receivables, financial liabilities included in other payables and accruals and dividends payable approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of lease liabilities have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for lease liabilities as at 31 December 2023 were assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The Group held bills receivable within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Bills receivable is measured at fair value through other comprehensive income. The Group has estimated the fair value of bills receivable by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

The fair value of unlisted equity investments designated at fair value through profit or loss has been estimated based on the most recent transaction price.

The Group invests in financial assets at fair value through profit or loss, which represent wealth management products issued by banks. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2023 and 2022:

Financial instruments	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Bills receivable held both to collect cash flows and to sell	Discounted cash flow method	Discount rate per annum	3.28% to 3.62% (2022: 4.13% to 4.57%)	5% (2022: 5%) increase/decrease in discount rate would result in decrease/ increase in fair value by 0.02% (2022: 0.01%)
Convertible bonds – embedded derivative instruments	Binominal option pricing with the volatilities and risk-free rates as key inputs	Expected volatility	22.73% to 25.13% (2022: 26.33% to 29.11%)	5% (2022:5%) increase/decrease in expected volatility would result in increase/decrease in fair value by 0.00% (2022: 0.00%)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
As at 31 December 2023				
Financial assets at fair value through profit or loss	**–**	**512,409**	**684,706**	**1,197,115**
Bills receivable	**–**	**–**	**4,596**	**4,596**
As at 31 December 2022				
Financial assets at fair value through profit or loss	–	2,544,426	412,579	2,957,005
Bills receivable	–	–	44,055	44,055

36. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value hierarchy *(Continued)*

Liabilities measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
As at 31 December 2023				
Convertible bonds – embedded derivative instruments	**–**	**–**	**2,743**	**2,743**
As at 31 December 2022				
Convertible bonds – embedded derivative instruments	–	–	307,907	307,907

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2022: Nil).

Liabilities for which fair values are disclosed:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
As at 31 December 2023				
Convertible bonds – debt component	**–**	**–**	**4,220,197**	**4,220,197**
As at 31 December 2022				
Convertible bonds – debt component	–	–	3,974,835	3,974,835

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly include cash and cash equivalents, time deposits with original maturity of over three months when acquired, financial assets at fair value through profit or loss and other financial assets. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. To keep the Group's exposure to these risks to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Foreign currency risk

Foreign currency risk is the risk of losses resulting from changes in foreign currency exchange rates. The Group's businesses are located in Chinese Mainland and nearly all transactions are conducted in RMB. As nearly all of the assets and liabilities of subsidiaries in Chinese Mainland were denominated in RMB, these subsidiaries were not subject to significant foreign currency risk. As at 31 December 2023, the Group's assets and liabilities denominated in currencies other than RMB were mainly held by the Company and certain subsidiaries incorporated outside Chinese Mainland which had currencies other than RMB as their functional currencies. The Company and those subsidiaries incorporated outside Chinese Mainland also held bank balances denominated in currencies other than their functional currencies, from which foreign currency exposures arise.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in profit for the year *RMB'000*
2023			
If the RMB weakens against the United States dollar	**5**	**65,686**	**55,833**
If the RMB strengthens against the United States dollar	**(5)**	**(65,686)**	**(55,833)**
2022			
If the RMB weakens against the United States dollar	5	22,701	19,296
If the RMB strengthens against the United States dollar	(5)	(22,701)	(19,296)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Credit risk

The carrying amounts of cash and cash equivalents, time deposits with original maturity of over three months when acquired, other financial assets, financial assets at fair value through profit or loss, trade receivables and other receivables represent the Group's maximum exposure equal to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash and cash equivalents, time deposits with original maturity of over three months when acquired, other financial assets and financial assets at fair value through profit or loss since they are substantially held in reputable state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

The Group trades only with recognised and creditworthy customers with no requirement for collateral. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade receivable periodically and management also has monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group measures the loss allowance for bills receivable at an amount equal to lifetime ECLs. Based on past experience and forward-looking information, the directors of the Company are of the opinion that there is no significant credit risk associated with bills receivable and no credit loss allowance is necessary since the counterparties are substantially reputable state-owned banks and other medium or large-sized listed banks with no history of default.

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experiences do not indicate significantly different loss patterns for different segments, the loss allowance based on the past due status is not further distinguished between the Group's different customer bases.

The Group also expects that there is no significant credit risk associated with amounts due from related parties and other receivables since counterparties to these financial assets have no history of default.

For other financial assets, amounts due from related parties and other receivables, impairment is measured at 12-month expected credit losses as there has been no significant increase in credit risk since initial recognition.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers both the maturity of its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on contractual undiscounted payments, is as follows:

	2023				
	Within 3 months or on demand *RMB'000*	**3 months to 1 year** *RMB'000*	**1 year to 5 years** *RMB'000*	**Over 5 years** *RMB'000*	**Total** *RMB'000*
Lease liabilities	**4,557**	**14,230**	**39,407**	**33,319**	**91,513**
Financial liabilities included in other payables and accruals	**1,952,893**	**–**	**–**	**–**	**1,952,893**
Trade and bills payables	**160,294**	**1,504**	**1,965**	**–**	**163,763**
Convertible bonds	**4,183,198**	**–**	**39,742**	**–**	**4,222,940**
	6,300,942	**15,734**	**81,114**	**33,319**	**6,431,109**

	2022				
	Within 3 months or on demand *RMB'000*	3 months to 1 year *RMB'000*	1 year to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	4,305	14,648	49,201	40,931	109,085
Financial liabilities included in other payables and accruals	1,938,070	–	–	–	1,938,070
Trade and bills payables	220,947	–	1,349	–	222,296
Convertible bonds	–	–	4,150,902	–	4,150,902
	2,163,322	14,648	4,201,452	40,931	6,420,353

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the reporting period.

The Group monitors capital using a debt-to-asset ratio which is total liabilities divided by total assets. The debt-to-asset ratios as at the end of the reporting periods were as follows:

	2023	2022
	RMB'000	*RMB'000*
Total liabilities	**7,244,306**	7,354,935
Total assets	**33,039,079**	30,001,879
Debt-to-asset ratio	**22%**	25%

38. CONTINGENT LIABILITIES

As at 31 December 2023, the Group and the Company were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group and the Company expect would materially adversely affect their financial position or results of operations.

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 *RMB'000*	2022 *RMB'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**484,844**	533,985
Financial assets at fair value through profit or loss	**626,839**	–
Amounts due from subsidiaries	**16,117,625**	16,830,943
Total non-current assets	**17,229,308**	17,364,928
CURRENT ASSETS		
Amounts due from subsidiaries	**360,228**	435,429
Prepayments, other receivables and other assets	**13,668**	34,459
Cash and bank balances	**89,705**	70,622
Total current assets	**463,601**	540,510
CURRENT LIABILITIES		
Other payables and accruals	**73,937**	73,117
Convertible bonds	**4,183,198**	–
Total current liabilities	**4,257,135**	73,117
NET CURRENT ASSETS	**(3,793,534)**	467,393
TOTAL ASSETS LESS CURRENT LIABILITIES	**13,435,774**	17,832,321
NON-CURRENT LIABILITIES		
Convertible bonds	**39,742**	4,282,742
Amounts due to subsidiaries	**1,412**	–
Total non-current liabilities	**41,154**	4,282,742
NET ASSETS	**13,394,620**	13,549,579
EQUITY		
Share capital	**52**	52
Treasure shares	**(108,629)**	(28,027)
Reserves (Note(a))	**13,503,197**	13,577,554
Total equity	**13,394,620**	13,549,579

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

(a) A summary of the Company's reserves is as follows:

	Share premium *RMB'000*	Share option reserve *RMB'000*	Other Reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits/ (accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2023	**13,931,541**	**313,478**	**(2,291)**	**121,202**	**(786,376)**	**13,577,554**
Profit for the year	**–**	**–**	**–**	**–**	**172,046**	**172,046**
Exchange differences related to foreign operations	**–**	**–**	**–**	**230,590**	**–**	**230,590**
Total comprehensive income for the year	**–**	**–**	**–**	**230,590**	**172,046**	**402,636**
Issue of new shares	**25,227**	**–**	**–**	**–**	**–**	**25,227**
Exercise of vested restricted share units	**138,754**	**(159,496)**	**–**	**–**	**–**	**(20,742)**
Share-based payments	**–**	**171,365**	**–**	**–**	**–**	**171,365**
Dividends declared	**–**	**–**	**–**	**–**	**(652,843)**	**(652,843)**
At 31 December 2023	**14,095,522**	**325,347**	**(2,291)**	**351,792**	**(1,267,173)**	**13,503,197**

	Share premium *RMB'000*	Share option reserve *RMB'000*	Other Reserve *RMB'000*	Exchange fluctuation reserve *RMB'000*	Retained profits/ (accumulated losses) *RMB'000*	Total *RMB'000*
At 1 January 2022	14,023,877	134,062	–	(1,035,329)	128,321	13,250,931
Loss for the year	–	–	–		(201,432)	(201,432)
Exchange differences related to foreign operations	–	–	–	1,156,531	–	1,156,531
Total comprehensive income for the year	–	–	–	1,156,531	(201,432)	955,099
Others	–	–	(2,291)	–	–	(2,291)
Exercise of vested restricted share units	(92,336)	–	–	–	–	(92,336)
Share-based payments	–	179,416	–	–	–	179,416
Dividends declared	–	–	–	–	(713,265)	(713,265)
At 31 December 2022	13,931,541	313,478	(2,291)	121,202	(786,376)	13,577,554

The Company may pay dividends out of its share premium account and retained earnings.

As at 31 December 2023, the Company had distributable reserves for share premium of RMB14,095,522,000 (2022: RMB13,931,541,000).

40. EVENTS AFTER THE REPORTING PERIOD

On 22 January 2024, the Company repurchased convertible bonds in the aggregate principal amount of US$590,622,000, equivalent to RMB4,183,198,000, at a cost of US$590,622,000.

On 14 March 2024, Hansoh (Shanghai) Healthtech Company Limited (the "**Licensee**"), a wholly-owned subsidiary of the Company, have entered into a license agreement (the "**Licensing Agreement**") with Biotheus Inc.("**Biotheus**"). Pursuant to the Licensing Agreement, the Licensee obtained an exclusive license from Biotheus to use HS-20117 (license-in as PM1080) for the development, production, and commercialization of bispecific antibody-drug conjugate product (the "**ADC Produc**t") on a global basis, with the right of sublicense. The Licensee will pay an upfront payment and potential payments based on the ADC Product development, registration and sales-based commercialisation milestones of up to RMB5,000,000,000 in aggregate, as well as tiered royalties based on global net sales.

Save as disclosed above, the Group had no other material events after the reporting period up to the date of this report.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2024.

Definitions

"AACR"	the American Association for Cancer Research
"ADC"	antibody-drug conjugate
"AGM"	the annual general meeting of the Company proposed to be held on Thursday, June 13, 2024
"Amgen"	Amgen INC
"Antengene"	Antengene Corporation Limited
"Apex Medical"	APEX MEDICAL COMPANY LTD., a company incorporated in the BVI as a limited liability company and wholly-owned by Mr. Cen Junda
"Articles of Association"	the articles of association of the Company (as amended from time to time), conditionally adopted on May 27, 2019
"ASCO"	American Society of Clinical Oncology
"associate"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Bcr-Abl TKI"	BCR-ABL protein tyrosine kinase inhibitor (TKI)
"BD"	business development
"Biotheus"	Biotheus Inc.
"Board"	the board of Directors of the Company
"Board Diversity Policy"	the Board Diversity Policy of the Company adopted on November 26, 2018
"BVI"	the British Virgin Islands
"China" or "the PRC"	the People's Republic of China
"CKD"	chronic kidney disease
"close associate"	has the meaning ascribed thereto under the Listing Rules
"CNS"	central nervous system
"Company" or "our Company"	Hansoh Pharmaceutical Group Company Limited, a company incorporated in the Cayman Islands with limited liability, its shares are listed and traded on the Main Board of the Stock Exchange

Definitions

"Company Code"	the Company's own code of conduct regarding securities transactions of the Company by Directors and relevant employees
"connected person"	has the meaning ascribed thereto under the Listing Rules
"connected transaction"	has the meaning ascribed thereto under the Listing Rules
"Controlling Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Stellar Infinity, Sunrise Investment and Ms. Zhong Huijuan
"Convertible Bonds"	On January 22, 2021, the Company completed the issuance of US$600 million of zero-coupon convertible bonds due in 2026 to professional investors (has the meaning given to it in the Securities and Futures Ordinance (Cap. 571) and the Securities and Futures (Professional Investors) Rules (Cap. 571D)), which are listed and traded on the Stock Exchange with bond code of 40546
"core connected person"	has the meaning ascribed thereto under the Listing Rules
"Corporate Governance Code"	the Corporate Governance Code as set out in Appendix C1 to the Listing Rules
"CSCO"	the Chinese Society of Clinical Oncology
"Director(s)"	the director(s) of the Company
"Director Nomination Policy"	the Director Nomination Policy of the Company adopted on November 26, 2018
"EGFR-TKI"	epidermal growth factor receptor (EGFR)-tyrosine kinase inhibitor (TKI)
"ELCC"	the European Lung Cancer Congress
"EMA"	the European Medicines Agency
"ESA"	erythropoiesis stimulating agent
"ESG"	environmental, social and governance
"ESG Committee"	the environmental, social and governance committee of the Board
"ESMO"	the European Society of Medical Oncology
"ESMO ASIA"	the European Society of Medical Oncology Asia
"Fortune Peak"	Fortune Peak (HS) Company Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
"GMP"	Good Manufacturing Practice

Definitions

"Group", "our Group", "we" or "us"	the Company and its subsidiaries and, in respect of the period before the Company became the holding company of our present subsidiaries, the businesses operated by such subsidiaries or their predecessors (as the case may be)
"GSK"	GSK plc
"HK$" or "Hong Kong dollar(s)" or "cent"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Jiangsu Hansoh"	Jiangsu Hansoh Pharmaceutical Group Co., Ltd.* (江蘇豪森藥業集團有限公司), a company incorporated in the PRC with limited liability and a wholly – owned subsidiary of the Company
"Keros Therapeutics"	Keros Therapeutics, Inc.
"Latest Practicable Date"	April 22, 2024, being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining certain information contained herein
"LBA"	Late Breaking Abstract
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time
"Main Board"	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange. For the avoidance of doubt, the Main Board excludes the Growth Enterprise Market of the Stock Exchange
"MHRA"	Medicines and Healthcare Products Regulatory Agency
"NMOSD"	neuromyelitis optica spectrum disorders
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix C3 to the Listing Rules
"NHSA"	the National Healthcare Security Administration of the People's Republic of China (中華人民共和國國家醫療保障局)
"NiKang Therapeutics"	NiKang Therapeutics Inc.
"NMPA"	the National Medical Products Administration of the People's Republic of China (中華人民共和國國家藥品監督管理局)
"Nomination Committee"	the nomination committee of the Board

Definitions

"Non-Competition Undertaking"	a deed of non-competition undertaking dated May 27, 2019 entered into between Controlling Shareholder(s) and the Company
"NRDL"	the National Reimbursement Drug List for Basic Medical Insurance, Work – Related Injury Insurance and Maternity Insurance Catalogue* (國家基本醫療保險、工傷保險和生育保險藥品目錄) released by the NHSA
"NSCLC"	non-small cell lung cancer
"Prospectus"	the prospectus of the Company dated May 31, 2019
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Board
"Renminbi" or "RMB"	Renminbi, the lawful currency of the PRC
"Reporting Period"	the period of 12 months from January 1, 2023 to December 31, 2023
"RSUs"	restricted share units
"RSU Scheme"	the scheme conditionally approved and adopted by the Company on May 27, 2019, which has granted restricted share units ("RSUs") upon completion of the Global Offering, the details of which are set out in the section headed "Statutory and General Information" in Appendix IV of the Company's Prospectus
"SCYNEXIS"	SCYNEXIS, Inc.
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Hansoh"	Shanghai Hansoh Biomedical Co., Ltd.* (上海翰森生物醫藥科技有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
"Share(s)"	ordinary share(s) of the Company with nominal value of HK$0.00001 each, which are listed and traded on the Stock Exchange
"Shareholder(s)"	holder(s) of Shares
"State Council"	the State Council of the People's Republic of China (中華人民共和國國務院)
"Stellar Infinity"	Stellar Infinity Company Ltd., a company incorporated in the BVI as a limited liability company and held as to 100% by Sunrise Investment
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

Definitions

"Strategy and Development Committee"	the strategy and development committee of the Board
"subsidiary" or "subsidiaries"	has the meaning ascribed thereto under the Listing Rules
"Substantial Shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Sunrise Investment"	Sunrise Investment Advisors Limited, a company incorporated in the BVI with limited liability and held as to 100% by the Sunrise Trust Trustee
"Sunrise Trust"	Sunrise Trust, a discretionary trust set up by Ms. Sun, of which the Sunrise Trust Trustee acts as the trustee pursuant to a trust deed dated January 28, 2016
"Sunrise Trust Trustee"	Harmonia Holding Investing (PTC) Limited
"TiumBio"	TiumBio Co., Ltd.
"U.S. FDA"	the United States Food and Drug Administration
"Viela Bio"	Viela Bio, Inc.
"WCLC"	the World Conference on Lung Cancer
"%"	Percentage

* *For identification purposes only*