

Hangzhou Jiuyuan Gene Engineering Co., Ltd.

Accountants' Report

**For the three years ended 31 December 2021, 2022 and 2023 and the
six months ended 30 June 2024**



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HANGZHOU JIUYUAN GENE ENGINEERING CO., LTD. AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

Introduction

We report on the historical financial information of Hangzhou Jiuyuan Gene Engineering Co., Ltd. (the "Company") and its subsidiary (together, the "Group") set out on pages 3 to 98, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024 (the "Relevant Periods"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2021, 2022 and 2023 and 30 June 2024 and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 3 to 98 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 20 November 2024 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2021, 2022 and 2023 and 30 June 2024 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Review of interim financial information

We have reviewed the interim financial information of the Group which comprises the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Group for the six months ended 30 June 2023 and other explanatory information (the "Interim Financial Information").

The directors of the Company are responsible for the preparation of the Interim Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 3 have been made.

Dividend

We refer to note 11 to the Historical Financial Information which contains information about the dividend paid by the Company in respect of the Relevant Periods.



Certified Public Accountants
Hong Kong
20 November 2024

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Year ended 31 December			Six months ended 30 June	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
REVENUE	5	1,307,251	1,125,405	1,287,408	663,419	702,360
Cost of sales		<u>(356,844)</u>	<u>(271,143)</u>	<u>(296,739)</u>	<u>(133,858)</u>	<u>(161,800)</u>
Gross profit		950,407	854,262	990,669	529,561	540,560
Other income and gains	5	7,093	14,549	6,899	1,809	9,163
Selling and marketing expenses		(649,553)	(609,074)	(663,745)	(337,565)	(341,549)
Administrative expenses		(36,524)	(39,946)	(59,879)	(15,720)	(33,759)
Research and development costs		(132,631)	(158,312)	(127,757)	(65,253)	(37,288)
Other expenses		(1,537)	(1,018)	(1,869)	(673)	(3,505)
Finance costs	7	<u>(9,720)</u>	<u>(9,042)</u>	<u>(9,386)</u>	<u>(4,774)</u>	<u>(3,789)</u>
PROFIT BEFORE TAX	6	127,535	51,419	134,932	107,385	129,833
Income tax (expense)/credit	10	<u>(8,122)</u>	<u>8,448</u>	<u>(15,157)</u>	<u>(11,024)</u>	<u>(24,485)</u>
PROFIT FOR THE YEAR/PERIOD		<u>119,413</u>	<u>59,867</u>	<u>119,775</u>	<u>96,361</u>	<u>105,348</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD		<u>119,413</u>	<u>59,867</u>	<u>119,775</u>	<u>96,361</u>	<u>105,348</u>
Profit attributable to: Owners of the parent		<u>119,413</u>	<u>59,867</u>	<u>119,775</u>	<u>96,361</u>	<u>105,348</u>
Total comprehensive income attributable to: Owners of the parent		<u>119,413</u>	<u>59,867</u>	<u>119,775</u>	<u>96,361</u>	<u>105,348</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted (RMB)	12	<u>0.60</u>	<u>0.30</u>	<u>0.60</u>	<u>0.48</u>	<u>0.53</u>

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	2021 RMB'000	31 December 2022 RMB'000	2023 RMB'000	30 June 2024 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	396,953	385,333	371,469	362,288
Right-of-use assets	14(a)	972	467	2,090	1,672
Intangible assets	15	30,789	65,789	91,347	115,986
Prepayments, other receivables and other assets	18	6,580	3,236	3,052	2,680
Total non-current assets		435,294	454,825	467,958	482,626
CURRENT ASSETS					
Inventories	16	201,529	171,898	169,814	158,011
Trade and bills receivables	17	410,305	474,502	532,511	609,847
Prepayments, other receivables and other assets	18	24,214	15,702	21,655	35,190
Due from related parties	31(c)	16,652	24,735	22,560	72,219
Restricted bank deposits	19	377	378	20	20
Cash and cash equivalents	19	94,829	71,540	93,178	78,770
Total current assets		747,906	758,755	839,738	954,057
CURRENT LIABILITIES					
Trade payables	20	66,449	51,646	42,424	31,567
Lease liabilities	14(b)	311	326	773	1,280
Other payables and accruals	21	154,594	145,350	158,198	135,811
Due to related parties	31(c)	396	898	815	1,566
Interest-bearing bank borrowings	22	157,558	141,532	130,837	174,683
Contract liabilities	23	21,213	16,180	14,034	14,218
Tax payable		-	-	435	14,406
Total current liabilities		400,521	355,932	347,516	373,531
NET CURRENT ASSETS		347,385	402,823	492,222	580,526
TOTAL ASSETS LESS CURRENT LIABILITIES		782,679	857,648	960,180	1,063,152

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I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)

	Notes	2021 RMB'000	31 December 2022 RMB'000	2023 RMB'000	30 June 2024 RMB'000
NON-CURRENT LIABILITIES					
Lease liabilities	14(b)	326	-	937	470
Interest-bearing bank borrowings	22	45,808	78,726	34,523	31,646
Other payables and accruals	21	5,121	7,899	7,267	6,878
Deferred tax liabilities	24	13,287	4,839	19,561	17,882
Total non-current liabilities		<u>64,542</u>	<u>91,464</u>	<u>62,288</u>	<u>56,876</u>
Net assets		<u>718,137</u>	<u>766,184</u>	<u>897,892</u>	<u>1,006,276</u>
EQUITY					
Equity attributable to owners of the parent					
Paid-in capital	25	53,446	53,446	-	-
Share capital	25	-	-	200,000	200,000
Reserves	26	664,691	712,738	697,892	806,276
Total equity		<u>718,137</u>	<u>766,184</u>	<u>897,892</u>	<u>1,006,276</u>

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2021

	Attributable to owners of the parent					Total equity RMB'000
	Paid-in capital RMB'000 (note 25)	Capital reserve* RMB'000 (note 26)	Share award reserve* RMB'000 (note 26)	Surplus reserve* RMB'000 (note 26)	Retained profits* RMB'000	
At 1 January 2021	53,446	36,842	1,841	103,781	402,667	598,577
Profit and total comprehensive income for the year	-	-	-	-	119,413	119,413
Transfer to surplus reserve	-	-	-	17,913	(17,913)	-
Equity-settled share award arrangements (note 27)	-	-	147	-	-	147
At 31 December 2021	<u>53,446</u>	<u>36,842</u>	<u>1,988</u>	<u>121,694</u>	<u>504,167</u>	<u>718,137</u>

Year ended 31 December 2022

	Attributable to owners of the parent					Total equity RMB'000
	Paid-in capital RMB'000 (note 25)	Capital reserve* RMB'000 (note 26)	Share award reserve* RMB'000 (note 26)	Surplus reserve* RMB'000 (note 26)	Retained profits* RMB'000	
At 1 January 2022	53,446	36,842	1,988	121,694	504,167	718,137
Profit and total comprehensive income for the year	-	-	-	-	59,867	59,867
Transfer to surplus reserve	-	-	-	8,980	(8,980)	-
Dividend declared (note 11)	-	-	-	-	(12,000)	(12,000)
Equity-settled share award arrangements (note 27)	-	-	180	-	-	180
At 31 December 2022	<u>53,446</u>	<u>36,842</u>	<u>2,168</u>	<u>130,674</u>	<u>543,054</u>	<u>766,184</u>

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I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Year ended 31 December 2023

	Attributable to owners of the parent						Total equity RMB'000
	Paid-in capital RMB'000 (note 25)	Share capital RMB'000 (note 25)	Capital reserve /share premium* RMB'000 (note 26)	Share award reserve* RMB'000 (note 26)	Surplus reserve* RMB'000 (note 26)	Retained profits* RMB'000	
At 1 January 2023	53,446	-	36,842	2,168	130,674	543,054	766,184
Profit and total comprehensive income for the year	-	-	-	-	-	119,775	119,775
Transfer to surplus reserve	-	-	-	-	1,216	(1,216)	-
Conversion into a joint stock company	(53,446)	200,000	644,588	(9,799)	(130,674)	(650,669)	-
Equity-settled share award arrangements (note 27)	-	-	-	11,933	-	-	11,933
At 31 December 2023	-	200,000	681,430	4,302	1,216	10,944	897,892

Six months ended 30 June 2023 (unaudited)

	Attributable to owners of the parent					Total equity RMB'000
	Paid-in capital RMB'000 (note 25)	Capital reserve RMB'000 (note 26)	Share award reserve RMB'000 (note 26)	Surplus reserve RMB'000 (note 26)	Retained profits RMB'000	
At 1 January 2023	53,446	36,842	2,168	130,674	543,054	766,184
Profit and total comprehensive income for the period	-	-	-	-	96,361	96,361
Equity-settled share award arrangements (note 27)	-	-	90	-	-	90
At 30 June 2023	53,446	36,842	2,258	130,674	639,415	862,635

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I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)

Six months ended 30 June 2024

	Attributable to owners of the parent					Total equity RMB'000
	Share capital RMB'000 (note 25)	Share premium* RMB'000 (note 26)	Share award reserve* RMB'000 (note 26)	Surplus reserve* RMB'000 (note 26)	Retained profits* RMB'000	
At 1 January 2024	200,000	681,430	4,302	1,216	10,944	897,892
Profit and total comprehensive income for the period	-	-	-	-	105,348	105,348
Equity-settled share award arrangements (note 27)	-	-	3,036	-	-	3,036
At 30 June 2024	200,000	681,430	7,338	1,216	116,292	1,006,276

* These reserve accounts comprise the consolidated reserves of RMB664,691,000, RMB712,738,000, RMB697,892,000 and RMB806,276,000 in the consolidated statements of financial position as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Six months ended 30	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	June 2023 RMB'000 (unaudited)	2024 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		127,535	51,419	134,932	107,385	129,833
Adjustments for:						
Finance costs	7	9,720	9,042	9,386	4,774	3,789
Interest income	5	(319)	(184)	(283)	(122)	(138)
Loss on disposal of items of property, plant and equipment	6	326	37	410	42	107
Equity-settled share award expense	27	147	180	11,933	90	3,036
Depreciation of property, plant and equipment	13	23,229	34,610	34,928	17,062	17,481
Depreciation of right-of-use assets	14(a)	464	505	884	234	418
Amortisation of intangible assets	15	551	655	323	163	294
Impairment losses on financial assets, net	6	(80)	463	1,219	502	2,999
Write-down of inventories to net realisable value	6	1,025	1,844	1,176	460	6,310
Foreign exchange differences, net	6	116	(202)	(206)	(262)	-
		162,714	98,369	194,702	130,328	164,129
Decrease/(increase) in inventories		49,156	27,787	908	(13,309)	5,493
Increase in trade and bills receivables		(131,244)	(82,034)	(62,469)	(89,280)	(79,638)
Decrease/(increase) in prepayments, other receivables and other assets		2,531	(1,991)	(1,980)	(20,540)	(7,575)
(Increase)/decrease in amounts due from related parties		(11,550)	(8,062)	2,283	(22,992)	(50,263)
(Increase)/decrease in restricted bank deposits		(1)	(1)	358	358	-
Decrease in trade payables		(32,693)	(14,803)	(9,222)	(2,261)	(10,857)
Increase/(decrease) in other payables and accruals		38,880	(2,862)	12,028	178	(22,706)
(Decrease)/increase in amounts due to related parties		(30)	502	(83)	(766)	751
Increase/(decrease) in contract liabilities		1,188	(5,033)	(2,146)	3,756	184
Cash generated from/(used in) operations		78,951	11,872	134,379	(14,528)	(482)
Interest received		319	184	283	122	138
Income tax (paid)/received		(11,741)	10,503	1,103	1,103	(12,193)
Net cash flows from/(used in) operating activities		67,529	22,559	135,765	(13,303)	(12,537)

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I HISTORICAL FINANCIAL INFORMATION (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	Notes	Year ended 31 December			Six months ended 30 June	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(53,944)	(23,298)	(21,104)	(9,080)	(7,826)
Purchases of intangible assets		(8,967)	(35,655)	(25,881)	(6,627)	(24,933)
Proceeds from disposal of items of property, plant and equipment		48	11	2	407	36
Net cash flows used in investing activities		<u>(62,863)</u>	<u>(58,942)</u>	<u>(46,983)</u>	<u>(15,300)</u>	<u>(32,723)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank borrowings		209,623	204,173	143,307	128,128	120,200
Repayment of bank borrowings		(158,326)	(169,964)	(194,984)	(106,557)	(79,257)
Principal portion of lease payments		(324)	(333)	(1,180)	(166)	-
Interest paid		(9,745)	(8,984)	(9,411)	(4,789)	(3,723)
Payment of listing expenses		-	-	(5,082)	-	(6,368)
Dividend paid	11	-	(12,000)	-	-	-
Net cash flows from/(used in) financing activities		<u>41,228</u>	<u>12,892</u>	<u>(67,350)</u>	<u>16,616</u>	<u>30,852</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS						
Cash and cash equivalents at beginning of year/period		45,894	(23,491)	21,432	(11,987)	(14,408)
Effect of foreign exchange rate changes, net		49,051	94,829	71,540	71,540	93,178
		<u>(116)</u>	<u>202</u>	<u>206</u>	<u>262</u>	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD						
		<u>94,829</u>	<u>71,540</u>	<u>93,178</u>	<u>59,815</u>	<u>78,770</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and cash equivalents as stated in the consolidated statements of financial position	19	<u>94,829</u>	<u>71,540</u>	<u>93,178</u>	<u>59,815</u>	<u>78,770</u>
Cash and cash equivalents as stated in the consolidated statements of cash flows		<u>94,829</u>	<u>71,540</u>	<u>93,178</u>	<u>59,815</u>	<u>78,770</u>

I HISTORICAL FINANCIAL INFORMATION (continued)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	Notes	2021 RMB'000	31 December 2022 RMB'000	2023 RMB'000	30 June 2024 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	396,953	385,333	371,469	362,288
Right-of-use assets		972	467	2,090	1,672
Intangible assets	15	30,789	65,789	91,347	115,986
Prepayments, other receivables and other assets		6,580	3,236	3,052	2,680
Total non-current assets		<u>435,294</u>	<u>454,825</u>	<u>467,958</u>	<u>482,626</u>
CURRENT ASSETS					
Inventories	16	201,529	171,898	169,814	158,011
Trade and bills receivables	17	410,305	474,502	532,511	609,847
Prepayments, other receivables and other assets		24,211	15,702	21,654	35,190
Due from related parties		16,652	24,735	22,560	72,219
Restricted bank deposits	19	377	378	20	20
Cash and cash equivalents	19	94,827	71,538	93,176	78,769
Total current assets		<u>747,901</u>	<u>758,753</u>	<u>839,735</u>	<u>954,056</u>
CURRENT LIABILITIES					
Trade payables	20	66,449	51,646	42,424	31,567
Lease liabilities		311	326	773	1,280
Other payables and accruals	21	154,595	145,351	158,198	135,813
Due to related parties		396	898	815	1,566
Interest-bearing bank borrowings	22	157,558	141,532	130,837	174,683
Contract liabilities	23	21,208	16,180	14,034	14,218
Tax payable		-	-	435	14,406
Total current liabilities		<u>400,517</u>	<u>355,933</u>	<u>347,516</u>	<u>373,533</u>
NET CURRENT ASSETS		<u>347,384</u>	<u>402,820</u>	<u>492,219</u>	<u>580,523</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>782,678</u>	<u>857,645</u>	<u>960,177</u>	<u>1,063,149</u>

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I HISTORICAL FINANCIAL INFORMATION (continued)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (continued)

	Notes	2021 RMB'000	31 December 2022 RMB'000	2023 RMB'000	30 June 2024 RMB'000
NON-CURRENT LIABILITIES					
Lease liabilities		326	-	937	470
Interest-bearing bank borrowings	22	45,808	78,726	34,523	31,646
Deferred tax liabilities		13,287	4,839	19,561	17,882
Other payables and accruals	21	5,121	7,899	7,267	6,878
Total non-current liabilities		64,542	91,464	62,288	56,876
Net assets		718,136	766,181	897,889	1,006,273
EQUITY					
Paid-in capital	25	53,446	53,446	-	-
Share capital	25	-	-	200,000	200,000
Reserves	26	664,690	712,735	697,889	806,273
Total equity		718,136	766,181	897,889	1,006,273

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company is a limited company established in the People's Republic of China ("PRC") on 31 December 1993. The registered office of the Company is located at No.23, Eighth Street, Baiyang Street, Qiantang District, Hangzhou, Zhejiang Province, PRC. On 5 December 2023, the Company was converted to a joint stock limited liability company and the registered capital of the Company was RMB200,000,000, which was divided into 200,000,000 shares, with a nominal value of RMB1.00 each.

During the Relevant Periods, the Company and its subsidiary were principally engaged in the research and development, manufacturing and commercialisation of biopharmaceutical products.

As at the date of this report, the Company had a direct interest in its subsidiary, which is a private limited liability company (which has substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of registration and place of operations	Nominal value of registered share capital	Percentage of equity directly attributable to the Company	Principal activities
Hangzhou Cosmotrust Biopharmaceutical Co., Ltd. 杭州宇信生物医药有限公司*	PRC/ Chinese Mainland 24 June 2020	RMB 1,000,000	100%	Dormant

The statutory financial statements of the Company for the years ended 31 December 2021 and 2022 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Pan-China Certified Public Accountants LLP (天健会计师事务所(特殊普通合伙)), certified public accountants registered in the PRC. The statutory financial statements of the Company for the year ended 31 December 2023 prepared under PRC GAAP were audited by Ernst & Young Hua Ming LLP(安永华明会计师事务所(特殊普通合伙)), certified public accountants registered in the PRC.

No audited financial statements have been prepared for this subsidiary during the Relevant Periods, as this subsidiary was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of registration.

* The English name of the subsidiary registered in the PRC represents the best efforts made by management of the Company to directly translate its Chinese name as it did not register any official English name.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2. ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

The Historical Financial Information has 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 HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2024, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention except for financial assets at fair value through other comprehensive income which have been measured at fair value.

Basis of consolidation

The Historical Financial Information includes the financial information of the Company and its subsidiary (collectively referred to as the “Group”) for the Relevant Periods. 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 information of the subsidiary is prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiary 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.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities and any non-controlling interest; 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2. ACCOUNTING POLICIES (continued)

2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKFRS 18	<i>Presentation and Disclosure in Financial Statements</i> ^{3,5}
HKFRS 19	<i>Subsidiaries without Public Accountability: Disclosures</i> ^{3,5}
Amendments to HKFRS 9 and HKFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments</i> ^{2,5}
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ¹

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

² Effective for annual periods beginning on or after 1 January 2026

³ Effective for annual periods beginning on or after 1 January 2027

⁴ No mandatory effective date yet determined but available for adoption

⁵ IFRS 18, IFRS 19 and amendments to IFRS 9 and IFRS 7 have been issued by the International Accounting Standards Board. At the time of issuance of this historical financial information, the equivalent new and revised standards are expected to be issued shortly by the HKICPA

The Group is in the process of making an assessment of the impact of these revised HKFRSs upon initial application and has concluded that the adoption of them will not have a material impact on the Group's financial performance and financial position.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION

Fair value measurement

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

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

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

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

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Impairment of non-financial assets

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

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

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Property, plant and equipment and depreciation

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

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

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

<u>Categories</u>	<u>Estimated useful lives</u>
Buildings	5 to 20 years
Machinery	10 years
Electronic and office equipment	3 to 5 years
Motor vehicles	5 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 methods are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (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 assets 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 are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

<u>Categories</u>	<u>Estimated useful lives</u>
Software	2 years
Patents and licences	10 years
Trademark	10 years

The estimated useful lives of intangible assets are determined by considering the period of the economic benefits to the Group or the periods of validity of intangible assets protected by the relevant laws, as well as by referring to the industry practice.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Leases

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

Group as a lessee

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

(a) Right-of-use assets

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

<u>Categories</u>	<u>Estimated useful lives</u>
Leasehold land	32 years
Warehouses and office premises	2 to 3 years

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

(b) Lease liabilities

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

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (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 warehouses and office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

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

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 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 ownership of an underlying assets to the lessee are accounted for as finance leases.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

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

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

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

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

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

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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (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 each 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 a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Impairment of financial assets (continued)

Simplified approach

For trade and bills 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 the end of the reporting period. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

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

The Group's financial liabilities include trade payables, amounts due to related parties, interest-bearing bank borrowings, and financial liabilities included in other payables and accruals.

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 rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

When the 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 profit or loss.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (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.

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

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Government grants

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

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

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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.

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

- (i) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- (ii) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (iii) The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

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

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

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

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

(a) Sale of goods

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

Some contracts for the sale of goods provide customers with rights of return and volume rebates, giving rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods, 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sale of goods (continued)

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

(b) Pharmaceutical services

(i) Preclinical drug development services

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

(ii) Technology transfer

Revenue from technology transfer is recognised at the point in time when the Group transfers the control for underlying services and have right to payment from the customers for the services performed, upon the delivery or acceptance of the underlying services.

(iii) Outsourcing manufacturing services

Revenue from outsourcing manufacturing services is recognised at the point in time when the Group transfers the control for underlying services and has right to payment from the customers for the services performed, upon the delivery or acceptance of the underlying services.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Revenue recognition (continued)

Other income

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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.

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. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

Contract costs

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

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) The costs are expected to be recovered.

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

Right-of-return assets

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Share-based payments

The Company operates a share award plan. 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 the discounted cash flow method, further details of which are given in note 27 to the Historical Financial Information.

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

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

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

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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

2.3 MATERIAL ACCOUNTING POLICY INFORMATION (continued)

Other employee benefits

Pension scheme

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

Housing fund — Chinese Mainland

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Dividends are recognised as a liability when they are approved by the shareholders of the Company in a general meeting.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

(a) Determining the timing of satisfaction of the pharmaceutical services

The Group concluded that revenue from the pharmaceutical services is to be recognised over time because customers simultaneously receive and consume the benefits provided by the Group.

The Group determined that the input method is the best method in measuring the progress of pharmaceutical services because there is a direct relationship between the Group's effort (i.e., staff costs and cost of inventories, consumables incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the incurred costs expended relative to the total expected costs to complete the services.

(b) Determining the method to estimate variable consideration and assessing the constraint for the sale of goods

Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of goods with volume rebates, the Group determined that using the most likely amount method. The selected method that better predicts the amount of variable consideration related to volume rebates is primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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.

Variable consideration for returns and volume rebates

The Group estimates variable consideration to be included in the transaction price for the sale of goods with rights of return and volume rebates.

The Group has developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group has applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future.

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 ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates 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 medical industry 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.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the Historical Financial Information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Onerous contract provisions

For onerous contracts, the present obligation under the contract must be recognised in the current period and measured as provisions, based on the estimated unrealised centralised procurement contracts.

Impairment of non-financial assets (other than goodwill)

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

Fair value measurement of share-based payments

The Group has set up a share award scheme and granted restricted ordinary shares to the Group's employees. The fair values of the restricted shares are determined by the discounted cash flow method at the grant dates. Significant estimates on assumptions, including the underlying equity value and discount rate, are made by management. Further details are included in note 27 to the Historical Financial Information.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.3 to the Historical Financial Information. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

Leases – Estimating the incremental borrowing rate

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

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and has only one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chinese Mainland	1,170,683	1,073,609	1,245,501	651,024	671,829
Other countries/regions	<u>136,568</u>	<u>51,796</u>	<u>41,907</u>	<u>12,395</u>	<u>30,531</u>
Total revenue	<u>1,307,251</u>	<u>1,125,405</u>	<u>1,287,408</u>	<u>663,419</u>	<u>702,360</u>

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

(b) Non-current assets

	As at 31 December			As at 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chinese Mainland	<u>435,294</u>	<u>454,825</u>	<u>467,958</u>	<u>482,626</u>	

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

Information about major customers

Revenue from the major customers (aggregated if under common control) which amounted to 10% or more of the Group's revenue is set out below:

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Customer A	330,885	263,053	281,521	156,433	151,760
Customer B	<u>96,971</u>	<u>91,154</u>	<u>131,218</u>	<u>61,766</u>	<u>81,186</u>
Total	<u>427,856</u>	<u>354,207</u>	<u>412,739</u>	<u>218,199</u>	<u>232,946</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
<i>Revenue from contracts with customers</i>	<u>1,307,251</u>	<u>1,125,405</u>	<u>1,287,408</u>	<u>663,419</u>	<u>702,360</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Types of goods or services					
Sale of goods	1,268,427	1,105,105	1,218,477	639,037	645,163
Pharmaceutical services	<u>38,824</u>	<u>20,300</u>	<u>68,931</u>	<u>24,382</u>	<u>57,197</u>
Total revenue from contracts with customers	<u>1,307,251</u>	<u>1,125,405</u>	<u>1,287,408</u>	<u>663,419</u>	<u>702,360</u>
Geographical markets					
Chinese Mainland	1,170,683	1,073,609	1,245,501	651,024	671,829
Other countries/regions	<u>136,568</u>	<u>51,796</u>	<u>41,907</u>	<u>12,395</u>	<u>30,531</u>
Total revenue from contracts with customers	<u>1,307,251</u>	<u>1,125,405</u>	<u>1,287,408</u>	<u>663,419</u>	<u>702,360</u>
Timing of revenue recognition					
Transferred at a point in time	1,300,609	1,125,405	1,287,408	663,419	702,360
Transferred over time	<u>6,642</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue from contracts with customers	<u>1,307,251</u>	<u>1,125,405</u>	<u>1,287,408</u>	<u>663,419</u>	<u>702,360</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised during the Relevant Periods and the six months ended 30 June 2023 that were included in the contract liabilities at the beginning of each of the Relevant Periods and the six months ended 30 June 2023 and recognised from performance obligations satisfied in previous periods:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Revenue recognised:					
Sale of goods	<u>20,004</u>	<u>20,122</u>	<u>15,846</u>	<u>6,058</u>	<u>9,422</u>

(b) Performance obligations

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

(i) Sale of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from the date of billing.

(ii) Pharmaceutical services

Preclinical drug development services

The performance obligation is satisfied over time or at the point as services are rendered and payment is generally due within 10 days from the date of billing.

Technology transfer

The performance obligation is satisfied upon transfer of the technology and payment is generally due within 15 days from the date of transfer.

Outsourcing manufacturing services

The performance obligation is satisfied at the point as services are rendered, where payment in advance is normally required.

As all the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year or less, the Group does not need to disclose the information about its remaining performance obligations.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

5. REVENUE, OTHER INCOME AND GAINS (continued)

An analysis of other income and gains is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
<u>Other income</u>					
Government grants*	4,349	14,110	6,410	1,425	9,025
Bank interest income	319	184	283	122	138
Rental income from an operating lease	1,960	-	-	-	-
Others	465	53	-	-	-
Total other income	<u>7,093</u>	<u>14,347</u>	<u>6,693</u>	<u>1,547</u>	<u>9,163</u>
<u>Gains</u>					
Foreign exchange gains, net	<u>-</u>	<u>202</u>	<u>206</u>	<u>262</u>	<u>-</u>
Total other income and gains	<u>7,093</u>	<u>14,549</u>	<u>6,899</u>	<u>1,809</u>	<u>9,163</u>

* Government grants have been received from the PRC local government authorities to support the subsidiaries' research and development activities. There are no unfulfilled conditions related to these government grants.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

6. PROFIT BEFORE TAX

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

	Notes	Year ended 31 December			Six months ended 30 June	
		2021	2022	2023	2023	2024
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories sold		325,356	250,107	252,878	124,638	131,595
Cost of services provided		31,488	21,036	43,861	9,220	30,205
		<u>356,844</u>	<u>271,143</u>	<u>296,739</u>	<u>133,858</u>	<u>161,800</u>
Research and development costs		132,631	158,312	127,757	65,253	37,288
Depreciation of property, plant and equipment*	13	23,229	34,610	34,928	17,062	17,481
Depreciation of right-of-use assets	14(a)	464	505	884	234	418
Amortisation of intangible assets**	15	551	655	323	163	294
Loss on disposal of items of property, plant and equipment		326	37	410	42	107
Write-down of inventories to net realisable value	16	1,025	1,844	1,176	460	6,310
Impairment losses on financial assets, net		(80)	463	1,219	502	2,999
Lease payments not included in the measurement of lease liabilities	14(c)	1,202	1,332	1,357	456	504
Foreign exchange differences, net		116	(202)	(206)	(262)	-
Auditor's remuneration		283	189	200	200	200
Listing expenses	29	-	-	9,926	-	6,471
Bank interest income	5	(319)	(184)	(283)	(122)	(138)
Government grants	5	(4,349)	(14,110)	(6,410)	(1,425)	(9,025)
Employee benefit expense (including directors', chief executive's and supervisors' remuneration as set out in note 8):						
Salaries and other benefits		232,553	270,034	307,428	139,370	180,481
Pension scheme contributions		13,634	16,531	17,953	8,434	11,611
Equity-settled share award expense***	27	147	180	11,933	90	3,036
Total		<u>246,334</u>	<u>286,745</u>	<u>337,314</u>	<u>147,894</u>	<u>195,128</u>

* The depreciation of property, plant and equipment is included in "Cost of sales", "Administrative expenses", "Research and development costs" and "Selling and marketing expenses" in the consolidated statements of profit or loss and other comprehensive income.

** The amortisation of intangible assets is included in "Cost of sales", "Administrative expenses" and "Selling and marketing expenses" in the consolidated statements of profit or loss and other comprehensive income.

*** Equity-settled share award expense is included in "Cost of sales", "Administrative expenses", "Research and development costs" and "Selling and marketing expenses" in the consolidated statements of profit or loss and other comprehensive income.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Interest on bank borrowings	9,695	9,020	9,329	4,769	3,749
Interest on lease liabilities (note 14(c))	25	22	57	5	40
Total	9,720	9,042	9,386	4,774	3,789

8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration of the directors, supervisors and chief executive as recorded is set out below:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Fees	-	-	45	-	270
Other emoluments:					
Salaries, bonuses, allowances and benefits in kind	3,075	3,756	4,071	1,979	2,398
Equity-settled share award expense	23	29	10,439	14	1,510
Pension scheme contributions	99	111	125	57	105
Subtotal	3,197	3,896	14,635	2,050	4,013
Total fees and other emoluments	3,197	3,896	14,680	2,050	4,283

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods and the six months ended 30 June 2023 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Mr. Zhou Zhihui	-	-	15	-	90
Ms. He Meiyi	-	-	15	-	90
Mr. Zhou Demin	-	-	15	-	90
Total	-	-	45	-	270

Mr. Zhou Zhihui, Ms. He Meiyi and Mr. Zhou Demin were appointed as independent non-executive directors of the Company in November 2023.

There were no other emoluments payable to the independent non-executive directors during the Relevant Periods.

(b) Directors, supervisors and chief executive

Year ended 31 December 2021

	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Directors:				
Mr. Li Bangliang (i)	-	-	-	-
Mr. Fu Hang (chief executive) (ii)	1,172	-	33	1,205
Mr. Zhou Wei (iii)	1,239	3	33	1,275
Mr. Wu Hui (iv)	-	-	-	-
Ms. Dong Danqing (v)	-	-	-	-
Ms. Chen Yanfeng (vi)	-	-	-	-
Ms. Jiang Yilin (vii)	-	-	-	-
Mr. Wu Qiyuan (viii)	-	17	-	17
Mr. Wu Shihang (ix)	-	-	-	-
Ms. Ma Honglan (x)	-	-	-	-
Mr. Albert Esteve Cruella (xi)	-	-	-	-
Mr. Staffan Schuberg (xii)	-	-	-	-
Mr. Li Yuedong (xiii)	-	-	-	-
Mr. Qiu Yang (xiv)	-	-	-	-
Subtotal	2,411	20	66	2,497
Supervisor:				
Ms. Huang Xiu (xv)	664	3	33	700
Total	3,075	23	99	3,197

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

(b) Directors, supervisors and chief executive (continued)

Year ended 31 December 2022

	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Directors:				
Mr. Li Bangliang (i)	-	-	-	-
Mr. Fu Hang (chief executive) (ii)	1,162	-	37	1,199
Mr. Zhou Wei (iii)	1,682	4	37	1,723
Mr. Wu Hui (iv)	-	-	-	-
Ms. Dong Danqing (v)	-	-	-	-
Ms. Chen Yanfeng (vi)	-	-	-	-
Ms. Jiang Yilin (vii)	-	-	-	-
Mr. Wu Qiyuan (viii)	-	21	-	21
Mr. Wu Shihang (ix)	-	-	-	-
Ms. Ma Honglan (x)	-	-	-	-
Mr. Albert Esteve Cruella (xi)	-	-	-	-
Mr. Staffan Schuberg (xii)	-	-	-	-
Subtotal	<u>2,844</u>	<u>25</u>	<u>74</u>	<u>2,943</u>
Supervisor:				
Ms. Huang Xiu (xv)	<u>912</u>	<u>4</u>	<u>37</u>	<u>953</u>
Total	<u>3,756</u>	<u>29</u>	<u>111</u>	<u>3,896</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

(b) Directors, supervisors and chief executive (continued)

Year ended 31 December 2023

	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Directors:				
Mr. Fu Hang (chief executive) (ii)	1,505	929	40	2,474
Mr. Zhou Wei (iii)	1,583	393	40	2,016
Mr. Wu Shihang (ix)	-	-	-	-
Ms. Ma Honglan (x)	-	-	-	-
Mr. Albert Esteve Cruella (xi)	-	-	-	-
Mr. Fei Junjie (xvi)	-	-	-	-
Mr. Li Bangliang (i)	-	8,984	-	8,984
Mr. Wu Hui (iv)	-	-	-	-
Ms. Dong Danqing (v)	-	-	-	-
Ms. Chen Yanfeng (vi)	-	-	-	-
Ms. Jiang Yilin (vii)	-	-	-	-
Mr. Wu Qiyuan (viii)	-	31	-	31
Mr. Staffan Schuberg (xii)	-	-	-	-
Subtotal	3,088	10,337	80	13,505
Supervisors:				
Mr. Ye Jiancai (xvii)	71	3	3	77
Mr. Xu Feihu (xviii)	97	-	3	100
Ms. Zhao Fei (xix)	37	-	2	39
Ms. Huang Xiu (xv)	778	99	37	914
Total	4,071	10,439	125	14,635

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

(b) Directors, supervisors and chief executive (continued)

Six months ended 30 June 2023 (unaudited)

	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Directors:				
Mr. Li Bangliang (i)	-	-	-	-
Mr. Fu Hang (chief executive) (ii)	750	-	19	769
Mr. Zhou Wei (iii)	788	2	19	809
Mr. Wu Hui (iv)	-	-	-	-
Ms. Dong Danqing (v)	-	-	-	-
Ms. Chen Yanfeng (vi)	-	-	-	-
Ms. Jiang Yilin (vii)	-	-	-	-
Mr. Wu Qiyuan (viii)	-	10	-	10
Mr. Wu Shihang (ix)	-	-	-	-
Ms. Ma Honglan (x)	-	-	-	-
Mr. Albert Esteve Cruella (xi)	-	-	-	-
Mr. Staffan Schuberg (xii)	-	-	-	-
Subtotal	1,538	12	38	1,588
Supervisor:				
Ms. Huang Xiu (xv)	441	2	19	462
Total	1,979	14	57	2,050

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

(b) Directors, supervisors and chief executive (continued)

Six months ended 30 June 2024

	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Fu Hang (chief executive) (ii)	790	1,053	21	1,864
Mr. Zhou Wei (iii)	829	439	21	1,289
Subtotal	<u>1,619</u>	<u>1,492</u>	<u>42</u>	<u>3,153</u>
Non-executive directors:				
Mr. Wu Shihang (ix)	-	-	-	-
Ms. Ma Honglan (x)	-	-	-	-
Mr. Albert Esteve Cruella (xi)	-	-	-	-
Mr. Fei Junjie (xvi)	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Supervisors:				
Mr. Ye Jiancai (xvii)	275	18	21	314
Mr. Xu Feihu (xviii)	346	-	21	367
Ms. Zhao Fei (xix)	158	-	21	179
Total	<u>2,398</u>	<u>1,510</u>	<u>105</u>	<u>4,013</u>

- (i) Mr. Li Bangliang was appointed as the vice chairman of the board of directors of the Company in May 1994 and resigned in May 2000, and then appointed as the chairman of the board of directors of the Company in June 2000 and resigned in November 2023.
- (ii) Mr. Fu Hang was appointed as a director of the Company in February 2000 and resigned in November 2023, and then appointed as the chairman of the board of directors of the Company in November 2023.
- (iii) Mr. Zhou Wei was appointed as a director of the Company in May 2019.
- (iv) Mr. Wu Hui was appointed as a director of the Company in November 2018 and resigned from the Company in November 2023.
- (v) Ms. Dong Danqing was appointed as a director of the Company in April 2008 and resigned from the Company in November 2023.
- (vi) Ms. Chen Yanfeng was appointed as a director of the Company in May 2019 and resigned from the Company in November 2023.
- (vii) Ms. Jiang Yilin was appointed as a director of the Company in October 2017 and resigned from the Company in May 2023.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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

(b) Directors, supervisors and chief executive (continued)

- (viii) Mr. Wu Qiyuan was appointed as the vice chairman of the board of directors of the Company in May 1994 and resigned in March 1999, and then appointed as a director of the Company in April 1999 and resigned from the Company in November 2023.
- (ix) Mr. Wu Shihang was appointed as a director of the Company in October 2021.
- (x) Ms. Ma Honglan was appointed as a director of the Company in October 2021.
- (xi) Mr. Albert Esteve Cruella was appointed as a director of the Company in June 2007.
- (xii) Mr. Staffan Schuberg was appointed as a director of the Company in May 2019 and resigned from the Company in November 2023.
- (xiii) Mr. Li Yuedong was appointed as a director of the Company in October 2017 and resigned from the Company in October 2021.
- (xiv) Mr. Qiu Yang was appointed as a director of the Company in October 2017 and resigned from the Company in October 2021.
- (xv) Ms. Huang Xiu was appointed as a supervisor of the Company in October 2010 and resigned from the supervisor in November 2023.
- (xvi) Mr. Fei Junjie was appointed as a director of the Company in May 2023.
- (xvii) Mr. Ye Jiancai was appointed as a supervisor of the Company in November 2023.
- (xviii) Mr. Xu Feihu was appointed as a supervisor of the Company in November 2023.
- (xix) Ms. Zhao Fei was appointed as a supervisor of the Company in November 2023.

Mr. Fu Hang and Mr. Zhou Wei were re-designated as executive directors of the Company in January 2024.

Ms. Ma Honglan, Mr. Wu Shihang, Mr. Fei Junjie and Mr. Albert Esteve Cruella were re-designated as non-executive directors of the Company in January 2024.

There were no arrangement under which a director, a supervisor or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the six months ended 30 June 2023 included two, two, two, two and two directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining three, three, three, three and three highest paid employees who are not a director of the Company during the Relevant Periods and the six months ended 30 June 2023 are as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Salaries, bonuses, allowances and benefits in kind	3,683	5,282	2,192	1,834	1,880
Equity-settled share award expense	6	18	9,133	15	35
Pension scheme contributions	69	74	80	56	63
Total	3,758	5,374	11,405	1,905	1,978

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023 (unaudited)	2024
Nil to HK\$1,000,000				3	3
HK\$1,000,001 to HK\$1,500,000	3	1	1	-	-
HK\$1,500,001 to HK\$2,000,000	-	2	1	-	-
HK\$9,000,001 to HK\$10,000,000	-	-	1	-	-
Total	3	3	3	3	3

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

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.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiary was 25% during the Relevant Periods. The Company was accredited as a "High and New Technology Enterprise" ("HNTE") in 2021 and the certificate was extended in December 2023. Therefore, the Company was entitled to a preferential EIT rate of 15% for the Relevant Periods. The qualification as a HNTE is subject to review by the relevant tax authority in the PRC every three years.

The income tax charge/(credit) of the Group during the Relevant Periods and the six months ended 30 June 2023 is analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Current tax - Chinese Mainland					
Charge for the year/period	658	-	435	-	26,164
Deferred tax	7,464	(8,448)	14,722	11,024	(1,679)
Total tax charge/(credit)	8,122	(8,448)	15,157	11,024	24,485

A reconciliation of the tax charge/(credit) applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Profit before tax	127,535	51,419	134,932	107,385	129,833
Tax at the statutory tax rate of 25%	31,884	12,855	33,733	26,846	32,458
Lower tax rate for specific provinces or enacted by local authority	(12,754)	(5,142)	(13,493)	(10,739)	(12,983)
Expenses not deductible for tax	8,229	7,586	8,667	3,450	6,150
Additional deductible allowance for research and development costs	(19,895)	(23,747)	(13,750)	(8,533)	(3,014)
Adjustments in respect of current tax of previous periods*	658	-	-	-	1,874
Tax charge/(credit) at the Group's effective tax rate	8,122	(8,448)	15,157	11,024	24,485

* The amount for the six months ended 30 June 2024 represented the adjustment of additional deductible allowance for R&D costs according to the annual income tax filing in May 2024.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

11. DIVIDEND

On 19 May 2022, the Company declared a cash dividend of RMB12,000,000 to the shareholders of the Company. The dividend was fully paid by November 2022.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amounts is based on the profit for the year/period attributable to ordinary equity holders of the parent, and the weighted average numbers of the shares in issue during the Relevant Periods and the six months ended 30 June 2023. The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods, no adjustment has been made on the basic earnings per share amounts presented for the Relevant Periods and the six months ended 30 June 2023.

The weighted average numbers of shares for the purpose of basic/diluted earnings per share amounts for the Relevant Periods and the six months ended 30 June 2023 is calculated based on the assumption that the Company's conversion into a joint stock limited company as set out in note 25 to the Historical Financial Information has been adjusted retrospectively.

The calculation of basic and diluted earnings per share is based on:

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
<u>Earnings</u>					
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	119,413	59,867	119,775	96,361	105,348
<u>Shares</u>					
Weighted average number of ordinary shares in issue during the year/period used in the basic and diluted earnings per share calculation	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000
Earnings per share (RMB per share)	0.60	0.30	0.60	0.48	0.53

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

13. PROPERTY, PLANT AND EQUIPMENT

Group and Company

31 December 2021	Buildings RMB'000	Machinery RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2021:						
Cost	131,134	181,476	6,877	4,656	140,706	464,849
Accumulated depreciation	(50,180)	(66,154)	(3,790)	(3,208)	-	(123,332)
Net carrying amount	<u>80,954</u>	<u>115,322</u>	<u>3,087</u>	<u>1,448</u>	<u>140,706</u>	<u>341,517</u>
At 1 January 2021, net of accumulated depreciation	80,954	115,322	3,087	1,448	140,706	341,517
Additions	-	61,628	814	-	16,597	79,039
Disposals	-	(326)	(22)	(26)	-	(374)
Depreciation provided during the year (note 6)	(5,234)	(16,453)	(1,128)	(414)	-	(23,229)
Transfer within property, plant and equipment	137,599	19,346	-	-	(156,945)	-
At 31 December 2021, net of accumulated depreciation	<u>213,319</u>	<u>179,517</u>	<u>2,751</u>	<u>1,008</u>	<u>358</u>	<u>396,953</u>
At 31 December 2021:						
Cost	268,733	259,802	7,572	4,401	358	540,866
Accumulated depreciation	(55,414)	(80,285)	(4,821)	(3,393)	-	(143,913)
Net carrying amount	<u>213,319</u>	<u>179,517</u>	<u>2,751</u>	<u>1,008</u>	<u>358</u>	<u>396,953</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group and Company (continued)

31 December 2022	Buildings RMB'000	Machinery RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022:						
Cost	268,733	259,802	7,572	4,401	358	540,866
Accumulated depreciation	(55,414)	(80,285)	(4,821)	(3,393)	-	(143,913)
Net carrying amount	<u>213,319</u>	<u>179,517</u>	<u>2,751</u>	<u>1,008</u>	<u>358</u>	<u>396,953</u>
At 1 January 2022, net of accumulated depreciation	213,319	179,517	2,751	1,008	358	396,953
Additions	3,121	17,297	1,131	-	1,489	23,038
Disposals	-	(48)	-	-	-	(48)
Depreciation provided during the year (note 6)	(11,960)	(21,175)	(1,141)	(334)	-	(34,610)
At 31 December 2022, net of accumulated depreciation	<u>204,480</u>	<u>175,591</u>	<u>2,741</u>	<u>674</u>	<u>1,847</u>	<u>385,333</u>
At 31 December 2022:						
Cost	271,854	277,045	8,703	4,401	1,847	563,850
Accumulated depreciation	(67,374)	(101,454)	(5,962)	(3,727)	-	(178,517)
Net carrying amount	<u>204,480</u>	<u>175,591</u>	<u>2,741</u>	<u>674</u>	<u>1,847</u>	<u>385,333</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group and Company (continued)

31 December 2023	Buildings RMB'000	Machinery RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2023:						
Cost	271,854	277,045	8,703	4,401	1,847	563,850
Accumulated depreciation	(67,374)	(101,454)	(5,962)	(3,727)	-	(178,517)
Net carrying amount	<u>204,480</u>	<u>175,591</u>	<u>2,741</u>	<u>674</u>	<u>1,847</u>	<u>385,333</u>
At 1 January 2023, net of accumulated depreciation	204,480	175,591	2,741	674	1,847	385,333
Additions	-	19,122	1,334	-	1,803	22,259
Disposals	-	(361)	(51)	-	-	(412)
Depreciation provided during the year (note 6)	(12,006)	(21,551)	(1,137)	(234)	-	(34,928)
Transfer within property, plant and equipment	2,180	-	-	-	(2,180)	-
Transfer to intangible assets (note 15)	-	-	-	-	(783)	(783)
At 31 December 2023, net of accumulated depreciation	<u>194,654</u>	<u>172,801</u>	<u>2,887</u>	<u>440</u>	<u>687</u>	<u>371,469</u>
At 31 December 2023:						
Cost	274,034	293,649	9,522	4,401	687	582,293
Accumulated depreciation	(79,380)	(120,848)	(6,635)	(3,961)	-	(210,824)
Net carrying amount	<u>194,654</u>	<u>172,801</u>	<u>2,887</u>	<u>440</u>	<u>687</u>	<u>371,469</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group and Company (continued)

30 June 2024	Buildings RMB'000	Machinery RMB'000	Electronic and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2024:						
Cost	274,034	293,649	9,522	4,401	687	582,293
Accumulated depreciation	(79,380)	(120,848)	(6,635)	(3,961)	-	(210,824)
Net carrying amount	<u>194,654</u>	<u>172,801</u>	<u>2,887</u>	<u>440</u>	<u>687</u>	<u>371,469</u>
At 1 January 2024, net of accumulated depreciation	194,654	172,801	2,887	440	687	371,469
Additions	-	6,604	309	-	1,530	8,443
Disposals	-	(143)	-	-	-	(143)
Depreciation provided during the period (note 6)	(6,204)	(10,777)	(500)	-	-	(17,481)
Transfer within property, plant and equipment	2,036	-	-	-	(2,036)	-
At 30 June 2024, net of accumulated depreciation	<u>190,486</u>	<u>168,485</u>	<u>2,696</u>	<u>440</u>	<u>181</u>	<u>362,288</u>
At 30 June 2024:						
Cost	276,070	300,110	9,831	4,401	181	590,593
Accumulated depreciation	(85,584)	(131,625)	(7,135)	(3,961)	-	(228,305)
Net carrying amount	<u>190,486</u>	<u>168,485</u>	<u>2,696</u>	<u>440</u>	<u>181</u>	<u>362,288</u>

Certain of the Group's buildings with net carrying amounts of approximately RMB172,977,000, RMB196,601,000, RMB156,624,000 and RMB182,386,000 as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, were pledged to secure bank loans (note 22).

The Group was still in the process of applying title certificates of the Group's buildings and structures of RMB1,305,000, RMB1,137,000, RMB969,000 and RMB885,000 as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

14. LEASES

The Group as a lessee

The Group has lease contracts for warehouses and office premises used in its operations. Lump sum payments were made upfront to acquire the leasehold land from the government with lease periods of 32 years, and no ongoing payments will be made under the terms of these land leases. Leases of warehouses and office premises generally have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are no lease contracts that include extension or termination options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods are as follows:

	Leasehold land RMB'000	Warehouses and office premises RMB'000	Total RMB'000
As at 1 January 2021	462	114	576
Additions	-	860	860
Depreciation charge (note 6)	(154)	(310)	(464)
As at 31 December 2021 and 1 January 2022	308	664	972
Depreciation charge (note 6)	(154)	(351)	(505)
As at 31 December 2022 and 1 January 2023	154	313	467
Additions	-	2,507	2,507
Depreciation charge (note 6)	(154)	(730)	(884)
As at 31 December 2023 and 1 January 2024	-	2,090	2,090
Depreciation charge (note 6)	-	(418)	(418)
As at 30 June 2024	-	1,672	1,672

The Group's leasehold land with net carrying amounts of RMB308,000, RMB154,000, nil and nil as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, were pledged to secure bank loans (note 22).

On 29 December 2023, the terms of the leasehold land were freely extended from 30 December 2023 to 8 February 2029, which was approved by the local government.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

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

	Year ended 31 December			Six months
	2021	2022	2023	ended 30 June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
Carrying amount at beginning of the year/period	76	637	326	1,710
New leases	860	-	2,507	-
Accretion of interest recognised during the year/period	25	22	57	40
Payments	(324)	(333)	(1,180)	-
Carrying amount at end of the year/period	<u>637</u>	<u>326</u>	<u>1,710</u>	<u>1,750</u>
Analysed into:				
Current portion	<u>311</u>	<u>326</u>	<u>773</u>	<u>1,280</u>
Non-current portion	<u>326</u>	<u>-</u>	<u>937</u>	<u>470</u>

The maturity analysis of lease liabilities is disclosed in note 34 to the Historical Financial Information.

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

	Year ended 31 December			Six months ended 30 June	
	2021	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)	
Interest on lease liabilities (note 7)	25	22	57	5	40
Depreciation charge of right-of-use assets	464	505	884	166	418
Expenses relating to short-term leases and leases of low-value assets (note 6)	<u>1,202</u>	<u>1,332</u>	<u>1,357</u>	<u>456</u>	<u>504</u>
Total amount recognised in profit or loss	<u>1,691</u>	<u>1,859</u>	<u>2,298</u>	<u>627</u>	<u>962</u>

(d) The total cash outflow for leases is disclosed in note 29(c) to the Historical Financial Information.

The Group as a lessor

The Group leases its buildings under operating lease arrangements. Rental income recognised by the Group in 2021 was RMB1,960,000, details of which are included in note 5 to the Historical Financial Information.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS

Group and Company

31 December 2021	Software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Deferred development costs RMB'000	Total RMB'000
At 1 January 2021:					
Cost	3,124	32,086	124	21,479	56,813
Accumulated amortisation	(2,258)	(32,086)	(96)	-	(34,440)
Net carrying amount	<u>866</u>	<u>-</u>	<u>28</u>	<u>21,479</u>	<u>22,373</u>
At 1 January 2021, net of accumulated amortisation	866	-	28	21,479	22,373
Additions	-	-	-	8,967	8,967
Amortisation provided during the year (note 6)	(539)	-	(12)	-	(551)
At 31 December 2021, net of accumulated amortisation:	<u>327</u>	<u>-</u>	<u>16</u>	<u>30,446</u>	<u>30,789</u>
At 31 December 2021:					
Cost	3,124	32,086	124	30,446	65,780
Accumulated amortisation	(2,797)	(32,086)	(108)	-	(34,991)
Net carrying amount	<u>327</u>	<u>-</u>	<u>16</u>	<u>30,446</u>	<u>30,789</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS (continued)

Group and Company (continued)

31 December 2022	Software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Deferred development costs RMB'000	Total RMB'000
At 1 January 2022:					
Cost	3,124	32,086	124	30,446	65,780
Accumulated amortisation	(2,797)	(32,086)	(108)	-	(34,991)
Net carrying amount	<u>327</u>	<u>-</u>	<u>16</u>	<u>30,446</u>	<u>30,789</u>
At 1 January 2022, net of accumulated amortisation					
	327	-	16	30,446	30,789
Additions	502	-	-	35,153	35,655
Amortisation provided during the year (note 6)	(643)	-	(12)	-	(655)
At 31 December 2022, net of accumulated amortisation	<u>186</u>	<u>-</u>	<u>4</u>	<u>65,599</u>	<u>65,789</u>
At 31 December 2022:					
Cost	3,626	32,086	124	65,599	101,435
Accumulated amortisation	(3,440)	(32,086)	(120)	-	(35,646)
Net carrying amount	<u>186</u>	<u>-</u>	<u>4</u>	<u>65,599</u>	<u>65,789</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS (continued)

Group and Company (continued)

31 December 2023	Software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Deferred development costs RMB'000	Total RMB'000
At 1 January 2023:					
Cost	3,626	32,086	124	65,599	101,435
Accumulated amortisation	(3,440)	(32,086)	(120)	-	(35,646)
Net carrying amount	<u>186</u>	<u>-</u>	<u>4</u>	<u>65,599</u>	<u>65,789</u>
At 1 January 2023, net of accumulated amortisation	186	-	4	65,599	65,789
Additions	399	-	-	24,699	25,098
Transfer from construction in progress (note 13)	783	-	-	-	783
Amortisation provided during the year (note 6)	(319)	-	(4)	-	(323)
At 31 December 2023, net of accumulated amortisation	<u>1,049</u>	<u>-</u>	<u>-</u>	<u>90,298</u>	<u>91,347</u>
At 31 December 2023:					
Cost	4,808	32,086	124	90,298	127,316
Accumulated amortisation	(3,759)	(32,086)	(124)	-	(35,969)
Net carrying amount	<u>1,049</u>	<u>-</u>	<u>-</u>	<u>90,298</u>	<u>91,347</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS (continued)

Group and Company (continued)

30 June 2024	Software RMB'000	Patents and licences RMB'000	Trademark RMB'000	Deferred development costs RMB'000	Total RMB'000
At 1 January 2024:					
Cost	4,808	32,086	124	90,298	127,316
Accumulated amortisation	(3,759)	(32,086)	(124)	-	(35,969)
Net carrying amount	<u>1,049</u>	<u>-</u>	<u>-</u>	<u>90,298</u>	<u>91,347</u>
At 1 January 2024, net of accumulated amortisation					
	1,049	-	-	90,298	91,347
Additions	147	-	-	24,786	24,933
Amortisation provided during the period (note 6)	(294)	-	-	-	(294)
At 30 June 2024, net of accumulated amortisation	<u>902</u>	<u>-</u>	<u>-</u>	<u>115,084</u>	<u>115,986</u>
At 30 June 2024:					
Cost	4,955	32,086	124	115,084	152,249
Accumulated amortisation	(4,053)	(32,086)	(124)	-	(36,263)
Net carrying amount	<u>902</u>	<u>-</u>	<u>-</u>	<u>115,084</u>	<u>115,986</u>

Impairment testing of deferred development costs

The management of the Group performed annual impairment testing during the Relevant Periods for deferred development costs which were not yet available for use. For impairment testing, deferred development costs are allocated to the cash-generating unit ("CGU"), which is supposed to be able to generate cash flows independently from those of the other products.

Impairment review on the deferred development costs of the Group is conducted by the management of the Group by engaging an independent qualified professional valuer, Kun Yuan Asset Appraisal Co., Ltd. ("Kun Yuan"), to estimate the recoverable amount of the CGU at the end of each year. For the purpose of impairment review, the recoverable amount of the CGU is determined based on the fair value less costs of disposal. The fair value of the deferred development costs not yet available for use was determined using the relief from royalty method, taking into account the nature of the assets, using cash flow projections and the royalty rates. The Group recognises development costs as follows:

JY06 (Jixinfen), a granulocyte colony-stimulating factor ("G-CSF") product modified by polyethylene glycol modification, have been submitted to the New Drug Application ("NDA"), with the National Medical Products Administration ("NMPA") in May 2023. The Phase III clinical trial of JY29-2 (Jiyoutai), the semaglutide biosimilar modified with fatty acid, had been completed in October 2023, and its NDA was accepted in April 2024..

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS (continued)

Impairment testing of deferred development costs (continued)

The CGU of JY06 (Jixinfen) will generate cash inflows starting from 2025 based on the timing of clinical development, regulatory approval and commercial ramp-up which is expected to reach its peak in 2032, and up to the end of the exclusivity for the product. The CGU of JY29-2 (Jiyoutai) will generate cash inflows starting from year 2026 based on the timing of clinical development, regulatory approval and commercial ramp-up which is expected to reach its peak in 2030, and up to the end of the exclusivity for the product. The management considers the length of the forecast period is appropriate because it generally takes longer for a biopharma company to generate positive cash flows, compared to companies in other industries, especially when the concerned products are under clinical trial. Hence, the management believes that an estimation of forecast period for the cash-generating unit being longer than five years is justifiable and consistent with industry practice.

With the assistance of Kun Yuan, the management determined the recoverable amount of the above CGU based on the key assumptions, the carrying amounts of two products during the Relevant Periods are as follows:

	As at 31 December		As at 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
JY06 (Jixinfen)	30,446	47,281	52,558	56,776
JY29-2 (Jiyoutai)	N/A	18,318	37,740	58,308
Total	30,446	65,599	90,298	115,084

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of development costs:

(a) The annual revenue growth rates

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
The annual revenue growth rate of JY06 (Jixinfen) till 2032	20.64%~54.96%	20.64%~54.96%	20.64%~54.96%	20.64%~48.18%
The annual revenue growth rate of JY29-2 (Jiyoutai) till 2032	N/A	-2.89%~415.4%	-2.89%~415.4%	-2.89%~415.4%

The annual revenue growth rates for the forecast period were determined by the management based on their expectation for market and product development.

(b) The royalty rates

	As at 31 December		As at 30 June	
	2021	2022	2023	2024
JY06 (Jixinfen)	11.78%	12.34%	12.90%	12.90%
JY29-2 (Jiyoutai)	N/A	11.78%	12.20%	12.48%

During the Relevant Periods, the royalty rates of the Company's patents are determined, according to the royalty rates of the industry and the adjustment coefficient.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS (continued)

Impairment testing of deferred development costs (continued)

(c) The pre-tax discount rates

	As at 31 December		2023	As at 30 June
	2021	2022		2024
JY06 (Jixinfen)	15.38%	15.14%	14.62%	14.23%
JY29-2 (Jiyoutai)	N/A	15.59%	15.07%	14.42%

The pre-tax discount rates used are before tax and reflect specific risks relating to the units.

Details of the headroom measured by excess of the recoverable amounts over the carrying amounts of the CGU as of 31 December 2021, 2022 and 2023 and 30 June 2024 are set out as follows:

	As at 31 December		2023	As at 30 June
	2021	2022		2024
	RMB'000	RMB'000	RMB'000	RMB'000
JY06 (Jixinfen)	7,944	14,049	22,522	19,574
JY29-2 (Jiyoutai)	N/A	201,582	225,980	226,122

(d) Sensitivity analysis

The Group performed the sensitivity analysis based on the assumption that annual revenue growth rates, pre-tax discount rates and royalty rates have been changed. The following table sets out the impact of variations in each of the key assumptions. Had these estimated key assumptions been changed as below, the headroom would have increased/(decreased) as follows:

JY06 (Jixinfen):

	As at 31 December			As at 30
	2021	2022	2023	June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
Annual revenue growth rate increased by 5%	10,350	11,540	13,140	13,213
Annual revenue growth rate decreased by 5%	(8,810)	(9,820)	(11,160)	(11,233)
Pre-tax discount rate increased by 1%	(2,460)	(2,750)	(3,130)	(3,205)
Pre-tax discount rate decreased by 1%	2,600	2,900	3,320	3,416
Royalty rate increased by 1%	5,220	5,550	6,010	6,114
Royalty rate decreased by 1%	(5,230)	(5,550)	(6,010)	(6,101)

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

15. INTANGIBLE ASSETS (continued)

Impairment testing of deferred development costs (continued)

(d) Sensitivity analysis (continued)

JY29-2 (Jiyoutai):

	As at 31 December			As at 30
	2021	2022	2023	June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
Annual revenue growth rate increased by 5%	N/A	27,410	30,810	33,362
Annual revenue growth rate decreased by 5%	N/A	(24,470)	(27,510)	(29,789)
Pre-tax discount rate increased by 1%	N/A	(8,370)	(9,440)	(10,257)
Pre-tax discount rate decreased by 1%	N/A	8,790	9,930	10,796
Royalty rate increased by 1%	N/A	20,820	22,490	23,661
Royalty rate decreased by 1%	N/A	(20,800)	(22,490)	(23,667)

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024, the management considered no reasonably possible change in the key assumptions mentioned above would cause the carrying amounts of the CGU to exceed their recoverable amounts.

The management determined that there was no impairment of its CGU as of 31 December 2021, 2022 and 2023 and 30 June 2024.

16. INVENTORIES

Group and Company

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials and consumables	54,401	39,245	52,138	44,937
Work in progress	81,181	69,390	75,153	72,439
Finished goods	32,703	36,146	35,076	38,387
Contract costs	34,874	29,668	9,966	9,966
Subtotal	203,159	174,449	172,333	165,729
Provision for impairment of inventories	(1,630)	(2,551)	(2,519)	(7,718)
Total	201,529	171,898	169,814	158,011

For the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2024, the impairment of inventories recognised in cost of sales amounted to RMB1,025,000, RMB1,844,000, RMB1,176,000 and RMB6,310,000, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

17. TRADE AND BILLS RECEIVABLES

Group and Company

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	342,522	412,182	484,801	566,664
Bills receivable	35,719	19,272	17,458	8,858
Financial assets at fair value through other comprehensive income	32,973	44,441	32,965	39,340
Impairment	(909)	(1,393)	(2,713)	(5,015)
Net carrying amount	<u>410,305</u>	<u>474,502</u>	<u>532,511</u>	<u>609,847</u>

The Group's trading terms with its customers are mainly on credit as well as payment in advance. The credit period is generally one month to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

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

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year	408,161	471,528	527,793	562,140
1 to 2 years	1,888	2,621	4,446	44,841
2 to 3 years	256	353	272	2,866
Total	<u>410,305</u>	<u>474,502</u>	<u>532,511</u>	<u>609,847</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

17. TRADE AND BILLS RECEIVABLES (continued)

Group and Company (continued)

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

	Year ended 31 December			Six months
	2021	2022	2023	ended 30 June
	RMB'000	RMB'000	RMB'000	2024
				RMB'000
At beginning of year/period	1,186	909	1,393	2,713
Impairment losses, net	(221)	484	1,321	2,302
Amounts written off as uncollectible	(56)	-	(1)	-
At end of year/period	<u>909</u>	<u>1,393</u>	<u>2,713</u>	<u>5,015</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects, as appropriate the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions and forecasts of future economic conditions.

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

As at 31 December 2021

	Gross carrying amount	Expected credit loss rate	Expected credit loss
	RMB'000	%	RMB'000
Within 1 year	339,717	0.07	248
1 to 2 years	1,969	4.11	81
2 to 3 years	348	26.44	92
over 3 years	488	100.00	488
Total	<u>342,522</u>	<u>0.27</u>	<u>909</u>

As at 31 December 2022

	Gross carrying amount	Expected credit loss rate	Expected credit loss
	RMB'000	%	RMB'000
Within 1 year	408,279	0.11	464
1 to 2 years	2,922	10.30	301
2 to 3 years	647	45.44	294
Over 3 years	334	100.00	334
Total	<u>412,182</u>	<u>0.34</u>	<u>1,393</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

17. TRADE AND BILLS RECEIVABLES (continued)

Group and Company (continued)

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

As at 31 December 2023

	Gross carrying amount RMB'000	Expected credit loss rate %	Expected credit loss RMB'000
Within 1 year	478,161	0.17	791
1 to 2 years	5,336	16.68	890
2 to 3 years	869	68.70	597
Over 3 years	435	100.00	435
Total	<u>484,801</u>	<u>0.56</u>	<u>2,713</u>

As at 30 June 2024

	Gross carrying amount RMB'000	Expected credit loss rate %	Expected credit loss RMB'000
Within 1 year	514,997	0.20	1,055
1 to 2 years	47,073	4.74	2,232
2 to 3 years	3,336	23.56	786
Over 3 years	1,258	74.88	942
Total	<u>566,664</u>	<u>0.89</u>	<u>5,015</u>

The credit risk of bills receivable and financial assets at fair value through other comprehensive income is remote and therefore, no impairment losses were recognised as at 31 December 2021, 2022 and 2023 and 30 June 2024 accordingly.

Certain of the Group's bill receivables with net carrying amounts of approximately RMB17,353,000, RMB1,263,000, nil and nil as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively, were pledged to secure bank loans (note 22).

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Current				
Prepayments	8,291	9,550	8,149	9,437
Tax recoverable	11,606	1,103	1,314	-
Right-of-return assets	1,086	810	684	614
Other receivables	3,771	4,779	3,361	11,059
Deferred listing expenses (note 29)	-	-	8,685	14,711
	<u>24,754</u>	<u>16,242</u>	<u>22,193</u>	<u>35,821</u>
Impairment	<u>(540)</u>	<u>(540)</u>	<u>(538)</u>	<u>(631)</u>
Subtotal	24,214	15,702	21,655	35,190
Non-current				
Advance payments for property, plant and equipment	<u>6,580</u>	<u>3,236</u>	<u>3,052</u>	<u>2,680</u>
Total	<u>30,794</u>	<u>18,938</u>	<u>24,707</u>	<u>37,870</u>

An impairment analysis was performed at the end of each reporting period considering the probability of default of comparable companies with published credit ratings. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

19. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

Group

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Cash and bank balances	95,206	71,918	93,198	78,790
Less: Restricted bank deposits	<u>(377)</u>	<u>(378)</u>	<u>(20)</u>	<u>(20)</u>
Cash and cash equivalents	<u>94,829</u>	<u>71,540</u>	<u>93,178</u>	<u>78,770</u>
Denominated in:				
RMB	93,512	67,136	91,913	74,431
United States dollar ("US\$")	1,154	4,231	705	3,944
Euro ("EUR")	<u>540</u>	<u>551</u>	<u>580</u>	<u>415</u>
Total	<u>95,206</u>	<u>71,918</u>	<u>93,198</u>	<u>78,790</u>

Cash and bank balances of the Group denominated in RMB amounted to RMB93,512,000, RMB67,136,000, RMB91,913,000 and RMB74,431,000 as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively. 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. The bank balances are deposited with creditworthy banks with no recent history of default.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

19. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS (continued)

Company

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Cash and bank balances	95,204	71,916	93,196	78,789
Less: Restricted bank deposits	(377)	(378)	(20)	(20)
Cash and cash equivalents	<u>94,827</u>	<u>71,538</u>	<u>93,176</u>	<u>78,769</u>
Denominated in:				
RMB	93,510	67,134	91,911	74,430
US\$	1,154	4,231	705	3,944
EUR	540	551	580	415
	<u>95,204</u>	<u>71,916</u>	<u>93,196</u>	<u>78,789</u>

20. TRADE PAYABLES

Group and Company

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

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Within 1 year	65,527	51,401	42,245	31,529
Over 1 year	922	245	179	38
Total	<u>66,449</u>	<u>51,646</u>	<u>42,424</u>	<u>31,567</u>

The trade payables are non-interest-bearing and are normally settled within 60 days.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

21. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current:				
Deferred income	2,500	7,555	7,267	6,878
Onerous contract provisions	2,621	344	-	-
Subtotal	<u>5,121</u>	<u>7,899</u>	<u>7,267</u>	<u>6,878</u>
Current:				
Other payables	99,440	84,710	80,158	78,639
Refund liabilities	4,367	3,687	3,442	3,304
Payroll payable	47,914	49,022	65,296	37,907
Deferred income	-	713	777	777
Onerous contract provisions	754	917	-	-
Other tax payables	2,119	6,301	1,102	8,470
Accrued listing expenses (note 29)	-	-	7,423	6,714
Subtotal	<u>154,594</u>	<u>145,350</u>	<u>158,198</u>	<u>135,811</u>
Total	<u>159,715</u>	<u>153,249</u>	<u>165,465</u>	<u>142,689</u>

Company

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current:				
Deferred income	2,500	7,555	7,267	6,878
Onerous contract provisions	2,621	344	-	-
Subtotal	<u>5,121</u>	<u>7,899</u>	<u>7,267</u>	<u>6,878</u>
Current:				
Other payables	99,441	84,711	80,158	78,641
Refund liabilities	4,367	3,687	3,442	3,304
Payroll payable	47,914	49,022	65,296	37,907
Deferred income	-	713	777	777
Onerous contract provisions	754	917	-	-
Other tax payables	2,119	6,301	1,102	8,470
Accrued listing expenses	-	-	7,423	6,714
Subtotal	<u>154,595</u>	<u>145,351</u>	<u>158,198</u>	<u>135,813</u>
Total	<u>159,716</u>	<u>153,250</u>	<u>165,465</u>	<u>142,691</u>

Other payables are non-interest-bearing and have no fixed terms of settlement.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

22. INTEREST-BEARING BANK BORROWINGS

Group and Company

As at 31 December 2021			
	Effective interest rate(%)	Maturity	RMB'000
Current			
Bank loans – unsecured	4.35 - 5.30	2022	59,077
Bank loans – secured	3.35 - 4.90	2022	98,481
			<u>157,558</u>
Non-current			
Bank loans – secured	4.90	2023-2030	<u>45,808</u>
Analysed into:			
Within one year			157,558
In the second to fifth year, inclusive			22,793
Beyond five years			<u>23,015</u>
Total			<u><u>203,366</u></u>

As at 31 December 2022			
	Effective interest rate(%)	Maturity	RMB'000
Current			
Bank loans – unsecured	3.90 - 4.70	2023	23,548
Bank loans – secured	3.75 - 4.90	2023	117,984
			<u>141,532</u>
Non-current			
Bank loans – unsecured	4.00 - 4.10	2024	38,450
Bank loans – secured	4.90	2024-2030	40,276
			<u>78,726</u>
Analysed into:			
Within one year			141,532
In the second to fifth year, inclusive			61,465
Beyond five years			<u>17,261</u>
Total			<u><u>220,258</u></u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

22. INTEREST-BEARING BANK BORROWINGS (continued)

Group and Company (continued)

As at 31 December 2023			
	Effective interest rate(%)	Maturity	RMB'000
Current			
Bank loans – unsecured	3.60 - 4.10	2024	58,970
Bank loans – secured	3.90 - 4.35	2024	71,867
			<u>130,837</u>
Non-current			
Bank loans – secured	4.55	2025-2030	34,523
Analysed into:			
Within one year			130,837
In the second to fifth year, inclusive			23,015
Beyond five years			11,508
Total			<u>165,360</u>

As at 30 June 2024			
	Effective interest rate(%)	Maturity	RMB'000
Current			
Bank loans – unsecured	3.60 - 3.90	2024-2025	77,784
Bank loans – secured	3.70- 4.10	2024-2025	96,899
			<u>174,683</u>
Non-current			
Bank loans – secured	4.45	2025-2030	31,646
Analysed into:			
Within one year			174,683
In the second to fifth year, inclusive			23,015
Beyond five years			8,631
Total			<u>206,329</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

22. INTEREST-BEARING BANK BORROWINGS (continued)

Group and Company (continued)

Notes:

The Group's bank loans as at 31 December 2021 were denominated in RMB and secured by:

- (i) Mortgages over Group's buildings which had a net carrying amount of RMB172,977,000 as at 31 December 2021;
- (ii) Mortgages over Group's leasehold land which had a net carrying amount of RMB308,000 as at 31 December 2021; and
- (iii) The pledge of certain of the Group's bill receivables amounting to RMB17,353,000 as at 31 December 2021.

In addition, the Company's shareholder, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. (杭州華昇醫藥集團有限公司), formerly known as "杭州華東醫藥集團控股有限公司", has guaranteed certain of the Group's bank loans up to RMB42,000,000 at 31 December 2021. A third party, Hangzhou Hi Tech Financing Guarantee Co., Ltd. (杭州高科技融資擔保有限公司), has guaranteed certain of the Group's bank loans up to RMB10,000,000 at 31 December 2021.

The Group's bank loans as at 31 December 2022 were denominated in RMB and secured by:

- (i) Mortgages over Group's buildings which had a net carrying amount of RMB196,601,000 as at 31 December 2022;
- (ii) Mortgages over Group's leasehold land which had a net carrying amount of RMB154,000 as at 31 December 2022; and
- (iii) The pledge of certain of the Group's bill receivables amounting to RMB1,263,000 as at 31 December 2022.

In addition, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. has guaranteed certain of the Group's bank loans up to RMB42,000,000 at 31 December 2022.

The Group's bank loans as at 31 December 2023 were denominated in RMB and secured by mortgages over Group's buildings which had a net carrying amount of RMB156,624,000 as at 31 December 2023. In addition, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. has guaranteed certain of the Group's bank loans up to RMB42,000,000 at 31 December 2023. The guarantee expired in May 2024.

The Group's bank loans as at 30 June 2024 were denominated in RMB and secured by:

- (i) Mortgages over Group's buildings which had a net carrying amount of RMB182,386,000 as at 30 June 2024; and
- (ii) Mortgages over Group's leasehold land which had a net carrying amount of nil as at 30 June 2024.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

23. CONTRACT LIABILITIES

Group

Details of contract liabilities are as follows:

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Short-term advances received from customers	2,621	1,923	2,704	3,256
Sales rebates*	<u>18,592</u>	<u>14,257</u>	<u>11,330</u>	<u>10,962</u>
	<u>21,213</u>	<u>16,180</u>	<u>14,034</u>	<u>14,218</u>

Company

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Short-term advances received from customers	2,616	1,923	2,704	3,256
Sales rebates*	<u>18,592</u>	<u>14,257</u>	<u>11,330</u>	<u>10,962</u>
	<u>21,208</u>	<u>16,180</u>	<u>14,034</u>	<u>14,218</u>

* Sales rebates represent the amounts of rebates that have been accrued but not yet paid.

The contract liabilities primarily relate to the Group's obligations to sales of goods for which the Group has received the consideration from the customers.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

24. DEFERRED TAX

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

Deferred tax assets

	Provision for inventories RMB'000	Impairment losses on financial assets RMB'000	Tax losses RMB'000	Lease liabilities RMB'000	Accrued expenses and others RMB'000	Total RMB'000
At 1 January 2021	189	262	-	11	5,295	5,757
Deferred tax credited/(charged) to profit or loss during the year (note 10)	<u>56</u>	<u>(21)</u>	<u>4,326</u>	<u>85</u>	<u>(3,940)</u>	<u>506</u>
Gross deferred tax assets at 31 December 2021 and 1 January 2022	245	241	4,326	96	1,355	6,263
Deferred tax credited/(charged) to profit or loss during the year (note 10)	<u>138</u>	<u>70</u>	<u>4,690</u>	<u>(47)</u>	<u>5,458</u>	<u>10,309</u>
Gross deferred tax assets at 31 December 2022 and 1 January 2023	383	311	9,016	49	6,813	16,572
Deferred tax (charged)/credited to profit or loss during the year (note 10)	<u>(5)</u>	<u>181</u>	<u>(9,016)</u>	<u>207</u>	<u>(5,606)</u>	<u>(14,239)</u>
Gross deferred tax assets at 31 December 2023 and 1 January 2024	378	492	-	256	1,207	2,333
Deferred tax credited/(charged) to profit or loss during the period (note 10)	<u>780</u>	<u>450</u>	<u>-</u>	<u>7</u>	<u>(59)</u>	<u>1,178</u>
Gross deferred tax assets at 30 June 2024	<u>1,158</u>	<u>942</u>	<u>-</u>	<u>263</u>	<u>1,148</u>	<u>3,511</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

24. DEFERRED TAX (continued)

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows: (continued)

Deferred tax liabilities

	Depreciation of equipment RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2021	11,563	17	11,580
Deferred tax charged to profit or loss during the year (note 10)	<u>7,887</u>	<u>83</u>	<u>7,970</u>
Gross deferred tax liabilities at 31 December 2021 and 1 January 2022	19,450	100	19,550
Deferred tax charged/(credited) to profit or loss during the year (note 10)	<u>1,914</u>	<u>(53)</u>	<u>1,861</u>
Gross deferred tax liabilities at 31 December 2022 and 1 January 2023	21,364	47	21,411
Deferred tax charged to profit or loss during the year (note 10)	<u>217</u>	<u>266</u>	<u>483</u>
Gross deferred tax liabilities at 31 December 2023 and 1 January 2024	21,581	313	21,894
Deferred tax credited to profit or loss during the period (note 10)	<u>(439)</u>	<u>(62)</u>	<u>(501)</u>
Gross deferred tax liabilities at 30 June 2024	<u>21,142</u>	<u>251</u>	<u>21,393</u>

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

24. DEFERRED TAX (continued)

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

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	-	-	-	-
Net deferred tax liabilities recognised in the consolidated statement of financial position	13,287	4,839	19,561	17,882

The Group had tax losses of approximately RMB28,840,000, RMB60,104,000, nil and nil as at 31 December 2021, 2022 and 2023 and 30 June 2024 arising in Chinese Mainland, respectively, that would expire in one to ten years for offsetting against future taxable profits.

There are no income tax consequences attaching to the payments of dividends by the Company to its shareholders.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

25. PAID-IN CAPITAL/SHARE CAPITAL

Group and Company

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Issued and fully paid	<u>53,446</u>	<u>53,446</u>	<u>200,000</u>	<u>200,000</u>

A summary of movements in the Company's issued paid-in capital/share capital during the Relevant Periods is as follows:

		Paid-in capital RMB'000
At 1 January 2021, 31 December 2021 and 2022 and 1 January 2023		53,446
Conversion to a joint stock company*		<u>(53,446)</u>
As at 31 December 2023		<u>-</u>
	Number of shares in issue	Share capital RMB'000
At 1 January 2023	-	-
Conversion to a joint stock company*	<u>200,000,000</u>	<u>200,000</u>
As at 31 December 2023 and 30 June 2024	<u>200,000,000</u>	<u>200,000</u>

* Pursuant to the promoters' agreement dated 13 November 2023, the then shareholders of the Company agreed to convert the Company into a joint stock limited liability company. The net asset value of the Company as at 31 August 2023 ("conversion base date") was approximately RMB881,430,000, of which (i) RMB200,000,000 was converted to 200,000,000 shares with par value of RMB1.00 per share; and (ii) the remaining amount of approximately RMB644,588,000 was converted into capital reserve. After conversion to a joint stock company, the balance of the capital reserve became RMB681,430,000. The above conversion was completed on 5 December 2023.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

26. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

Capital reserve/share premium

The capital reserve/share premium of the Group represents the difference between the par value of the shares issued and the consideration received.

Share award reserve

The share award reserve of the Group represents the fair value of equity-settled share-based payments as details presented in note 27.

Surplus reserve

In accordance with the Company Law of the PRC, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the conversion is not less than 25% of the registered capital.

In addition to the above statutory surplus reserve, the Company may, subject to the articles of association, draw 5% of its profit after tax to its enterprise development reserve.

Both statutory surplus reserve and enterprise development reserve are included in surplus reserve. After the conversion to a joint stock limited company, the Company no longer continues to accrue the enterprise development reserve, but only is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

26. RESERVES (continued)

Company

	Capital reserve/ share premium RMB'000	Share award reserve RMB'000	Surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021	36,842	1,841	103,781	402,667	545,131
Profit and total comprehensive income for the year	-	-	-	119,412	119,412
Transfer to surplus reserve	-	-	17,913	(17,913)	-
Equity-settled share award arrangements	-	147	-	-	147
At 31 December 2021 and 1 January 2022	36,842	1,988	121,694	504,166	664,690
Profit and total comprehensive income for the year	-	-	-	59,865	59,865
Transfer to surplus reserve	-	-	8,980	(8,980)	-
Equity-settled share award arrangements	-	180	-	-	180
Dividend declared (note 11)	-	-	-	(12,000)	(12,000)
As at 31 December 2022 and 1 January 2023	36,842	2,168	130,674	543,051	712,735
Profit and total comprehensive income for the year	-	-	-	119,775	119,775
Transfer to surplus reserve	-	-	1,216	(1,216)	-
Conversion to a joint stock company	644,588	(9,799)	(130,674)	(650,669)	(146,554)
Equity-settled share award arrangements	-	11,933	-	-	11,933
As at 31 December 2023 and 1 January 2024	681,430	4,302	1,216	10,941	697,889
Profit and total comprehensive income for the period	-	-	-	105,348	105,348
Equity-settled share award arrangements	-	3,036	-	-	3,036
At 30 June 2024	681,430	7,338	1,216	116,289	806,273

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

27. SHARE-BASED PAYMENTS

In December 2006, the Company has adopted an employee incentive scheme (the “Old Scheme”) for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company’s operations. Eligible participants of the Old Scheme include the Company’s directors, senior management and other employees.

As set out in the section headed “History, Development and Corporate Structure” of the Prospectus, Hangzhou Weitai was established on 7 December 2006 by certain members of the then directors, management and key employees of the Company as a long-term equity incentive platform under the Old Scheme. Hangzhou Weitai held approximately 10.00% shares of the Company. To simplify and enhance the management of employee shareholding in the Company, the Company adopted some nominee shareholding arrangements. These granted shares of Hangzhou Weitai will be vested in accordance with both service periods and non-market performance conditions.

On 31 July 2023, in order to dissolve the historical nominee shareholding arrangements on Old Scheme, Hangzhou Weitai transferred (i) the equity interests in registered capital of US\$48,909 previously held on behalf of Mr. Wu Qiyuan, back to himself; and (ii) the equity interests in registered capital of US\$374,646 previously held on behalf of other employees to Qingfanghao and Chengheda, two employee shareholding platforms established by the beneficial employees. The service periods and non-market performance conditions under the Old Scheme were cancelled. The shares of Mr. Wu Qiyuan, Qingfanghao and Chengheda were deemed vested immediately. During the years ended 31 December 2021, 2022 and 2023 and the six months ended 30 June 2023, share award expenses under the Old Scheme of RMB147,000, RMB180,000, RMB270,000 and RMB90,000 (unaudited), respectively, were charged to profit or loss.

On 31 July 2023, the Company approved and adopted a new employee incentive scheme (the “New Scheme”). To allocate the reserved equity interests in Hangzhou Weitai to employees, Hangzhou Weitai transferred (i) the equity interests in registered capital of US\$78,225 to Mr. Li Bangliang was regarded as awarded shares to compensate his past contribution to the Group as a director, and a one-off share award expense of RMB8,984,000 was charged to profit or loss during the year ended 31 December 2023; and (ii) the equity interests in registered capital of US\$169,226 to Nanbeiju, an employee shareholding platform under the New Scheme, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company’s operations. Eligible participants of the New Scheme include the Company’s directors, senior management and other employees.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

27. SHARE-BASED PAYMENTS (continued)

The above shares granted to (ii) employees under the New Scheme shall be vested and exercisable at the earlier of: (a) 25% of total number of shares granted after the completion of the listing of H shares by the Company and the expiration of the corresponding restriction period, and the remaining 25%, 25% and 25% of the total number of the shares granted shall be vested and exercisable on the second, third and sixth anniversaries of the expiration date of the restriction period; and (b) when the grantees served in the Company for five consecutive years after the grant date. During the year ended 31 December 2023 and the six months ended 30 June 2024, share award expense under the New Scheme of RMB2,679,000 and RMB3,036,000 was charged to profit or loss.

The fair value of services received in return for shares granted to employees under the New Scheme and Mr. Li Bangliang was measured by reference to the fair value of shares granted and the subscription price paid by employees and Mr. Li Bangliang. The discounted cash flow method was used to determine the underlying equity fair value of the Company. The key input into the model at the grant date was weighted average cost of capital ("WACC"), which was 10.85%.

28. COMMITMENTS

The Group had the following contracted commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000	
Property, plant and equipment	<u>13,134</u>	<u>4,114</u>	<u>805</u>	<u>1,839</u>	

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

- (i) During the years ended 31 December 2021, 2022 and 2023 and 30 June 2024, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB860,000, nil, RMB2,507,000 and nil, respectively, in respect of lease arrangements for office premises and warehouses.
- (ii) The Group discounted certain bills receivable to certain banks in Chinese Mainland (the "Discounted Bills") to collect cash timely. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and the associated bank borrowings. As the Discounted Bills were in maturity, the Group had non-cash settlements to bills receivable and bank borrowings of RMB67,291,000, RMB17,353,000, RMB3,139,000 and nil during the years ended 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000	Lease liabilities RMB'000	Accrued listing expenses RMB'000	Total RMB'000
At 1 January 2021	219,410	76	-	219,486
Changes from financing cash flows	41,552	(324)	-	41,228
Non-cash settlement	(67,291)	-	-	(67,291)
Interest expense	9,695	25	-	9,720
New leases	-	860	-	860
At 31 December 2021 and 1 January 2022	203,366	637	-	204,003
Changes from financing cash flows	25,225	(333)	-	24,892
Non-cash settlement	(17,353)	-	-	(17,353)
Interest expense	9,020	22	-	9,042
As at 31 December 2022 and 1 January 2023	220,258	326	-	220,584
Changes from financing cash flows	(61,088)	(1,180)	(5,082)	(67,350)
Changes from operating cash flows	-	-	(6,106)	(6,106)
Listing expenses	-	-	9,926	9,926
Deferred listing expenses	-	-	8,685	8,685
Non-cash settlement	(3,139)	-	-	(3,139)
Interest expense	9,329	57	-	9,386
New leases	-	2,507	-	2,507
As at 31 December 2023 and 1 January 2024	165,360	1,710	7,423	174,493
Changes from financing cash flows	37,220	-	(6,368)	30,852
Changes from operating cash flows	-	-	(6,838)	(6,838)
Listing expenses	-	-	6,471	6,471
Deferred listing expenses	-	-	6,026	6,026
Interest expense	3,749	40	-	3,789
As at 30 June 2024	206,329	1,750	6,714	214,793

(c) Total cash outflow for leases

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

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Within operating activities	1,202	1,332	1,357	456	504
Within financing activities	324	333	1,180	159	-
	1,526	1,665	2,537	615	504

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

30. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in notes 13, 14, 17, 19 and 22, respectively, to the Historical Financial Information.

31. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the Relevant Periods and the six months ended 30 June 2023:

	Notes	Year ended 31 December			Six months ended 30 June	
		2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Shareholder:						
Pharmaceutical services	(i)	38,735	20,300	68,931	24,382	57,056
Rental income	(ii)	1,960	-	-	-	-
The holding company of a shareholder:						
Sales of products	(iii)	32,304	59,861	52,079	31,100	21,700
Purchases of raw materials	(iii)	3,398	4,260	3,422	1,693	2,486
Purchases of devices	(iii)	8,101	2,055	4,108	1,812	834
Rental charges	(ii)	64	64	64	64	64
The entities controlled by the holding company of a shareholder:						
Sales of products	(iii)	25,932	10,993	10,208	6,284	2,430
Purchases of raw materials	(iii)	175	424	5	-	-
Other related party:						
Purchase of preclinical drug development services	(iii)	-	-	1,321	-	-

Notes:

- (i) The pharmaceutical services to the shareholder were provided according to the agreed prices and conditions offered to the major customers of the Group.
- (ii) The rentals with the shareholder and the holding company of a shareholder were made according to the agreed prices.
- (iii) The purchases from and sales to the related parties were made according to the agreed prices between the Group and its major customers and suppliers.

(b) Other transactions with related parties:

The Company's shareholder, Hangzhou Huasheng Pharmaceutical Group Co., Ltd., has guaranteed certain of the Group's bank loans up to RMB42,000,000, RMB42,000,000, RMB42,000,000 and nil as at 31 December 2021, 2022 and 2023 and 30 June 2024, respectively.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

31. RELATED PARTY TRANSACTIONS (continued)

(c) Outstanding balances with related parties:

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Due to related parties:				
The holding company of a shareholder	360	898	813	1,566
The entities controlled by the holding company of a shareholder	36	-	2	-
Total	396	898	815	1,566
Due from related parties:				
Shareholders	1,028	30	11,330	55,791
The holding company of a shareholder	6,951	15,510	8,748	13,346
The entities controlled by the holding company of a shareholder	3,426	3,923	2,482	3,082
Other related party	5,247	5,272	-	-
Total	16,652	24,735	22,560	72,219

Note:

The above balances with related parties are trade-in-nature, unsecured and interest-free.

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

	Year ended 31 December			Six months ended 30 June	
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Salaries, bonuses, allowances and benefits in kind	5,533	7,604	8,343	3,372	4,649
Pension scheme contributions	199	212	347	110	188
Equity-settled share award expense	46	56	10,629	26	1,772
Total compensation paid to key management personnel	5,778	7,872	19,319	3,508	6,609

Further details of directors', supervisors' and the chief executive's remuneration are included in note 8 to the Historical Financial Information. The compensation of Mr. Li Bangliang, who resigned as the chairman of the board of the directors in November 2023, is included in the above balances. The compensation of Ms. Huang Xiu, who resigned as the supervisor in November 2023 and continued to serve as one of the key management personnel, is included in the above balances.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Financial assets

As at 31 December 2021

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	32,973	377,332	410,305
Financial assets included in prepayments, other receivables and other assets	-	3,231	3,231
Due from related parties	-	16,652	16,652
Cash and cash equivalents	-	94,829	94,829
Restricted bank deposits	-	377	377
Total	32,973	492,421	525,394

As at 31 December 2022

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	44,441	430,061	474,502
Financial assets included in prepayments, other receivables and other assets	-	4,239	4,239
Due from related parties	-	24,735	24,735
Cash and cash equivalents	-	71,540	71,540
Restricted bank deposits	-	378	378
Total	44,441	530,953	575,394

As at 31 December 2023

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	32,965	499,546	532,511
Financial assets included in prepayments, other receivables and other assets	-	2,823	2,823
Due from related parties	-	22,560	22,560
Cash and cash equivalents	-	93,178	93,178
Restricted bank deposits	-	20	20
Total	32,965	618,127	651,092

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows: (continued)

Financial assets (continued)

As at 30 June 2024

	Financial assets at fair value through other comprehensive income RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Trade and bills receivables	39,340	570,507	609,847
Financial assets included in prepayments, other receivables and other assets	-	10,428	10,428
Due from related parties	-	72,219	72,219
Cash and cash equivalents	-	78,770	78,770
Restricted bank deposits	-	20	20
Total	39,340	731,944	771,284

Financial liabilities

As at 31 December 2021

	Financial liabilities at amortised cost RMB'000
Trade payables	66,449
Financial liabilities included in other payables and accruals	99,440
Due to related parties	396
Interest-bearing bank borrowings	203,366
Total	369,651

As at 31 December 2022

	Financial liabilities at amortised cost RMB'000
Trade payables	51,646
Financial liabilities included in other payables and accruals	84,710
Due to related parties	898
Interest-bearing bank borrowings	220,258
Total	357,512

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

32. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows: (continued)

Financial liabilities (continued)

As at 31 December 2023

	Financial liabilities at amortised cost RMB'000
Trade payables	42,424
Financial liabilities included in other payables and accruals	87,581
Due to related parties	815
Interest-bearing bank borrowings	165,360
	<hr/>
Total	296,180

As at 30 June 2024

	Financial liabilities at amortised cost RMB'000
Trade payables	31,567
Financial liabilities included in other payables and accruals	85,353
Due to related parties	1,566
Interest-bearing bank borrowings	206,329
	<hr/>
Total	324,815

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

	Carrying amounts				Fair values			
	As at 31 December			As at 30	As at 31 December			As at 30
	2021	2022	2023	June	2021	2022	2023	June
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities								
Interest-bearing bank borrowings	<u>203,366</u>	<u>220,258</u>	<u>165,360</u>	<u>206,329</u>	<u>204,515</u>	<u>221,378</u>	<u>166,374</u>	<u>207,511</u>

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, amount due from related parties, trade and bills receivables, trade payables, the current portion of interest-bearing bank borrowings, amount due to related parties and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the financial controller. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the directors of the Company periodically for financial reporting.

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

The fair value of those not traded in an active market is determined by the Group using valuation techniques. The valuation model used is discounted cash flow model. The input of the valuation technique is future cash flows.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade and bills receivables	-	32,973	-	32,973

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade and bills receivables	-	44,441	-	44,441

As at 31 December 2023

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade and bills receivables	-	32,965	-	32,965

As at 30 June 2024

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Trade and bills receivables	-	39,340	-	39,340

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The following tables illustrate the fair value measurement hierarchy of the Company's financial instruments: (continued)

Liability for which fair value is disclosed:

As at 31 December 2021

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings	-	204,515	-	204,515

As at 31 December 2022

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings	-	221,378	-	221,378

As at 31 December 2023

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings	-	166,374	-	166,374

As at 30 June 2024

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Interest-bearing bank borrowings	-	207,511	-	207,511

During the Relevant Periods, 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.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, financial assets at fair value through other comprehensive income and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. To keep the Group's exposure to these risks at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

After the assessment, the directors of the Company consider the Group's exposure to interest risk is not significant.

Foreign currency risk

The Group's businesses are principally located in Chinese Mainland and substantially all transactions are conducted in RMB, except for the sales of goods to overseas markets. The fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. However, in the opinion of the directors, the foreign currency risk exposure is not significant and under management's control.

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group is exposed to credit risk in relation to its cash and cash equivalents, amounts due from related parties, trade and bills receivables and financial assets included in prepayments, other receivables and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification. The amounts presented are gross carrying amounts for financial assets.

31 December 2021	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	342,522	342,522
Prepayments, other receivables and other assets - Normal**	3,771	-	-	-	3,771
Due from related parties	-	-	-	16,652	16,652
Cash and cash equivalents	94,829	-	-	-	94,829
Restricted bank deposits	377	-	-	-	377
Total	98,977	-	-	359,174	458,151
31 December 2022	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	412,182	412,182
Prepayments, other receivables and other assets - Normal**	4,779	-	-	-	4,779
Due from related parties	-	-	-	24,735	24,735
Cash and cash equivalents	71,540	-	-	-	71,540
Restricted bank deposits	378	-	-	-	378
Total	76,697	-	-	436,917	513,614
31 December 2023	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	484,801	484,801
Prepayments, other receivables and other assets - Normal**	3,361	-	-	-	3,361
Due from related parties	-	-	-	22,560	22,560
Cash and cash equivalents	93,178	-	-	-	93,178
Restricted bank deposits	20	-	-	-	20
Total	96,559	-	-	507,361	603,920

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

30 June 2024	12-month ECLs		Lifetime ECLs		Total RMB'000
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
Trade receivables*	-	-	-	566,664	566,664
Prepayments, other receivables and other assets - Normal**	11,059	-	-	-	11,059
Due from related parties	-	-	-	72,219	72,219
Cash and cash equivalents	78,770	-	-	-	78,770
Restricted bank deposits	20	-	-	-	20
Total	89,849	-	-	638,883	728,732

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the Historical Financial Information.

** The credit quality of financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the Historical Financial Information.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

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

	As at 31 December 2021				Total RMB'000
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade payables	-	66,449	-	-	66,449
Financial liabilities included in other payables and accruals	99,440	-	-	-	99,440
Due to related parties	-	396	-	-	396
Lease liabilities	-	333	333	-	666
Interest-bearing bank borrowings	-	161,257	29,829	25,318	216,404
Total	99,440	228,435	30,162	25,318	383,355

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	As at 31 December 2022				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	51,646	-	-	51,646
Financial liabilities included in other payables and accruals	84,710	-	-	-	84,710
Due to related parties	-	898	-	-	898
Lease liabilities	-	333	-	-	333
Interest-bearing bank borrowings	-	145,746	69,830	18,565	234,141
Total	84,710	198,623	69,830	18,565	371,728

	As at 31 December 2023				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	42,424	-	-	42,424
Financial liabilities included in other payables and accruals	87,581	-	-	-	87,581
Due to related parties	-	815	-	-	815
Lease liabilities	-	845	970	-	1,815
Interest-bearing bank borrowings	-	135,265	27,248	12,053	174,566
Total	87,581	179,349	28,218	12,053	307,201

	As at 30 June 2024				
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	-	31,567	-	-	31,567
Financial liabilities included in other payables and accruals	85,353	-	-	-	85,353
Due to related parties	-	1,566	-	-	1,566
Lease liabilities	-	1,334	481	-	1,815
Interest-bearing bank borrowings	-	179,599	26,642	8,935	215,176
Total	85,353	214,066	27,123	8,935	335,477

II NOTES TO THE HISTORICAL FINANCIAL INFORMATION (continued)

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Capital management

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

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

The Group monitors capital using a gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 30 June
	2021 RMB'000	2022 RMB'000	2023 RMB'000	2024 RMB'000
Total liabilities	<u>465,063</u>	<u>447,396</u>	<u>409,804</u>	<u>430,407</u>
Total assets	<u>1,183,200</u>	<u>1,213,580</u>	<u>1,307,696</u>	<u>1,436,683</u>
Gearing ratio	<u>39%</u>	<u>37%</u>	<u>31%</u>	<u>30%</u>

35. EVENT AFTER THE RELEVANT PERIODS

No significant events took place subsequent to 30 June 2024.

36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or its subsidiary in respect of any period subsequent to 30 June 2024.