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**上海復旦張江生物醫藥股份有限公司**

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\***

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

**(Stock code:1349)**

**Annual Results Announcement  
For the Year Ended 31 December 2023**

This announcement, for which the directors (the “**Directors**”) of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.\* (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Listing Rules**”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

## Five Years Financial Data Highlights

### RESULTS

	Year ended 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	<b>850,733</b>	1,031,160	1,140,313	833,803	1,029,295
Profit before income tax	<b>97,528</b>	132,294	215,921	176,701	246,312
Profit for the year	<b>108,450</b>	137,272	212,381	164,259	220,654
<b>Profit attributable to:</b>					
Shareholders of the Company	<b>108,627</b>	137,997	213,296	164,663	227,358
Non-controlling interests	<b>(177)</b>	(725)	(915)	(403)	(6,704)
Total comprehensive income for the year	<b>107,793</b>	136,122	209,101	169,288	220,710
<b>Total comprehensive income attributable to:</b>					
Shareholders of the Company	<b>107,970</b>	136,847	210,016	169,691	227,414
Non-controlling interests	<b>(177)</b>	(725)	(915)	(403)	(6,704)
EBITDA	<b>162,826</b>	216,021	278,786	237,145	312,279
Basic and diluted earnings per share for profit attributable to the shareholders of the Company	<b>RMB 0.1051</b>	RMB 0.1340	RMB 0.2049	RMB 0.1663	RMB 0.2463

## ASSETS AND LIABILITIES

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	<b>2,876,688</b>	2,976,007	2,781,172	2,500,701	1,564,824
Total liabilities	<b>(518,124)</b>	(722,986)	(591,582)	(492,211)	(631,676)
	<b>2,358,564</b>	2,253,021	2,189,590	2,008,490	933,148
<b>Capital and reserves</b>					
<b>attributable to:</b>					
Shareholders of the Company	<b>2,357,554</b>	2,257,102	2,192,946	2,010,931	931,525
Non-controlling interests	<b>1,010</b>	(4,081)	(3,356)	(2,441)	1,623
	<b>2,358,564</b>	2,253,021	2,189,590	2,008,490	933,148

The accounting policy of the Group have adopted the Q&A on Implementation of Accounting Standards for Business Enterprises which issued by the Ministry of Finance on 2 November 2021. The adoption of the above updated standards has no significant impact on the financial statements of the Group.

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2023 Consolidated	31 December 2022 Consolidated
<b>Current assets</b>			
Cash at bank and on hand	5(1)	1,195,895,997	1,289,302,664
Notes receivables	5(2)	174,262,319	172,740,246
Accounts receivables	5(3)	446,223,107	506,383,690
Advances to suppliers	5(4)	4,330,980	17,987,140
Other receivables	5(5)	3,539,328	4,870,442
Inventories	5(6)	43,651,360	40,526,760
Current portion of non-current assets	5(7)	-	33,320,625
Other current assets	5(8)	1,521,795	4,057,218
<b>Total current assets</b>		<u>1,869,424,886</u>	<u>2,069,188,785</u>
<b>Non-current assets</b>			
Long-term receivables	5(9)	958,502	-
Investments in other equity instruments	5(10)	15,126	604,241
Long-term equity investments	5(11)	287,518,193	305,767,001
Fixed assets	5(12)	228,496,043	206,262,520
Construction in progress	5(13)	229,962,812	122,371,274
Right-of-use assets	5(14)	16,870,559	22,876,981
Intangible assets	5(15)	86,350,098	62,321,642
Development costs	5(16)	-	34,825,737
Goodwill	5(17)	-	-
Long-term prepaid expenses	5(18)	11,323,048	8,261,211
Deferred tax assets	5(19)	100,873,445	85,903,680
Other non-current assets	5(20)	44,894,795	57,624,200
<b>Total non-current assets</b>		<u>1,007,262,621</u>	<u>906,818,487</u>
<b>TOTAL ASSETS</b>		<u>2,876,687,507</u>	<u>2,976,007,272</u>

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED BALANCE SHEET (CONT'D)**

**AS AT 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Note</b>	<b>31 December 2023 Consolidated</b>	<b>31 December 2022 Consolidated</b>
<b>Current liabilities</b>			
Short-term borrowings	5(22)	-	101,000,000
Accounts payables	5(23)	8,054,847	7,431,420
Contract liabilities	5(24)	260,736	308,923
Employee benefits payable	5(25)	25,084,497	27,761,585
Taxes payable	5(26)	12,200,227	9,611,771
Other payables	5(27)	453,055,613	518,974,183
Including: Dividends payable		-	1,340,716
Current portion of non-current liabilities	5(29)	6,329,026	8,216,162
Other current liabilities	5(28)	33,896	40,160
<b>Total current liabilities</b>		<b>505,018,842</b>	<b>673,344,204</b>
<b>Non-current liabilities</b>			
Lease liabilities	5(29)	10,952,722	15,598,764
Deferred income	5(30)	2,152,575	34,042,949
<b>Total Non-current liabilities</b>		<b>13,105,297</b>	<b>49,641,713</b>
<b>Total liabilities</b>		<b>518,124,139</b>	<b>722,985,917</b>
<b>Shareholders' equity</b>			
Paid-in capital	5(31)	103,657,210	102,900,000
Capital surplus	5(32)	1,289,293,388	1,225,008,937
Less: Treasury stock		-	-
Other comprehensive losses	5(33)	(5,858,369)	(5,201,021)
Surplus reserve	5(34)	52,150,000	52,150,000
Undistributed profits	5(35)	918,311,622	882,244,301
<b>Total equity attributable to shareholders' of the Company</b>		<b>2,357,553,851</b>	<b>2,257,102,217</b>
<b>Minority interests</b>		<b>1,009,517</b>	<b>(4,080,862)</b>
<b>Total shareholders' equity</b>		<b>2,358,563,368</b>	<b>2,253,021,355</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,876,687,507</b>	<b>2,976,007,272</b>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**COMPANY BALANCE SHEET  
AS AT 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

ASSETS	Note	31 December 2023 Company	31 December 2022 Company
<b>Current assets</b>			
Cash at bank and on hand		1,067,294,432	1,187,769,137
Notes receivables	16(1)	139,728,373	171,417,288
Accounts receivables	16(2)	392,842,543	453,992,988
Advances to suppliers		4,365,190	7,339,954
Other receivables	16(3)	125,240,027	72,727,084
Inventories		29,993,697	19,268,923
Current portion of non-current assets		-	33,320,625
Other current assets		481,748	-
<b>Total current assets</b>		1,759,946,010	1,945,835,999
<b>Non-current assets</b>			
Long-term receivables		958,502	-
Long-term equity investments	16(4)	776,119,164	755,137,282
Fixed assets		122,060,655	120,872,439
Construction in progress		91,679	-
Right-of-use assets	16(5)	16,870,559	22,743,759
Intangible assets		41,281,707	12,852,169
Development costs		-	34,825,737
Long-term prepaid expenses		5,544,361	7,724,654
Deferred tax assets		101,792,523	87,848,723
Other non-current assets		5,198,793	12,770,213
<b>Total non-current assets</b>		1,069,917,943	1,054,774,976
<b>TOTAL ASSETS</b>		2,829,863,953	3,000,610,975

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**COMPANY BALANCE SHEET (CONT'D)**

**AS AT 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>Note</b>	<b>31 December 2023 Company</b>	<b>31 December 2022 Company</b>
<b>Current liabilities</b>			
Short-term borrowings		-	101,000,000
Accounts payables		4,352,301	6,465,403
Contract liabilities		133,097	174,832
Employee benefits payable		22,161,404	25,499,579
Taxes payable		11,355,321	9,441,336
Other payables		394,918,659	482,422,764
Including: Dividends payable		-	1,340,716
Current portion of non-current liabilities	16(6)	6,329,026	8,076,240
Other current liabilities		17,303	22,728
<b>Total current liabilities</b>		<b>439,267,111</b>	<b>633,102,882</b>
<b>Non-current liabilities</b>			
Lease liabilities	16(6)	10,952,722	15,598,764
Deferred income		414,825	29,988,199
<b>Total non-current liabilities</b>		<b>11,367,547</b>	<b>45,586,963</b>
<b>Total liabilities</b>		<b>450,634,658</b>	<b>678,689,845</b>
<b>Shareholders' equity</b>			
Paid-in capital		103,657,210	102,900,000
Capital surplus		1,372,751,633	1,303,199,293
Less: Treasury stock		-	-
Surplus reserve		52,150,000	52,150,000
Undistributed profits		850,670,452	863,671,837
<b>Total shareholders' equity</b>		<b>2,379,229,295</b>	<b>2,321,921,130</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>2,379,229,295</b>	<b>3,000,610,975</b>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

	Note	2023 Consolidated	2022 Consolidated
<b>Revenue</b>	5(36)	850,733,212	1,031,159,838
Less: Cost of sales	5(36), 5(42)	(70,628,161)	(84,062,068)
Taxes and surcharges	5(37)	(5,390,405)	(6,841,300)
Selling expenses	5(38), 5(42)	(383,590,748)	(554,630,970)
General and administrative expenses	5(39), 5(42)	(42,860,643)	(44,869,180)
R&D expenses	5(40), 5(42)	(243,762,975)	(226,850,903)
Financial income - net	5(41)	3,703,638	8,788,607
Including: Interest expenses		(3,066,246)	(1,538,255)
Interest income		7,972,431	11,293,953
Add: Other income	5(43)	25,580,068	10,465,267
Investment losses	5(44)	(4,345,839)	(1,284,580)
Including: Share of losses of associates and joint ventures		(23,539,527)	(20,399,820)
Credit impairment losses/(reverse)	5(45)	(24,196,054)	2,412,535
Asset impairment losses	5(46)	(8,447,773)	(2,937,576)
Gains on disposals of assets	5(47)	295,346	1,921,767
<b>Operating profit</b>		97,089,666	133,271,437
Add: Non-operating income	5(48)	1,295,472	854,053
Less: Non-operating expenses	5(49)	(857,075)	(1,831,942)
<b>Total profit</b>		97,528,063	132,293,548
Less: Income tax expenses	5(50)	10,921,795	4,978,650
<b>Net profit</b>		<u>108,449,858</u>	<u>137,272,198</u>
Classified by continuity of operations			
Net profit from continuing operations		108,449,858	137,272,198
Net profit from discontinued operations		-	-
Classified by ownership of the equity			
Net profit attributable to equity holders of the company		108,627,368	137,997,098
Minority interests		(177,510)	(724,900)

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED INCOME STATEMENT (CONT'D)**  
**FOR THE YEAR ENDED 31 DECEMBER 2023**  
 (All amounts in RMB Yuan unless otherwise stated)

	Note	2023 Consolidated	2022 Consolidated
<b>Other comprehensive income, net of tax</b>			
Other comprehensive income that will not be reclassified to profit or loss			
Changes in the fair value of investments in other equity instruments		(589,115)	(1,442,971)
Other comprehensive income that will be reclassified to profit or loss			
Differences on translation of foreign currency financial statements		(68,233)	292,770
		<u>(657,348)</u>	<u>(1,150,201)</u>
<b>Total comprehensive income</b>		<u>107,792,510</u>	<u>136,121,997</u>
Attributable to the shareholders of the Company		107,970,020	136,846,897
Attributable to minority interests		<u>(177,510)</u>	<u>(724,900)</u>
		<u>107,792,510</u>	<u>136,121,997</u>
<b>Earnings per share</b>			
Basic earnings per share	5(51)	0.11	0.13
Diluted earnings per share	5(51)	<u>0.11</u>	<u>0.13</u>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**COMPANY INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

	Note	2023 Company	2022 Company
<b>Revenue</b>	16(7)	711,195,143	929,028,817
Less: Cost of sales	16(7)	(58,896,655)	(59,473,313)
Taxes and surcharges		(3,544,978)	(4,520,378)
Selling expenses		(329,669,536)	(517,214,351)
General and administrative expenses		(30,358,096)	(32,797,400)
R&D expenses		(235,062,631)	(223,183,454)
Financial income - net		3,040,559	7,640,548
Including: Interest expenses		(3,065,915)	(1,527,168)
Interest income		7,291,719	10,119,687
Add: Other income		21,497,449	7,332,420
Investment losses	16(8)	(3,447,349)	(882,121)
Including: Share of losses of associates and joint ventures		(23,539,527)	(20,399,820)
Credit impairment reverse/(losses)		4,311,079	(592,390)
Asset impairment losses		(33,700,569)	(698,906)
Gains on disposals of assets		215,700	1,280,082
<b>Operating profit</b>		45,580,116	105,919,554
Add: Non-operating income		1,241,580	846,984
Less: Non-operating expenses		(725,542)	(1,188,829)
<b>Total profit</b>		46,096,154	105,577,709
Less: Income tax expenses		13,462,508	(3,533,077)
<b>Net profit</b>		59,558,662	102,044,632
Classified by continuity of operations			
Net profit from continuing operations		59,558,662	102,044,632
Net profit from discontinued operations		-	-
<b>Other comprehensive income, net of tax</b>		-	-
<b>Total comprehensive income</b>		59,558,662	102,044,632

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

	Note	2023 Consolidated	2022 Consolidated
<b>Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		903,764,411	1,052,269,863
Cash received relating to other operating activities	5(52)(a)	31,269,962	25,332,790
<b>Sub-total of cash inflows</b>		<u>935,034,373</u>	<u>1,077,602,653</u>
Cash paid for goods and services		(517,148,526)	(559,903,298)
Cash paid to and on behalf of employees		(243,408,026)	(218,447,249)
Payments of taxes and surcharges		(33,532,299)	(68,660,220)
Cash paid relating to other operating activities	5(52)(b)	(69,930,072)	(65,323,264)
<b>Sub-total of cash outflows</b>		<u>(864,018,923)</u>	<u>(912,334,031)</u>
<b>Net cash flows from operating activities</b>	5(53)(a)	<u>71,015,450</u>	<u>165,268,622</u>
<b>Cash flows used in investing activities</b>			
Net cash received from disposal of fixed assets		678,186	1,441,505
Cash received relating to other investing activities	5(52)(c)	3,961,912,977	4,018,115,240
<b>Sub-total of cash inflows</b>		<u>3,962,591,163</u>	<u>4,019,556,745</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(98,967,688)	(87,304,314)
Cash paid relating to other investing activities	5(52)(d)	(3,909,000,000)	(4,029,000,000)
<b>Sub-total of cash outflows</b>		<u>(4,007,967,688)</u>	<u>(4,116,304,314)</u>
<b>Net cash flows used in investment activities</b>		<u>(45,376,525)</u>	<u>(96,747,569)</u>
<b>Cash flows (from)/used in financing activities</b>			
Cash received from investment		66,861,643	-
Cash received from borrowings		-	101,000,000
<b>Sub-total of cash inflows</b>		<u>66,861,643</u>	<u>101,000,000</u>
Cash payments for distribution of dividends, profits or interest expenses		(76,151,923)	(71,038,948)
Cash repayments of amounts borrowed		(100,000,000)	-
Cash payments relating to other financing activities	5(52)(e)	(9,687,079)	(18,353,122)
<b>Sub-total of cash outflows</b>	5(53)(b)	<u>(185,839,002)</u>	<u>(89,392,070)</u>
<b>Net cash flows (used in)/from financing activities</b>		<u>(118,977,359)</u>	<u>11,607,930</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		(68,233)	292,770
<b>Net (decrease)/increase in cash and cash equivalents</b>			
	5(53)(c)	(93,406,667)	80,421,753
Add: Cash and cash equivalents at the beginning of the year	5(53)(c)	<u>1,289,302,664</u>	<u>1,208,880,911</u>
<b>Cash and cash equivalents at the end of the year</b>	5(53)(c)	<u>1,195,895,997</u>	<u>1,289,302,664</u>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**COMPANY CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

	Note	2023 Company	2022 Company
<b>Cash flows from operating activities</b>			
Cash received from sales of goods or rendering of services		759,565,569	931,753,930
Cash received relating to other operating activities		27,690,442	72,709,662
<b>Sub-total of cash inflows</b>		<u>787,256,011</u>	<u>1,004,463,592</u>
Cash paid for goods and services		(499,463,531)	(535,095,269)
Cash paid to and on behalf of employees		(198,953,844)	(186,595,202)
Payments of taxes and surcharges		(29,403,804)	(54,608,109)
Cash paid relating to other operating activities		(49,012,672)	(106,106,096)
<b>Sub-total of cash outflows</b>		<u>(776,833,852)</u>	<u>(882,404,676)</u>
<b>Net cash flows from operating activities</b>		<u>10,422,159</u>	<u>122,058,916</u>
<b>Cash flows used in investing activities</b>			
Net cash received from disposal of fixed assets		664,022	1,268,216
Cash received relating to other investing activities		3,835,211,468	3,468,517,699
<b>Sub-total of cash inflows</b>		<u>3,835,875,490</u>	<u>3,469,785,915</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(27,213,573)	(21,564,593)
Cash paid to acquire investments		(67,833,750)	-
Cash paid relating to other investing activities		(3,753,200,000)	(3,479,000,000)
<b>Sub-total of cash outflows</b>		<u>(3,848,247,323)</u>	<u>(3,500,564,593)</u>
<b>Net cash flows used in investing activities</b>		<u>(12,371,833)</u>	<u>(30,778,678)</u>
<b>Cash flows used in/(from) financing activities</b>			
Cash received from investing		66,861,643	-
Cash received from borrowings		-	101,000,000
<b>Sub-total of cash inflows</b>		<u>66,861,643</u>	<u>101,000,000</u>
Cash payments for distribution of dividends, profits or interest expenses		(76,151,923)	(71,038,948)
Cash payments to repay borrowings		(100,000,000)	-
Cash payments relating to other financing activities		(9,234,751)	(16,731,524)
<b>Sub-total of cash outflows</b>		<u>(185,386,674)</u>	<u>(87,770,472)</u>
<b>Net cash flows used in/(from) financing activities</b>		<u>(118,525,031)</u>	<u>13,229,528</u>
<b>Effect of foreign exchange rate changes on cash and cash equivalents</b>			
		-	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		(120,474,705)	104,509,766
Add: Cash and cash equivalents at the beginning of the year		1,187,769,137	1,083,259,371
<b>Cash and cash equivalents at the end of the year</b>		<u>1,067,294,432</u>	<u>1,187,769,137</u>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED STATEMENT OF CHANGES IN SHARE EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

Item	Attributable to shareholders of the Company					Undistributed profits	Minority interests	Total shareholders' equity
	Paid-in capital	Capital surplus	Less: Treasury stock	Other comprehensive income	Surplus reserve			
<b>Balance at 1 January 2022</b>	104,300,000	1,265,093,686	(40,824,137)	(4,050,820)	52,150,000	816,277,203	(3,355,962)	2,189,589,970
<b>Movements for the year ended 31 December 2022</b>								
Total comprehensive income								
Net profit	-	-	-	-	-	137,997,098	(724,900)	137,272,198
Other comprehensive income	-	-	-	(1,150,201)	-	-	-	(1,150,201)
Capital contribution and withdrawal by shareholders								
Amount of share-based payment included in shareholders' equity (Note 5(32), 6)	-	7,688,778	-	-	-	-	-	7,688,778
Shares repurchase	-	-	(8,699,542)	-	-	-	-	(8,699,542)
Others	(1,400,000)	(48,123,679)	49,523,679	-	-	-	-	-
Profit distribution								
Profit distribution to shareholders (Note 5(35))	-	-	-	-	-	(72,030,000)	-	(72,030,000)
Others	-	350,152	-	-	-	-	-	350,152
<b>Balance at 31 December 2022</b>	<b>102,900,000</b>	<b>1,225,008,937</b>	<b>-</b>	<b>(5,201,021)</b>	<b>52,150,000</b>	<b>882,244,301</b>	<b>(4,080,862)</b>	<b>2,253,021,355</b>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONT'D)  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

Item	Attributable to shareholders of the Company						Minority interests	Total shareholders' equity
	Paid-in capital	Capital surplus	Treasury stock	Less: comprehensive income	Surplus reserve	Undistributed profits		
<b>Balance at 1 January 2023</b>	102,900,000	1,225,008,937	-	(5,201,021)	52,150,000	882,244,301	(4,080,862)	2,253,021,355
<b>Movements for the year ended 31 December 2023</b>								
Total comprehensive income								
Net profit	-	-	-	-	-	108,627,368	(177,510)	108,449,858
Other comprehensive income	-	-	-	(657,348)	-	-	-	(657,348)
Capital contribution and withdrawal by shareholders								
Capital contribution by shareholders	757,210	66,104,433	-	-	-	-	-	66,861,643
Amount of share-based payment included in shareholders' equity (Note 5(32), 6))	-	(1,842,812)	-	-	-	-	-	(1,842,812)
Profit distribution								
Profit distribution to shareholders (Note 5(35))	-	-	-	-	-	(72,560,047)	-	(72,560,047)
Others	-	22,830	-	-	-	-	5,267,889	5,290,719
<b>Balance at 31 December 2023</b>	<b>103,657,210</b>	<b>1,289,293,388</b>	<b>-</b>	<b>(5,858,369)</b>	<b>52,150,000</b>	<b>918,311,622</b>	<b>1,009,517</b>	<b>2,358,563,368</b>

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

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**COMPANY STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

Item	Paid-in capital	Capital surplus	Less: Treasury stock	Surplus reserve	Undistributed profits	Total shareholders' equity
<b>Balance at 1 January 2022</b>	104,300,000	1,343,284,042	(40,824,137)	52,150,000	833,657,205	2,292,567,110
<b>Movements for the year ended 31 December 2022</b>						
Total comprehensive income						
Net profit	-	-	-	-	102,044,632	102,044,632
Capital contribution by shareholders						
Amount of share-based payments included in shareholders' equity	-	7,688,778	-	-	-	7,688,778
Shares repurchase	-	-	(8,699,542)	-	-	(8,699,542)
Others	(1,400,000)	(48,123,679)	49,523,679	-	-	-
Profit distribution						
Profit distribution to shareholders	-	-	-	-	(72,030,000)	(72,030,000)
Others	-	350,152	-	-	-	350,152
<b>Balance at 31 December 2022</b>	<b>102,900,000</b>	<b>1,303,199,293</b>	<b>-</b>	<b>52,150,000</b>	<b>863,671,837</b>	<b>2,321,921,130</b>
<b>Balance at 1 January 2023</b>	102,900,000	1,303,199,293	-	52,150,000	863,671,837	2,321,921,130
<b>Movements for the year ended 31 December 2023</b>						
Total comprehensive income						
Net profit	-	-	-	-	59,558,662	59,558,662
Capital contribution by shareholders						
Capital contribution by shareholders	757,210	66,104,433	-	-	-	66,861,643
Amount of share-based payments included in shareholders' equity	-	(1,842,812)	-	-	-	(1,842,812)
Profit distribution						
Profit distribution to shareholders	-	-	-	-	(72,560,047)	(72,560,047)
Others	-	5,290,719	-	-	-	5,290,719
<b>Balance at 31 December 2023</b>	<b>103,657,210</b>	<b>1,372,751,633</b>	<b>-</b>	<b>52,150,000</b>	<b>850,670,452</b>	<b>2,379,229,295</b>

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**1 General information**

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Company”) was established in the People’s Republic of China (“PRC”) on 11 November 1996 with initial registered capital and paid-in capital of RMB 5,295,000.

On 20 October 2000, the registered and paid-up capital of the Company was increased from RMB5,295,000 to RMB53,000,000 after successive capital increases and shareholding changes.

On 8 November 2000, the Company was transformed into a joint stock company with limited liability. The registered capital and share capital of the Company were RMB 53,000,000, divided into 53,000,000 RMB-denominated ordinary shares, with a par value of RMB 1.00 each.

On 20 January 2002, all shares of the Company, being 53,000,000 RMB-denominated ordinary shares with a par value of RMB 1.00 each, were subdivided into 530,000,000 RMB-denominated ordinary shares (“Domestic Shares”) with a par value of RMB 0.10 each.

On 13 August 2002, the trading of the newly issued 198,000,000 foreign ordinary shares (“H Shares”) of RMB 0.10 each of the Company commenced on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), among which, 180,000,000 H shares were newly issued and 18,000,000 H shares were converted from Domestic Shares. Therefore, the registered capital and share capital of the Company increased to RMB 71,000,000, divided into 710,000,000 shares, with a par value of RMB 0.10 each.

On 4 February 2013, the Company completed a placing of 142,000,000 H Shares at a price of HKD 1.70 each, and the registered capital and share capital of the Company increased to RMB 85,200,000, divided into 852,000,000 shares, with a par value of RMB 0.10 each.

On 29 June 2012, the Company adopted a restricted share scheme. Pursuant to the scheme, the Company granted a total of 71,000,000 Domestic Shares at a price of RMB 0.51 each as restricted shares on 24 June 2013 and 21 October 2013. Upon completion of the grants, the registered capital and share capital of the Company increased to RMB 92,300,000, divided into 923,000,000 shares, with a par value of RMB 0.10 each.

On 16 December 2013, the Company transferred its H Shares listing from GEM to the Main Board of the Stock Exchange.

On 12 June 2020, the Company completed a placing of 120,000,000 RMB-denominated ordinary A shares with a par value of RMB 0.10 each and was listed on the STAR market of Shanghai Stock Exchange on 19 June 2020. After the completion of the issuance, the Company’s registered capital and share capital increased to RMB 104,300,000, divided into 1,043,000,000 shares, with a par value of RMB 0.10 each.

On 7 June 2022, the Company completed the cancellation procedures of the repurchased 14,000,000 H Shares at the Hong Kong Central Securities Registration Co., Ltd., and the share capital of the Company decreased from 1,043,000,000 shares to 1,029,000,000 shares.

On May 11, 2023, in accordance with the Restricted Stock incentive Plan implemented in 2021, the Company issued RMB 7,572,100 ordinary A-shares with A par value of RMB 0.1 per share to 205 incentive subjects who met the vesting conditions, after which the registered capital and share capital of the Company were changed to RMB 103,657,210.

The main business activities of the Company and its subsidiaries (collectively referred to as the “Group”) are the research, development, and sale of self-developed biopharmaceutical knowledge in China, providing contract based research, manufacturing and selling pharmaceutical and diagnostic products to customers, and providing other medical services.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**1 General information(Cont'd)**

Subsidiaries comprised in the consolidated financial statements as of 31 December 2023 are set out in Note 7.

These financial statements are authorised for issue by the Board of Directors of the Company on 28 March 2024.

**2 Significant accounting policies and accounting estimates**

The Group applies the accounting policies and accounting estimates based on its business operating characteristics, including the measurement of expected credit losses on accounts receivable (Note 2(8)), valuation of inventories (Note 2(9)), depreciation of fixed assets, amortisation of right-of-use assets and amortisation of intangible assets (Note 2(11),(13),(22)), judgments to the criteria for capitalisation of development costs (Note 2(13)), recognition and measurement of revenue (Note 2(18)), etc.

Significant judgements to determine the critical accounting policies and significant assumptions to determine the critical accounting estimates are disclosed in Note 2(25).

(1) Basis of preparation

The financial statements are prepared in accordance with the *Accounting Standard for Business Enterprises - Basic Standard*, the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as “the Accounting Standard for Business Enterprises” or “CAS”) and the disclosure requirements in the *Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 – General Rules on Financial Reporting* issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

The *Hong Kong Companies Ordinance* has come into force since 3 March 2014. Certain disclosures in the financial statements have been included to reflect the requirements under the new *Hong Kong Companies Ordinance*.

(2) Statement of compliance with the Accounting Standard for Business Enterprises

The financial statements of the Company for year ended 31 December 2023 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the consolidated and the Company’s financial position as at 31 December 2023 and of their financial performance, cash flows and other information for the year then ended.

(3) Accounting year

The Company’s accounting year starts on 1 January and ends on 31 December.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(4) Recording currency

The Company's recording currency is Renminbi (RMB). The recording currency of the Company's subsidiaries is determined based on the primary economic environment in which they operate. The financial statements are presented in RMB.

(5) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' shareholders' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as minority interests, net profit attributed to minority interests and total comprehensive incomes attributed to minority interests, and presented separately in the consolidated financial statements under shareholders' equity, net profits and total comprehensive income respectively. When the amount of loss for the current period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess is allocated against the balance of minority interests. Unrealised profits and losses resulting from the sales of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to shareholders of the parent. Unrealised profits and losses resulting from the sales of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to shareholders of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sales of assets by one subsidiary to another are eliminated and allocated between net profit attributable to shareholders of the parent and net profit attributed to minority interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction is inconsistent in the financial statements at the Group level and at the Company or its subsidiary level, adjustment will be made from the perspective of the Group.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(6) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(7) Foreign currency translation

(a) Foreign currency transactions

Foreign currency transactions are translated into recording currency using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into recording currency using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(b) Translation of foreign currency financial statements

The asset and liability items in the balance sheets for overseas operations are translated at the spot exchange rates on the balance sheet date. Among the shareholders' equity items, the items other than "undistributed profits" are translated at the spot exchange rates of the transaction dates. The income and expense items in the income statements of overseas operations are translated at the spot exchange rates of the transaction dates. The differences arising from the above translation are presented in other comprehensive income. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(8) Financial instruments

A financial instrument refers to any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. The Group recognises a financial asset or a financial liability when the Group becomes a party to the contractual provisions of financial instrument.

(a) Financial assets

(i) Classification and measurement

The financial assets of the Group are classified on initial recognition based on the business model of the Group's financial asset management and the characteristics of the financial assets' contractual cash flows: 1) financial assets at amortised cost; 2) financial assets at fair value through OCI; and 3) financial assets at fair value through profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

- (8) Financial instruments (Cont'd)
- (a) Financial asset (Cont'd)
- (i) Classification and measurement (Cont'd)

Financial assets are measured at fair value on initial recognition. In the case of financial assets at fair value through profit or loss, the relevant transaction costs are directly charged to profit or loss of the current period; transaction costs relating to financial assets of other categories are included in the amount initially recognised. Notes receivables and accounts receivables derived from sales of goods or rendering of services, which do not contain or consider significant financing components are recognised at the amount that the Group is entitled to collect.

Debt instruments

Debt instruments held by the Group are instruments that meet the definition of financial liabilities from the issuers' perspective and are measured by the following three ways.

Measured at amortised cost

The objective of the Group's business model for managing the financial assets is to collect contractual cash flow, and the contractual cash flow characteristics are consistent with a basic lending arrangement. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from these financial assets is included in finance income using the effective interest rate method. Such financial assets mainly include cash at bank and on hand, notes receivables, accounts receivables, other receivables and long-term receivables. The debt investments with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current assets; debt investments with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

Measured at fair value through OCI

The objective of the Group's business model for managing the financial assets are both collecting contractual cash flow and selling financial asset, and the contractual cash flow characteristics are consistent with a basic lending arrangement. Such financial assets are measured at fair value through OCI, except for the impairment gains or losses, foreign exchange gains and losses, and interest income calculated using the effective interest method which are recognised in profit or loss for the current period. Such financial assets are presented as financing receivables, other debt investments. The debt investments with maturity within 1 year (inclusive) since the balance sheet date are presented in current portion of non-current assets; debt investments with maturity within 1 year (inclusive) when they are acquired are presented in other current assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

- (8) Financial instruments (Cont'd)
- (a) Financial assets (Cont'd)
- (i) Classification and measurement (Cont'd)

Debt instruments (Cont'd)

Measured at fair value through profit or loss

Except for the financial assets at amortised cost and financial assets at fair value through OCI, the Group has classified the remaining financial assets as financial assets at fair value through profit or loss. In order to eliminate or significantly reduce accounting mismatch on initial recognition, the Group designates part of financial assets as financial assets at fair value through profit or loss. The assets with maturity more than 1 year and expected to be held for more than 1 year are presented in other non-current financial assets while others are presented in financial assets held for trading.

Equity instruments

Investments in equity instruments over which the Group exerts no control, joint control or significant influence, are presented as financial assets held for trading and measured at fair value through profit or loss. The assets expected to be held for more than 1 year are presented in other non-current financial assets.

In addition, the Group designates part of financial assets which are not held for trading as financial assets at fair value through OCI, presented in other equity instrument investment. The dividend income is recognised in profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

- (8) Financial instruments (Cont'd)
- (a) Financial assets (Cont'd)
- (ii) Impairment

On the basis of expected credit losses (ECL), the Group recognises impairment of financial assets at amortised cost.

The measurement of expected credit loss reflects the probability-weighted amount of the present value of the difference between contractual cash flows receivable and expected cash flows. Also, the Group consider reasonable and supportable information that is available without undue cost or effort at the balance sheet date about past events, current situation and forecasts of future economic conditions as well as take default risk as the weight when measuring expected credit loss.

Regarding notes receivables and accounts receivables formed as a result of daily operations such as sales of goods and provision of labour services, regardless of whether there is a significant financing component, the Group will use the expected credit losses throughout its lifetime to measure loss reserves.

Except for the above notes receivables and accounts receivables, the Group assesses the expected credit losses at different phases respectively at each balance sheet date. At Stage 1: in the case that the credit risk on a financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance of the financial instrument at an amount equal to 12-month expected credit losses; at Stage 2: in the case that the credit risk on that financial instrument has increased significantly since initial recognition, but a credit impairment has not occurred, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses; at Stage 3: in the case that the impairment loss has incurred since initial recognition, the Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

For financial instruments with low credit risk as at balance sheet date, the Group assumes the credit risk has not increased significantly since initial recognition, and measures the loss allowance for the financial instrument at an amount equal to 12-month expected credit losses.

For the financial instruments at Stage 1 and 2, and those with low credit risk, interest income is calculated based on gross carrying amount without deduction of impairment provision and the effective interest rate. For the financial instruments at Stage 3, interest income is calculated based on amortised cost (gross carrying amounts less the impairment provision) and the effective interest rate.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(8) Financial instruments (Cont'd)

(a) Financial assets (Cont'd)

(ii) Impairment (Cont'd)

When the expected credit loss information could not be assessed at reasonable cost, the Group classifies receivables into multiple groups of receivables. The criteria of classification of groups are based on the credit risk characteristics, as follows:

Group of notes receivables 1	Bank acceptance notes
Group of notes receivables 2	Commercial acceptance notes
Group of accounts receivables	All trade receivables, the overdue date is taken as the starting point of aging
Group of other receivables 1	Amounts due from subsidiaries
Group of other receivables 2	Amounts due from related parties
Group of other receivables 3	Deposits and guarantees
Group of other receivables 4	Petty cash for employees
Group of other receivables 5	Others
Group of long-term receivables 1	Deposits and guarantees

For accounts receivable divided into portfolios and notes receivable formed from daily business activities such as selling goods and providing services, the Group refers to historical credit loss experience, combines current conditions with predictions of future economic conditions, calculates expected credit losses through default risk exposure and expected credit loss rate for the entire duration. For other receivables and long-term receivables divided into portfolios, the Group refers to historical credit loss experience, combines current conditions with predictions of future economic conditions, calculates expected credit losses based on default risk exposure and expected credit loss rate over the next 12 months or the entire duration.

The Group recognizes provision for losses or reversal of losses in profit or loss for the current period.

(iii) De-recognition

A financial asset is derecognized when one of the following conditions is met: (1) the contractual right to receive cash flows from the financial asset is terminated; (2) the financial asset is transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the party to which the financial asset is transferred; and (3) the financial asset is transferred and the Group relinquishes control of the financial asset although the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(8) Financial instruments (Cont'd)

(a) Financial asset (Cont'd)

(iii) De-recognition

On de-recognition of other equity instrument investments, the difference between the carrying amount and the sum of the consideration received and the cumulative changes in fair value that have been recognised directly in equity, shall be transferred to retained earnings. On de-recognition of other financial assets, the difference between the carrying amount and the sum of the consideration received and the cumulative changes has been recognised in OCI, shall be recognised in profit or loss.

(b) Financial liability

Financial liabilities are classified into financial liabilities at amortised cost and financial liabilities at fair value through profit or loss at initial recognition.

The financial liabilities of the Group mainly comprise financial liabilities at amortised cost, including accounts payables, other payables and borrowings, etc. The financial liabilities are initially measured at fair value exclusive transaction costs and are subsequently measured at effective interest rate method. Financial liabilities with maturities within 1 year (inclusive) are presented in current liabilities. Financial liabilities with maturities more than 1 year but are due within 1 year (inclusive) at the balance sheet date are presented in current portion of non-current liabilities. Others are presented in non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised part of the financial liability and the consideration paid is recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique when it is applicable under current conditions and there are enough available data and other information to support. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and should maximise the use of relevant observable inputs. When related observable inputs can't be acquired or are not feasible to be acquired, then use unobservable inputs.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(9) Inventories

(a) Classification

Inventories include raw materials, work in progress, finished goods and turnover materials, and are stated at the lower of cost and net realisable value.

(b) Costing of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realisable values of inventories and method for making provision for decline in the value of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion, estimated contract fulfilment costs and expenses necessary to make the sale and related taxes. For inventory produced and sold in the same region with the same or similar end use, the Group shall consolidate the provision for inventory impairment. Among them, for pharmaceutical and diagnostic products, the Group makes provisions for inventory impairment based on factors such as inventory age, storage status, historical sales discounts, and expected future sales.

(d) The Group adopts the perpetual inventory system.

(e) Amortisation method of low value consumables and packaging materials.

Turnover materials include low value consumables and packaging materials. Low value consumables are amortised into expenses based upon numbers of usage, and the packaging materials are expensed when issued.

(10) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

A subsidiary is the investee over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances; An associate is the investee over which the Group has significant influence on its financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(10) Long-term equity investments (Cont'd)

(a) Determination of investment cost

For long-term equity investment acquired through a business combination involving enterprises not under common control, the investment cost shall be the combination cost.

For long-term equity investments acquired not through a business combination: for long-term equity investment acquired by payment in cash, the initial investment cost shall be the purchase price actually paid; for long-term equity investments acquired by issuing equity securities, the initial investment cost shall be the fair value of the equity securities issued.

(b) Subsequent measurement and recognition of related profit and loss

Long-term equity investments accounted for using the cost method are measured at initial investment cost. Cash dividends or profit distributions declared by the investees are recognised as investment income in profit or loss.

Investments in joint ventures and associates are accounted for using the equity method. Where the initial investment cost exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at that cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group does not recognise further losses when the carrying amounts of the long-term equity investment together with any long-term interests that, in substance, form part of the Group's net investment in investees are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions are satisfied, the Group continues recognising the investment losses and the provisions at the amount it expects to undertake. The Group's share of the changes in owner's equity of the investee other than those arising from the net profit or loss, other comprehensive income and profit distribution is recognised in capital surplus with a corresponding adjustment to the carrying amounts of the long-term equity investment. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by the investee.

Unrealised gains or losses on transactions between the Group and its investees are eliminated to the extent of the Group's equity interests in the investees, based on which the investment income or losses are recognised on the Company's financial statements. When preparing the consolidated financial statements, for the portion of unrealised gains and losses attributable to the Group arising from downstream transactions in which the Group invests or sells assets to the investees, on the basis of the elimination result on the Company's financial statements, the Group should eliminate the portion of unrealised revenue and costs or asset disposal gains and losses attributable to the Group, and adjust investment income or losses accordingly; for the portion of unrealised gains and losses attributable to the Group arising from the upstream transactions in which the investees invest or sell assets to the Group, on the basis of the elimination result on the Company's financial statements, the Group should eliminate the portion of unrealised gains and losses included in the carrying amount of the relevant assets, and adjust the carrying amount of long-term equity investments accordingly. Any losses resulting from transactions between the Group and its investees, which are attributable to asset impairment losses are not eliminated.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(10) Long-term equity investments (Cont'd)

(c) Basis for determining existence of control, joint control and significant influence over investees

Control is the power to govern an investee, so as to obtain variable returns from its involvement with the investee, and has the ability to use its power over the investee to affect the amount of the investor's returns.

Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(15)).

(11) Fixed assets

(a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, machinery and equipment, electronic equipment, office equipment and motor vehicles.

Fixed assets are recognised when the economic benefits associated with them are very likely to flow into the Group and their costs can be measured reliably. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss for the period in which they are incurred.

(b) Depreciation method of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(11) Fixed assets (Cont'd)

The estimated useful lives, the estimated residual values and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	8 to 20 years	0%-10%	4.50% to 12.50%
Machinery and equipment	3 to 10 years	0%-10%	9.00% to 33.33%
Electronic equipment and office equipment	3 to 10 years	0%-10%	9% to 33.33%
Motor vehicles	5 to 8 years	0%-10%	11.25% to 20.00%

The estimated useful life and the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

(c) When the recoverable amount of a fixed asset is lower than its carrying amount, the carrying amount is written down to the recoverable amount (Note 2 (15)).

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(12) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation is charged starting from the following month. When the recoverable amount of a project under construction is lower than its carrying amount, the carrying amount is written down to the recoverable amount (Note 2 (15)).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(13) Intangible assets

Intangible assets include land use rights, proprietary technologies, R&D technology (capitalised development costs of the Group's internal R&D projects) and software, etc., and are measured at cost.

(a) Land use rights

Land use rights acquired, and land use rights acquired by way of payment of land transfer payments are recorded at the actual payment and are amortised on a straight-line basis over a useful life of 47-50 years. Where it is difficult to reasonably allocate the land and building purchase price between the land use right and the building, all of them shall be regarded as fixed assets.

(b) Proprietary technology

Proprietary technology is accounted for at the price actually paid, and is generally amortised on average over the estimated useful life of 5-10 years.

(c) R&D technology

The R&D technology is generally amortised according to the estimated benefit period of 5-10 years from the time when the technology is ready for its intended use.

(d) Software

Software and is generally amortised on average over the estimated useful life of 3-10 years.

(e) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(13) Intangible assets (Cont'd)

(f) R&D

The research and development expenses of this group mainly include expenses such as materials consumed for the implementation of research and development activities, salaries of R&D department employees, depreciation and amortization of R&D equipment and software assets, R&D testing, R&D technical service fees.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset, and use or sell it;
- it can be demonstrated how the intangible asset will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use. At the end of the period, the Group reviews the development expenditures capitalised and recognises in profit or loss the development expenditures of the relevant development projects that no longer meet the conditions for capitalization.

(g) Impairment of intangible assets

When the recoverable amount of an intangible asset is lower than its carrying amount, the carrying amount is written down to the recoverable amount (Note 2 (15)).

(14) Long-term prepaid expenses

Long-term prepaid expenses include expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses are amortised on the straight-line basis over the expected beneficial period and are presented at actual expenditure net of accumulated amortisation.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(15) Impairment of long-term assets

Fixed assets, construction in progress, right-of-use assets, intangible assets with finite useful lives and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets that are not yet available for their intended use are tested for impairment at least annually, irrespective of whether there is any indication of impairment. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Goodwill that is separately presented in the financial statements is tested at least annually for impairment, irrespective of whether there is any indication that it may be impaired. In conducting the test, the carrying value of goodwill is allocated to the related asset group or groups of asset groups which are expected to benefit from the synergies of the business combination. If the result of the test indicates that the recoverable amount of an asset group or a group of asset groups, including the allocated goodwill, is lower than its carrying amount, the corresponding impairment loss is recognised. The impairment loss is first deducted from the carrying amount of goodwill that is allocated to the asset group or group of asset groups, and then deducted from the carrying amounts of other assets within the asset group or group of asset groups in proportion to the carrying amounts of assets other than goodwill.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(16) Employee benefits

Employee benefits refer to all forms of remuneration or compensation given by the Group in exchange for service rendered by employees or for termination of employment relationship, which include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.

(a) Short-term employee benefits

Short-term employee benefits include wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs and etc. The short-term employee benefits actually occurred are recognised as a liability in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(16) Employee benefits (Cont'd)

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include the premiums or contributions on basic pensions and unemployment insurance, both of which belong to defined contribution plans.

Basic pensions

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to the bases and percentage prescribed by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

(17) Profit distribution

Cash dividend is recognised as a liability in the period in which it is approved by the shareholders' meeting.

(18) Revenue

The Group evaluates the revenue contract, and identifies the individual performance obligations contained in the contract, and determines whether the individual performance obligations are performed within a certain period of time or at a certain point in time. Revenue is recognised separately for performance obligations.

When the customer obtains control of the related goods or services, the Group recognises revenue based on the amount of consideration expected to be received. The part of that the Group has obtained unconditional collection rights is recognised as accounts receivables, and the provision for loss of accounts receivables is recognised on the basis of expected credit loss (Note 2 (8)).

(a) Sales of goods

The Group recognises revenue when delivers the pharmaceutical and diagnostic products to the carrier designated by the customer, or after the customer's acceptance or after control transfer to customer. The credit period granted to customers by the Group is determined based on the characteristics of customers' credit risk, which is consistent with industry practice and there is no significant financing component. The Group's obligations to transfer goods to customers for consideration received from customers are shown as contract liabilities. The portion of the Group that has obtained unconditional payment rights is recognized as accounts receivable, while the remaining portion is recognized as contract assets. The Group presents contract assets and contract liabilities under the same contract as net amounts.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(18) Revenue (Cont'd)

(b) Technology transfer

The revenue from technology transfer is recognised when the contract execution clause is completed and control related to the technology is transferred.

Under the terms of the technology transfer contract, after the purchaser successfully commercialises the transferred technology, the Group can collect additional concessionary revenue or revenue sharing in the future. When the right to receive relevant revenue is established, concession revenue or revenue share will be recognised.

(c) Development, technical services and labour services

Revenue from the provision of cooperative development, technical services and labour services is recognised during the period of service provision. The Group will recognise the incremental costs incurred in obtaining labour contracts as contract acquisition costs. Contract acquisition costs with an amortisation period of no more than one year are charged to profit or loss of the current period when occurred.

(19) Government grants

Government grants refer to the monetary or non-monetary assets obtained by the Group from the government, including financial subsidy and etc.

Government grants are recognised when the grants can be received, and the Group can comply with all attached conditions. If a government grant is a monetary asset, it will be measured at the amount received or receivable. If a government grant is a non-monetary asset, it will be measured at its fair value. If it is unable to obtain its fair value reliably, it will be measured at its nominal amount.

Government grants related to assets refer to government grants which are obtained by the Group for the purposes of purchase, construction or acquisition of the long-term assets. Government grants related to income refer to the government grants other than those related to assets.

Government grants related to assets are either deducted against the carrying amount of the assets, or recorded as deferred income and recognised in profit or loss on a systemic basis over the useful lives of the assets. Government grants related to income that compensate the future costs, expenses or losses are recorded as deferred income and recognised in profit or loss, or deducted against related costs, expenses or losses in reporting the related expenses; government grants related to income that compensate the incurred costs, expenses or losses are recognised in profit or loss, or deducted against related costs, expenses or losses directly in current period. The Group applies the presentation method consistently to the similar government grants in the financial statements.

Government grants that are related to ordinary activities are included in operating profit, otherwise, they are recorded in non-operating income or expenses.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(20) Deferred income

For the amounts obtained from third parties and subsequent benefit periods, including government grants and amounts received under long-term agreements, the company records them into deferred income when obtained, and amortises them into the current profit and loss systematically according to the expected income period.

(21) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. For temporary differences arising from non merger transactions that do not affect accounting profits or taxable income (or deductible losses), and the initially recognized assets and liabilities do not result in equal taxable temporary differences and deductible temporary differences, the corresponding deferred income tax assets and deferred income tax liabilities are not recognized. At the balance sheet date, deferred tax assets and deferred tax 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.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the deductible temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same taxpayer within the Group and the same taxation authority; and,
- that taxpayer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(22) 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.

The Group as the lessee

At the commencement date, the Group shall recognise the right-of-use assets and measure the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lessee exercises an option to terminate the lease. Lease liabilities that are due within one year (inclusive) as from the balance sheet date are included in the current portion of non-current liabilities.

Right-of-use assets of the Group include buildings. Right-of-use assets are measured initially at cost which comprises the amount of the initial measurement of lease liabilities, any lease payments made at or before the commencement date and any initial direct costs, less any lease incentives received. If there is reasonable certainty that the Group will obtain ownership of the underlying asset by the end of the lease term, the asset is depreciated over its remaining useful life; otherwise, the asset is depreciated over the shorter of the lease term and its remaining useful life. The carrying amount of the right-of-use assets is reduced to the recoverable amount when the recoverable amount is below the carrying amount.

For short-term leases with a term of 12 months or less and leases of an individual asset (when new) of low value, the Group may, instead of recognising right-of-use assets and lease liabilities, include the lease payments in the cost of the underlying assets or in the profit or loss for the current period on a straight-line basis over the lease term.

The Group will account for a separate lease when a change occurs to the lease and the following conditions are met : (1) the change extends the scope of the lease by increasing the right to use one or more of the leased assets; (2) The increased consideration shall be equivalent to the amount of the separate price of the extended portion of the lease as adjusted for the circumstances of the contract.

When a lease change is not accounted for as a separate lease, except for contract changes that can be simplified as stipulated by the Ministry of Finance, the Group re determines the lease term on the effective date of the lease change and uses the revised discount rate to discount the revised lease payment amount and re measure the lease liability. If the lease change causes the scope to narrow or the lease term is shortened, the Group will correspondingly reduce the carrying amount of the right-of-use assets, and the relevant gains or losses from the partial or complete termination of the lease are included in the current profit and loss. If other lease changes cause the lease liability to be remeasured, the Group adjusts the carrying amount of right-of-use assets accordingly.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

(23) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. Two or more operating segments that have similar economic characteristics and satisfy certain conditions can be aggregated into one single operating segment.

(24) Share-based payments

Share-based payments are divided into equity-settled and cash-settled payments. The restricted share plan executed by the Group is accounted for as equity-settled share-based payments.

The equity-settled share-based payments in exchange for employee services are measured at the fair value of the equity instruments granted to the employees. Where the equity-settled share-based payments are exercisable immediately after the grant is completed, the payments shall be recognised in profit or loss for the current period at the fair value of the equity instruments at the grant date, with capital surplus increased accordingly; where the equity-settled share-based payments are exercisable after the service in the vesting period is completed or specified performance conditions are met, the service obtained in the current period shall be recognised in profit or loss for the current period at the fair value of the equity instruments at the grant date based on the best estimate on the quantity of exercisable equity instruments made by the Group in accordance with the latest changes in the number of exercisable employees, satisfaction of specified performance conditions and subsequent information at each balance sheet date within the vesting period.

Where the equity-settled share-based payments cannot be exercised in the end, the Group's cost or expenses shall not be recognised unless that the payments are exercisable under the market conditions or non-exercisable conditions. In this regard, whether the market conditions or non-exercisable conditions are satisfied or not, the payments are deemed to be exercisable only when the non-market conditions among all of the exercisable conditions are satisfied.

When modifying the terms of share-based payments plan, if the modification increases the fair value of equity instruments granted, the Group recognises incremental services received based on the difference between the fair value of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification. If the Group modifies the exercisable conditions in a way that is beneficial to the employees, the Group shall conduct accounting according to the revised exercisable conditions; if the Group modifies the exercisable conditions in a way that is not beneficial to the employees, it will not be taken into account in the accounting, unless cancelling part or all of the equity instruments granted. If the Group cancels equity instruments granted, they shall be accounted for as accelerated exercise at the date of cancellation, and the Group shall include immediately the amount that otherwise would have been recognised over the remainder of the vesting period into profit and loss for the current period. Meanwhile the capital surplus shall be recognised.

**2 Significant accounting policies and accounting estimates (Cont'd)**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

(25) Critical accounting estimates and judgements

The Group continually evaluates the critical accounting estimates and key judgements applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting judgements

(i) Government grants

When government grants are recognised, management determines whether they relate to past expenses, future costs or assets based on the nature of the grants and their purpose intended to compensate, and applies relevant accounting policies accordingly.

Government grants relating to costs are deferred, and management determines a proper calculation method and a relevant time period to recognise each of the grants in the consolidated income statement according to the intention of the grants and nature, duration and progression of the related projects so as to match the grants with costs they are intended to compensate. The calculation method and time period are reviewed and adjusted if appropriate, at the end of each balance sheet date.

(ii) Amortisation of commercial compensation

In October 2018, the Company and Huizheng (Shanghai) Pharmaceutical Technology Co., Ltd. (“Shanghai Huizheng”) entered into the Exclusive Marketing Service Agreement for Doxorubicin Hydrochloride Liposome Injection (Libod) (“the Exclusive Marketing Service Agreement”). Pursuant to the Exclusive Marketing Service Agreement, Shanghai Huizheng paid the Company a non-deductible and non-refundable commercial compensation of RMB 50,000,000 which imposed no outstanding obligations for contract performance since 2018. This compensation was amortised and recognised in profit or loss during the term of the Exclusive Marketing Service Agreement. As the Exclusive Marketing Service Agreement was terminated on 31 December 2023, the Company amortised the balance of unamortised commercial compensation all at once in profit or loss.

(b) Critical accounting estimates and key assumptions

The following key accounting estimates and key assumptions are at risk of significant adjustments in the carrying amount of assets and liabilities for the next accounting year:

(i) Useful life of fixed assets

Management of the Group determines the estimated useful lives of fixed assets. This estimate is based on experience with the actual useful lives of fixed assets of similar nature and function. This estimate may change significantly due to technological innovation or competitors taking action against severe industry cycles.

Management will increase the depreciation rate for assets with shorter useful lives than previously estimated, or give up and write off technically obsolete assets, or sell non-essential assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

- (25) Critical accounting estimates and judgements (Cont'd)
- (b) Critical accounting estimates and key assumptions (Cont'd)
- (ii) Impairment of receivables

Management of the Group tests the impairment of accounts receivables and other receivables and makes provisions for bad debts. This estimate is based on the customer's credit history and existing market conditions. Management will re-evaluate relevant impairment provisions at each balance sheet date.

- (iii) Income tax and deferred income tax assets

There are some transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgement is required from the Group in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

As mentioned in Note 3(1), the Company and some subsidiaries are high-tech enterprises. The validity period of the high-tech enterprise qualification is three years, after which it is necessary to resubmit the application for high-tech enterprise certification to the relevant government department. Based on the historical experience of the re-identification of high-tech enterprises after the expiration of the previous years and the actual situation, the Company and those subsidiaries believe that they can continue to obtain the high-tech enterprise identification in the coming years, and then calculate the tax rate at a preferential tax rate of 15% of the corresponding deferred income tax. If in the future the Company and those subsidiaries fail to obtain re-certification after the expiration of the high-tech enterprise qualification, the income tax will be calculated at the statutory tax rate of 25%, which will affect the confirmed deferred income tax assets, deferred income tax liabilities and income tax expenses.

As for the deductible losses that can be carried forward in future years, the Group shall recognise the corresponding deferred income tax assets within the limit of the taxable income that can be used to deduct the deductible losses in the future period. The taxable income obtained in the future period includes the taxable income that the Group can realise through normal production and operation activities, and the taxable income that will increase when the taxable temporary difference generated in the previous period is reversed in the future period. The Group needs to use estimates and judgments when determining the time and amount of taxable income in the future period. If there is a difference between the actual situation and the estimate, it may lead to adjustments to the carrying amount of deferred income tax assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Significant accounting policies and accounting estimates (Cont'd)**

- (25) Critical accounting estimates and judgements (Cont'd)
- (b) Critical accounting estimates and key assumptions (Cont'd)
- (iv) Estimation of sales expenses payable for marketing, etc.

The exclusive promotion service agreement entered into between the Company and Shanghai Huizheng in October 2018 was terminated on 31 December 2023 and the aftermath is being dealt with. Pursuant to such exclusive promotion service agreement and the supplemental agreement, the Company is entitled to receive compensation, which will be treated as an adjustment of the marketing fee. The matter is still under negotiation, and considering that there is still significant uncertainty regarding the compensation to be received, the said compensation is excluded from the Company's best accounting estimate of the marketing fee that includes adjustments such as compensation, based on all information available as of 31 December 2023.

- (26) Significant changes in accounting policies

The Ministry of Finance released the Circular on Issuing Interpretation No. 16 of Accounting Standards for Business Enterprises ("Interpretation No. 16") in 2022. The Group and the Company adopted the new lease standard since 1 January 2021 and recognised deferred income tax related to temporary differences arising from lease liabilities and right-of-use assets on a net basis. The Group and the Company adopted the provision of Interpretation No. 16 since 1 January 2023 that the initial recognition exemption does not apply to deferred income tax related to assets and liabilities arising from a single transaction, and the Group and the Company recognised the same amounts of deferred tax assets and deferred tax liabilities for the deductible temporary differences and taxable temporary differences arising from the above-mentioned transaction. Deferred tax assets and deferred tax liabilities are disclosed in the notes, respectively, and the relevant disclosures in the notes as at 31 December 2022 have been adjusted accordingly. The application of Interpretation No. 16 has no impact on the Group's and the Company's profit or loss for the year ended 31 December 2022, or the line items as at 1 January 2022 and 31 December 2022.

**3 Taxation**

- (1) The main categories and rates of taxes applicable to the Group are set out below:

Category	Taxation basis	Tax rate
Enterprise income tax (a)	Taxable income	15% and 16.5%
Value-added tax ("VAT")	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	13%, 6% and 3%
City maintenance and construction tax	The payment amount of VAT	5% and 7%

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**3 Taxation**

(1) The main categories and rates of taxes applicable to the Group are set out below (Cont'd):

(a) In 2023, the Company obtained the "High-tech Enterprise Certificate" (Certificate number is GR202331000166) issued by Shanghai Science and Technology Commission, Shanghai Municipal Finance Bureau, Shanghai Municipal State Taxation Bureau and Shanghai Municipal Local Taxation Bureau. The certificate is valid for 3 years. In accordance with the relevant provisions of Article 28 of the Enterprise Income Tax Law of the People's Republic of China, the Company's applicable enterprise income tax rate for 2023 is 15%(2022:15%).

In 2021, Taizhou Fudan-Zhangjiang Pharmaceutical Co., Ltd. ("Taizhou Pharmaceutical"), a subsidiary of the Company, obtained the *Certificate of the High and New Technological Enterprise* (Certificate No. GR202132007432), with a term of validity of three years, jointly issued by Jiangsu Provincial Department of Science and Technology, Department of Finance of Jiangsu Province and STA Jiangsu Provincial Tax Service. Under Article 28 of the *Enterprise Income Tax Law of the People's Republic of China*, the income tax rate applicable to Taizhou Pharmaceutical for the year ended 31 December 2023 was 15%. Taizhou Pharmaceutical had no taxable income for the year ended 31 December 2023 and 2022, thus no income tax expenses were accrued.

In 2023, Shanghai Tracing Bio-technology Co., Ltd. ("Tracing Bio-technology"), a subsidiary of the Company, obtained the *Certificate of the High and New Technological Enterprise* (Certificate No. GR202231000054), with a term of validity of three years, jointly issued by Science and Technology Commission of Shanghai Municipality, Shanghai Municipal Finance Bureau, STA Shanghai Municipal Tax Service and Shanghai Local Taxation Bureau. Under Article 28 of the *Enterprise Income Tax Law of the People's Republic of China*, the income tax rate applicable to Tracing Bio-technology for year 2023 was 15% (2022: 15%). Tracing Bio-technology had no taxable income for the year ended 31 December 2023 and 2022, thus no income tax expenses were accrued.

Fernovelty (Hong Kong) Holding Co., Limited ("Fernovelty Holding"), a subsidiary of the Company, is a limited liability company incorporated in Hong Kong. From 1 January 2018, Hong Kong adopted the two-tiered profits tax rates regime, where applicable tax rate for taxable profits within HKD 2,000,000 is 8.25% while that for taxable profits in excess of HKD 2,000,000 is 16.5%. For the year ended 31 December 2023 and 2022, Fernovelty Holding had no taxable profits, thus no HK profits tax was accrued.

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**4 Subsidiaries**

See Note 7 for details.

**5 Notes to consolidated financial statement items**

(1) Cash at bank and on hand

	31 December 2023	31 December 2022
Cash on hand	16,803	44,479
Cash at bank	1,195,879,194	1,289,258,185
Including: cash at bank and on hand overseas	21,140,199	3,465,559
	1,195,895,997	1,289,302,664

As at 31 December 2023 and 31 December 2022, no cash at bank was restricted.

(2) Notes receivables

	31 December 2023	31 December 2022
Bank acceptance notes	174,115,330	172,740,246
Commercial acceptance notes	263,665	-
Less: Provision for bad debts	(116,676)	-
	174,262,319	172,740,246

(a) As at 31 December 2023, the Group had no pledged notes receivable as presented in notes receivable.

(b) In 2023, the Group endorsed the bank acceptance and almost all the risks and rewards on the ownership of the bank acceptance have been transferred to other parties, and the carrying value of the corresponding terminated recognition bank acceptance is RMB54,283,688 (2022: RMB62,761,856).

As at 31 December 2023, the Group listed notes receivable endorsed or discounted but not yet mature as follows:

	De-recognised	Not de-recognised
Bank acceptance notes (i)	4,094,011	2,134,720

(i) For the year ended 31 December 2023, just a partial portion of the bank acceptance notes were endorsed or discounted by the Group which were classified as financial assets at amortised cost.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(2) Notes receivables (Cont'd)

(c) Provision for bad debts

The Group's notes receivable are generated from the sale of goods, provision of services and other daily business activities. Regardless of whether there is a significant financing component, the Group will use the expected credit losses throughout its lifetime to measure loss reserves.

The provision for doubtful accounts of other receivables is analyzed by category as follows:

	31 December 2023				31 December 2022			
	Book Balance		Bad debts		Book Balance		Bad debts	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision of bad debts made on a collective basis(i)	174,378,995	100%	(116,676)	0.07%	172,740,246	100%	-	-

(i) Provision of bad debts made on a collective basis is analyzed as follows:

Portfolio - Bank Acceptance notes:

As at 31 December 2023, the Group measured the provision for doubtful accounts on the basis of expected credit losses over the entire duration, and the relevant amount was RMB 116,628 (as at 31 December 2022: nil), which was recognised in profit and loss for the period at RMB 116,628 (as at 2022: nil). The Group believes that the bank acceptance bills held in the portfolio do not have significant credit risk and will not incur significant losses as a result of bank defaults.

Portfolio - Commercial Acceptance notes:

At 31 December 2023, the Group measured the provision for doubtful accounts on the basis of expected credit losses over the whole life of the commercial acceptances within the portfolio, with the relevant amount of RMB 48 (31 December 2022: nil), which was recognised in profit or loss for the current period at RMB 48 (2022: nil).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(3) Accounts receivables

	31 December 2023	31 December 2022
Accounts receivables	482,216,788	518,749,422
Less: Provision for bad debts	<u>(35,993,681)</u>	<u>(12,365,732)</u>
	<u>446,223,107</u>	<u>506,383,690</u>

The Group's accounts receivables are generated from daily business activities such as the sales of pharmaceutical and diagnostic products, with credit periods of 30-120 days.

As at 31 December 2023 and 31 December 2022, there were no significant accounts receivables from shareholders who held more than 5% (including 5%) of the voting shares of the Company in the Group's accounts receivables.

(a) The ageing analysis of accounts receivables is as follows:

	31 December 2023	31 December 2022
Within 1 year	476,025,167	516,855,117
1 to 2 years	6,191,621	1,622,705
Above 3 years	-	271,600
	<u>482,216,788</u>	<u>518,749,422</u>

(b) As at 31 December 2023, the top five accounts receivables based on the balance of the debtors are summarised and analysed as follows:

	Account Balance	Provision for bad debts	% of total balance
Total top five accounts receivables	<u>302,364,395</u>	<u>(13,745,052)</u>	<u>62.70%</u>

(c) Provision for bad debts

	31 December 2022	Change amount in the current year	31 December 2023
		Accrual    Reverse    Write-off	
Provision for bad debts of accounts receivables	<u>(12,365,732)</u>	<u>(23,899,549)</u>	<u>-    271,600    (35,993,681)</u>

For receivables, regardless of whether there is a significant financing component, the Group will use the expected credit losses throughout its lifetime to measure loss reserves.

The provision for doubtful accounts of other receivables is analyzed by category as follows:

	31 December 2023				31 December 2022			
	Book Balance		Bad debt		Book Balance		Bad debt	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for bad debts on a single basis(i)	-	-	-	-	-	-	-	-
Provision of bad debts made on a collective basis(ii)	<u>482,216,788</u>	100%	<u>(35,993,681)</u>	7.46%	<u>518,749,422</u>	100%	<u>(12,365,732)</u>	2.38%
	<u>482,216,788</u>	100%	<u>(35,993,681)</u>	7.46%	<u>518,749,422</u>	100%	<u>(12,365,732)</u>	2.38%

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(3) Accounts receivables (Cont'd)

(i) As at 31 December 2023 and 31 December 2022, the Group did not make provision for bad debts for accounts receivables on an individual basis.

(ii) As at 31 December 2023, provision for bad debts made on a collective basis for accounts receivables is analysed as follows:

Group — sales receivable:

	31 December 2023		
	Book balance	Provision for bad debts	
	Amount	Lifetime expected credit loss rate	Amount
Not overdue	165,952,062	1.71%	(2,839,649)
Overdue within 120 days	113,108,180	4.98%	(5,628,392)
Overdue 121 days to 1 year	196,964,925	10.83%	(21,334,019)
Overdue 1 to 2 years	6,191,621	100.00%	(6,191,621)
Overdue more than 3 years	-		-
	<u>482,216,788</u>		<u>(35,993,681)</u>

At 31 December 2022, provision for bad debts made on a collective basis for accounts receivables is analysed as follows:

Group — sales receivable:

	31 December 2022		
	Book balance	Provision for bad debts	
	Amount	Lifetime expected credit loss rate	Amount
Not overdue	248,647,454	-	-
Overdue within 120 days	227,798,184	0.64%	(1,456,453)
Overdue 121 days to 1 year	40,409,479	22.31%	(9,014,974)
Overdue 1 to 2 years	1,622,705	100.00%	(1,622,705)
Overdue more than 3 years	271,600	100.00%	(271,600)
	<u>518,749,422</u>		<u>(12,365,732)</u>

(d) The book balance of accounts receivable actually written off during the year was RMB 271,600 and the allowance for bad debts was RMB 271,600.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(4) Advances to suppliers

(a) The ageing of advances to suppliers is analysed as follows:

	31 December 2023		31 December 2022	
	Amount	% of total balance	Amount	% of total balance
Within 1 year	3,970,311	91.67%	17,704,339	98.43%
1 to 2 years	360,669	8.33%	282,801	1.57%
	<u>4,330,980</u>	<u>100.00%</u>	<u>17,987,140</u>	<u>100.00%</u>

As at December 31, 2023, prepayments older than one year were RMB 360,669 (December 31, 2022: RMB 282,801), mainly for raw materials.

(b) As at 31 December 2023, the top five advances to suppliers based on the balance of the debtors are summarised and analysed as follows:

	Amount	% of total balance
Total top five advances to suppliers	<u>2,157,166</u>	<u>49.81%</u>

(5) Other receivables

	31 December 2023	31 December 2022
Deposits receivable	2,200,248	3,041,175
Petty cash for employees receivable	248,140	425,644
Guarantees receivable	228	10,380
Others	<u>1,182,619</u>	<u>1,393,243</u>
	3,631,235	4,870,442
Less: Provision for bad debts	<u>(91,907)</u>	-
	<u>3,539,328</u>	<u>4,870,442</u>

The Group does not have amounts that are attributed to other parties and reported in other receivables as a result of centralised management of funds.

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(5) Other receivables(Cont'd)

(a) The ageing of other receivables is analysed as follows:

	31 December 2023	31 December 2022
Within 1 year	1,296,283	1,672,094
1 to 2 years	152,142	1,034,174
2 to 3 years	864,846	721,298
Above 3 years	1,317,964	1,442,876
	<u>3,631,235</u>	<u>4,870,442</u>

(b) Movements in provision for losses and changes in book balance

The provision for doubtful accounts of other receivables is analyzed by category as follows:

	31 December 2023				31 December 2022			
	Book Balance		Bad debt		Book Balance		Bad debt	
	Amoun	%	Amoun	%	Amoun	%	Amoun	%
Provision for bad debts on a single basis(i)	-	-	-	-	-	-	-	-
Provision of bad debts made on a collective basis(ii)	3,631,235	100%	(91,907)	2.53%	4,870,442	100%	-	-
	<u>3,631,235</u>	<u>100%</u>	<u>(91,907)</u>	<u>2.53%</u>	<u>4,870,442</u>	<u>100%</u>	<u>-</u>	<u>-</u>

(i) As at 31 December 2023 and 31 December 2022, the Group had no other receivables separately provided for doubtful accounts.

(ii) As at 31 December 2023, the provision for bad debts of other receivables at Stage 1 are analysed as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Made on a collective basis:			
Deposits and guarantees	2,200,476	3.10%	(68,065)
Petty cash for employees	248,140	2.25%	(5,587)
Others	1,182,619	1.54%	(18,255)
	<u>3,631,235</u>		<u>(91,907)</u>

As at 31 December 2023, the Group did not have other receivables at Stage 2.

As at 31 December 2023, the Group did not have other receivables at Stage 3.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(5) Other receivables (Cont'd)

(b) Movements in provision for losses and changes in book balance (Cont'd)

As at 31 December 2022, the provision for bad debts of other receivables at Stage 1 are analysed as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Made on a collective basis:			
Deposits and guarantees	3,051,555	-	-
Petty cash for employees	425,644	-	-
Others	<u>1,393,243</u>	-	-
	<u>4,870,442</u>		<u>-</u>

As at 31 December 2022, the Group did not have other receivables at Stage 2.

As at 31 December 2022, the Group did not have other receivables at Stage 3.

(c) Provision for bad debt

	31 December 2022	Accrual	Reverse	31 December 2023
Provision for bad debts of other receivables	-	(149,153)	57,246	<u>(91,907)</u>

(d) As at 31 December 2023, the top five other receivables based on the balance of the debtors are summarised and analysed as follows:

	Nature	Balance	Ageing	% of total amount	Provision for bad debts
Company1	Deposits receivables	1,267,464	Above 3 years	34.90%	(39,307)
Company2	Gain on disposal of equipment	590,000	Within 1 year	16.25%	(18,297)
Company3	Deposits receivables	572,004	2 to 3 years	15.75%	(17,739)
Company4	Deposits	450	Within 1 year	0.01%	(14)
	Deposits	180	1 to 2 years	0.01%	(6)
	Deposits	168,768	2 to 3 years	4.65%	(5,234)
Company5	Deposits	<u>108,978</u>	Within 1 year	<u>3.00%</u>	<u>(3,380)</u>
		<u>2,707,844</u>		<u>74.57%</u>	<u>(83,977)</u>

(e) As at 31 December 2023 and 31 December 2022, the Group had no overdue dividends receivable.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(6) Inventories

(a) The inventories are classified as follows:

	31 December 2023			31 December 2022		
	Book balance	Provision for decline in the value of inventories	Carrying amount	Book balance	Provision for decline in the value of inventories	Carrying amount
Raw materials	17,860,280	(11,665)	17,848,615	12,267,192	(403,448)	11,863,744
Work in progress	4,473,021	(43,068)	4,429,953	15,973,235	(223,550)	15,749,685
Finished goods	20,754,996	(662,517)	20,092,479	14,518,637	(2,620,317)	11,898,320
Turnover materials	1,280,313	-	1,280,313	1,015,011	-	1,015,011
	<u>44,368,610</u>	<u>(717,250)</u>	<u>43,651,360</u>	<u>43,774,075</u>	<u>(3,247,315)</u>	<u>40,526,760</u>

(b) The provision for decline in the value of inventories is analysed as follows:

	Decrease in the current year				31 December 2023
	31 December 2022	Accrual	Reverse	Resale and write-off	
Raw materials	(403,448)	(167,318)	-	559,101	(11,665)
Work in progress	(223,550)	(43,068)	-	223,550	(43,068)
Finished goods	(2,620,317)	(3,237,387)	-	5,195,187	(662,517)
	<u>(3,247,315)</u>	<u>(3,447,773)</u>	<u>-</u>	<u>5,977,838</u>	<u>(717,250)</u>

(c) The situation of the provision for decline in the value of inventories is listed as follows:

	Specific basis for determining net realisable value	Reasons for reversal or write-off of provision for decline in the value of inventories in the current year
Raw material	Estimated selling price less the estimated costs to completion and estimated costs necessary to make the sale and related taxes	Production and sales/Damaged
Work in progress	Estimated selling price less the estimated costs to completion and estimated costs necessary to make the sale and related taxes	Completion of production and sales
Finished goods	Estimated selling price less the estimated costs to completion and estimated costs necessary to make the sale and related taxes	Sales/Damaged

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(7) Current portion of non-current assets

	31 December 2023	31 December 2022
Fixed deposits due within 1 year-principle	-	30,000,000
Fixed deposits due within 1 year-interest	-	3,320,625
	<u>-</u>	<u>33,320,625</u>

(8) Other current assets

	31 December 2023	31 December 2022
Prepaid income tax	1,040,047	1,131,642
Input VAT to be deducted	481,748	2,925,576
	<u>1,521,795</u>	<u>4,057,218</u>

(9) Long-term receivables

	31 December 2023	31 December 2022
Receivables for deposits and guarantees	<u>989,178</u>	-
Less: Provision for bad debts	<u>(30,676)</u>	-
	<u>958,502</u>	-

(a) Provision for bad debts and movement for book balance

The provision for doubtful long-term receivable by category is analyzed as follows:

	31 December 2023				31 December 2022			
	Book Balance		Bad debt		Book Balance		Bad debt	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for bad debts on a single basis(i)	-	-	-	-	-	-	-	-
Provision of bad debts made on a collective basis(ii)	989,178	100%	(30,676)	3.10%	-	-	-	-
	<u>989,178</u>	<u>100%</u>	<u>(30,676)</u>	<u>3.10%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(i) At 31 December 2023 and 31 December 2022, the Group had no provision for bad debts on a single basis.

(ii) As at 31 December 2023, the provision for bad debts of long-term receivables at Stage 1 are analyzed as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Made on a collective basis:			
Deposits and guarantees	<u>989,178</u>	<u>3.10%</u>	<u>(30,676)</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to consolidated financial statement items (Cont'd)**

(9) Long-term receivables(Cont'd)

(a) Provision for bad debts and movement for book balance(Cont'd)

As at 31 December 2023, the Group did not have long-term receivables at Stage 2.

As at 31 December 2023, the Group did not have long-term receivables at Stage 3.

(10) Investments in other equity instruments

	31 December 2023	31 December 2022
Investments in equity instruments		
Equity of listed companies	15,126	604,241
	<u>15,126</u>	<u>604,241</u>
	31 December 2023	31 December 2022
Kintara Therapeutics, Inc. (“Kintara”)		
—Costs	5,623,983	5,623,983
—Accumulated changes in fair value	(5,608,857)	(5,019,742)
	<u>15,126</u>	<u>604,241</u>

The Company held 12,592 common shares of Kintara Therapeutics, Inc. (“Kintara”). Based on the date of completion of the acquisition with the closing price on the day, the fair value of the equity instruments of Kintara held by the Company was RMB 5,623,983.

As at 31 December 2023, based on the closing price on the day, the fair value of the equity instruments of Kintara held by the Company was RMB 15,126.

(11) Long-term equity investments

	31 December 2023	31 December 2022
Joint ventures (Note 7(2))	56,538,459	65,578,369
Associates (Note 7(2))	231,312,490	240,521,388
	<u>287,850,949</u>	<u>306,099,757</u>
Less: Provision for impairment of long-term equity investments	(332,756)	(332,756)
	<u>287,518,193</u>	<u>305,767,001</u>

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(11) Long-term equity investments (Cont'd)

(a) Joint ventures

	Changes in the current year									31 December 2023	Ending balance of provision for impairment
	31 December 2022	Increase in investment	Decrease in investment	Share of net gain or loss under equity method	Adjustments in OCI	Other changes in equity	Declare cash dividends or profits	Provision for impairment	Others		
Changzhou BVCF Investment Management Partnership (Limited Liability Partnership) ("Changzhou BVCF")	65,578,369	-	-	(9,039,910)	-	-	-	-	-	56,538,459	-

As at 31 December 2023, the Group's subscribed capital contribution ratio is 29.85%, and the paid-up capital contribution ratio is 30.47%.

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(11) Long-term equity investments (Cont'd)

(b) Associates

	31 December 2022	Changes in the current year								31 December 2023	Ending balance of provision for impairment
		Increase in investment	Decrease in investment	Share of net gain or loss under equity method	Adjustmen ts in OCI	Other changes in equity	Declare cash dividends or profits	Provision for impairment	Others		
Shanghai WD Pharmaceutical Co., Ltd. (“WD Pharmaceutical”)	240,188,632	-	-	(14,499,617)	-	5,290,719	-	-	-	230,979,734	-
Shanghai Lead Discovery Limited Company (“Lead Discovery”)	332,756	-	-	-	-	-	-	-	-	332,756	(332,756)
Derma Clinic Investment Co., Ltd. (“Derma”)	-	-	-	-	-	-	-	-	-	-	-
	<u>240,521,388</u>	<u>-</u>	<u>-</u>	<u>(14,499,617)</u>	<u>-</u>	<u>5,290,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,312,490</u>	<u>(332,756)</u>

The equity related information of the associates of the Group refers to Note 7(2).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(12) Fixed assets

	Buildings	Machinery and equipments	Electronic equipment and office equipment	Motor vehicles	Total
Cost					
31 December 2022	198,519,184	330,563,010	9,051,063	4,025,746	542,159,003
Increase in the current year	704,652	67,226,231	658,673	-	68,589,556
Decrease in the current year	-	(21,838,406)	(605,028)	(71,911)	(22,515,345)
31 December 2023	199,223,836	375,950,835	9,104,708	3,953,835	588,233,214
Accumulated depreciation					
31 December 2022	(95,601,675)	(230,137,542)	(6,645,362)	(1,613,195)	(333,997,774)
Increase in the current year	(7,881,749)	(36,269,349)	(817,895)	(377,853)	(45,346,846)
Decrease in the current year	-	19,359,572	557,500	68,262	19,985,334
31 December 2023	(103,483,424)	(247,047,319)	(6,905,757)	(1,922,786)	(359,359,286)
Provision for impairment					
31 December 2022	-	(1,887,164)	(11,545)	-	(1,898,709)
Decrease in the current year	-	1,520,824	-	-	1,520,824
31 December 2023	-	(366,340)	(11,545)	-	(377,885)
Carrying amount					
31 December 2023	95,740,412	128,537,176	2,187,406	2,031,049	228,496,043
31 December 2022	102,917,509	98,538,304	2,394,156	2,412,551	206,262,520

In 2023, the amounts of depreciation expenses were RMB 45,346,846 (2022: RMB 46,447,422), of which charged to operating costs, capitalised development expenditure, selling expenses, administrative expenses, research and development expenses and construction in progress were RMB 11,607,105, RMB 2,800, RMB 13,016,103, RMB 2,050,585, RMB 18,231,151 and RMB 439,102 respectively (2022: RMB 16,021,831, RMB 50,203, RMB 15,007,547, RMB 2,151,292, RMB 13,216,549 and RMB 0).

The original amount of fixed assets transferred from construction in progress was RMB 704,652 (2022: nil).

As at 31 December 2023 and 31 December 2022, the Group had no fixed assets that were temporarily idle and fixed assets that had not completed the property right certificate.

(13) Construction in progress

	31 December 2023			31 December 2022		
	Book balance	Provision for impairment	Carrying amount	Book balance	Provision for impairment	Carrying amount
Taizhou Pharmaceutical production plant construction project – Phase 2	229,871,133	-	229,871,133	122,371,274	-	122,371,274
Other	91,679	-	91,679	-	-	-
	229,962,812	-	229,962,812	122,371,274	-	122,371,274

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(13) Construction in progress (Cont'd)

(i) Movements in significant construction in progress projects

Project name	Budget	31 December 2022	Increase in the current year	31 December 2023	% of budget	Project progress	Accumulated amount of borrowing cost capitalization	Sources of funds
Taizhou Pharmaceutical production plant construction project – Phase 2							-	
-ADC workshop production line	150,000,000	39,602,941	79,258,880	118,861,821	79.24%	79.24%	-	owned capital
- Taizhou Phase II plant main project	112,820,000	82,768,333	28,240,979	111,009,312	98.40%	98.40%	-	owned capital
	262,820,000	<u>122,371,274</u>	<u>107,499,859</u>	<u>229,871,133</u>			<u>-</u>	

As at 31 December 2023 and 31 December 2022, the Group had no impairment of construction in progress.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(14) Right-of-use assets

	Buildings
Cost	
31 December 2022	36,588,338
Increase in the current year	
New lease contracts	2,425,257
Decrease in the current year	
Lease expiry	(1,751,146)
Lease termination	(582,448)
31 December 2023	<u>36,680,001</u>
Accumulated depreciation	
31 December 2022	(13,711,357)
Increase in the current year	
Accruals	(8,033,162)
Decrease in the current year	
Lease expiry	1,751,146
Lease termination	183,931
31 December 2023	<u>(19,809,442)</u>
Carrying amount	
31 December 2023	<u>16,870,559</u>
31 December 2022	<u>22,876,981</u>

(15) Intangible assets

	Land use rights	Proprietary technology	R&D technology	Software	Total
Cost					
31 December 2022	50,403,679	13,843,164	65,824,380	13,309,813	143,381,036
Increase in the current year					
Internal R&D	-	-	35,763,118	-	35,763,118
Purchase	-	-	-	518,080	518,080
Decrease in the current year					
-	-	(5,000,000)	-	-	(5,000,000)
31 December 2023	<u>50,403,679</u>	<u>8,843,164</u>	<u>101,587,498</u>	<u>13,827,893</u>	<u>174,662,234</u>
Accumulated amortisation					
31 December 2022	(11,541,843)	(8,393,164)	(51,139,209)	(8,171,021)	(79,245,237)
Increase in the current year					
-	(1,051,213)	-	(4,953,408)	(1,248,121)	(7,252,742)
31 December 2023	<u>(12,593,056)</u>	<u>(8,393,164)</u>	<u>(56,092,617)</u>	<u>(9,419,142)</u>	<u>(86,497,979)</u>
Provision for impairment					
31 December 2022	-	(450,000)	(1,364,157)	-	(1,814,157)
Increase in the current year					
-	-	(5,000,000)	-	-	(5,000,000)
Decrease in the current year					
-	-	5,000,000	-	-	5,000,000
31 December 2023	<u>-</u>	<u>(450,000)</u>	<u>(1,364,157)</u>	<u>-</u>	<u>(1,814,157)</u>
Carrying amount					
31 December 2023	<u>37,810,623</u>	<u>-</u>	<u>44,130,724</u>	<u>4,408,751</u>	<u>86,350,098</u>
31 December 2022	<u>38,861,836</u>	<u>5,000,000</u>	<u>13,321,014</u>	<u>5,138,792</u>	<u>62,321,642</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(15) Intangible assets (Cont'd)

In 2023, the amortisation of intangible assets was RMB 7,252,742 (2022: RMB 26,436,369).

As at 31 December 2023, intangible assets formed through the Group's internal research and development as a percentage of the book value of intangible assets was 51.11%(31 December 2022: 21.37%).

(16) Research and Development Costs

The Group's 2023 research and development costs by nature are listed as follows:

	2023		
	Research expense	Development expense	Total
Outsourcing research and development expenses	94,014,517	250,855	94,265,372
Payroll expense	75,383,005	555,887	75,938,892
R&D department expenses	29,376,150	127,839	29,503,989
Material expense	27,535,587	-	27,535,587
Depreciation expense	18,231,151	2,800	18,233,951
Share-based payments expenses	(777,435)	-	(777,435)
	<u>243,762,975</u>	<u>937,381</u>	<u>244,700,356</u>

The Group's 2022 research and development costs by nature are listed as follows:

	2022		
	Research expense	Development expense	Total
Outsourcing research and development expenses	95,009,511	2,670,120	97,679,631
Payroll expense	57,590,255	2,690,269	60,280,524
R&D department expenses	30,311,467	517,438	30,828,905
Material expense	28,103,013	880,198	28,983,211
Depreciation expense	13,216,549	50,203	13,266,752
Share-based payments expenses	2,620,108	-	2,620,108
	<u>226,850,903</u>	<u>6,808,228</u>	<u>233,659,131</u>

(a) The movement of the Group's capitalised development expenditure in 2023 is analysed as follows:

	31 December 2022	Increase in the current year	Decrease in the current year		31 December 2023
			Credited to profit or loss	Recognised as intangible assets	
Consistency evaluation of medications	34,825,737	937,381	-	(35,763,118)	-

The starting point of capitalization of drug conformance evaluation is the completion of bioequivalence filing by the company. The project has obtained the drug supplementary application approval notice issued by the State Drug Administration in November 2023, which can be used for the continued sale of Ribodo products.

In 2023, there was no impairment on the Group's development expenditure projects (2022: nil).

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(17) Goodwill

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Goodwill-cost	8,937,000	-	-	8,937,000
Less: Provision for impairment	<u>(8,937,000)</u>	<u>-</u>	<u>-</u>	<u>(8,937,000)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Goodwill was from the Group's 2015 premium purchase of equity in Shanghai Youni Bio-tech Co., Ltd. ("Youni"). On 30 September 2015, Youni was absorbed by Tracing Bio-technology.

(18) Long-term prepaid expenses

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Improvement to right-of-use assets	7,501,716	10,177	(2,040,362)	5,471,531
Others	<u>759,495</u>	<u>9,946,942</u>	<u>(4,854,920)</u>	<u>5,851,517</u>
	<u>8,261,211</u>	<u>9,957,119</u>	<u>(6,895,282)</u>	<u>11,323,048</u>

(19) Deferred tax assets

Deferred assets and liabilities before any offsetting are set out as follows:

(a) Deferred tax assets

	31 December 2023		31 December 2022	
	Deductible temporary differences and losses	Deferred tax assets	Deductible temporary differences and losses	Deferred tax assets
Accrued expenses	386,454,496	57,968,174	453,383,320	68,007,496
Deductible loss	207,049,196	31,057,380	19,677,413	2,951,612
Provision for credit impairment	59,985,940	8,997,891	35,847,132	5,377,070
Lease liability(Notes2(26))	17,281,748	2,592,262	22,743,759	3,411,564
Amortisation of intangible assets	16,133,822	2,420,073	17,496,839	2,624,526
Government grants	1,737,750	260,663	4,054,750	608,213
Provision for asset impairment	717,250	107,588	2,887,492	433,124
Deferred income	-	-	29,508,197	5,901,639
	<u>689,360,202</u>	<u>103,404,031</u>	<u>585,598,902</u>	<u>89,315,244</u>
Including:				
Expected to be recovered within 1 year (inclusive)		71,710,778		76,146,671
Expected to be recovered after 1 year		<u>31,693,253</u>		<u>13,168,573</u>
		<u>103,404,031</u>		<u>89,315,244</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(19) Deferred tax assets (Cont'd)

(b) Unoffset deferred income tax liabilities

	31 December 2023		31 December 2022	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
ROU Asset(Note2(26))	<u>16,870,559</u>	<u>2,530,586</u>	<u>22,743,759</u>	<u>3,411,564</u>
Including:				
Expected to be recovered within 1 year (inclusive)		1,039,083		1,141,801
Expected to be recovered after 1 year		<u>1,491,503</u>		<u>2,269,763</u>
		<u>2,530,586</u>		<u>3,411,564</u>

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

	31 December 2023	31 December 2022
Deductible temporary differences	13,330,930	15,100,955
Deductible losses	<u>55,863,258</u>	<u>53,290,866</u>
	<u>69,194,188</u>	<u>68,391,821</u>

(d) Deductible losses that are not recognised as deferred tax assets will be expired in following years:

	31 December 2023	31 December 2022
2023	—	15,418
2024	1,254,614	1,254,614
2025	-	-
2026	402,028	402,028
2027	10,802,118	10,802,118
2028	12,084,885	12,084,885
2029	8,052,658	8,052,658
2030	739,724	2,607,820
2031	8,423,466	8,494,054
2032	3,749,577	9,577,271
2033	<u>10,354,188</u>	<u>—</u>
	<u>55,863,258</u>	<u>53,290,866</u>

(e) Deferred tax assets and net deferred tax liabilities after set-off are shown as follows:

	31 December 2023		31 December 2022	
	contra amount	Balance after contra	contra amount	Balance after contra
Deferred tax assets	(2,530,586)	100,873,445	(3,411,564)	85,903,680
Deferred tax liabilities	<u>2,530,586</u>	-	<u>3,411,564</u>	-

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(20) Other non-current assets

	31 December 2023	31 December 2022
Advances for equipment	<u>44,894,795</u>	<u>57,624,200</u>

(21) Asset impairment and loss provisions

(a) Provision for asset impairment

	31 December 2022	Increase in the current year	<u>Decrease in the current year</u>		31 December 2023
			Reverse	Write-off	
Provision for impairment of goodwill	8,937,000	-	-	-	8,937,000
Provision for impairment of intangible assets	1,814,157	5,000,000	-	(5,000,000)	1,814,157
Provision for decline in the value of inventories	3,247,315	3,447,773	-	(5,977,838)	717,250
Provision for impairment of fixed assets	1,898,709	-	-	(1,520,824)	377,885
Provision for impairment of long-term equity investments	<u>332,756</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>332,756</u>
	<u>16,229,937</u>	<u>8,447,773</u>	<u>-</u>	<u>(12,498,662)</u>	<u>12,179,048</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(21) Asset impairment and loss provisions (Cont'd)

(b) Provision for credit impairment

	31 December 2022	Increase in the current period	Decrease in the current period		31 December 2023
			Reverse	Write-off	
Provision for bad debts of accounts receivables	12,365,732	23,899,549	-	(271,600)	35,993,681
Provision for Bad debts of notes receivable	-	116,676	-	-	116,676
Provision for bad debts of other receivables	-	149,153	-	(57,246)	91,907
Provision for bad debts of long- term receivables	-	30,676	-	-	30,676
	<u>12,365,732</u>	<u>24,196,054</u>	<u>-</u>	<u>(328,846)</u>	<u>36,232,940</u>

(22) Short-term borrowings

	31 December 2023	31 December 2022
Pledged (a)	-	1,000,000
Unsecured(b)	-	100,000,000
	<u>-</u>	<u>101,000,000</u>

(a) As at 31 December 2023, the Group had no bank-pledged borrowings (31 December 2022: bank-pledged borrowings of RMB 1,000,000 represented short-term borrowings of RMB 1,000,000 obtained by discounting bankers' acceptances);

(b) As at 31 December 2023, the Group had no overdue short-term borrowings.

(23) Accounts payables

	31 December 2023	31 December 2022
Accounts payables	<u>8,054,847</u>	<u>7,431,420</u>

(i) As at 31 December 2023, the amount of accounts payables with ageing above 1 year was RMB 393,416 (As at 31 December 2022: RMB 234,425).

(ii) The ageing of accounts payables was analysed as follows:

	31 December 2023	31 December 2022
Within 1 year	7,661,431	7,196,995
1-2 years	196,170	179,808
Above 2 years	197,246	54,617
	<u>8,054,847</u>	<u>7,431,420</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(24) Contract liabilities

	31 December 2023	31 December 2022
Advance for goods	<u>260,736</u>	<u>308,923</u>

(25) Employee benefits payable

	31 December 2023	31 December 2022
Short-term employee benefits payable (a)	24,375,314	27,008,874
Defined contribution plans payable (b)	<u>709,183</u>	<u>752,711</u>
	<u>25,084,497</u>	<u>27,761,585</u>

(a) Short-term employee benefits payable

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Wages and salaries, bonus, allowances and subsidies	24,685,466	174,833,724	(175,733,565)	23,785,625
Staff welfare	-	7,813	(7,813)	-
Social security contributions	2,280,771	12,352,863	(14,067,609)	566,025
Including: Medical insurance	2,267,796	11,995,273	(13,710,131)	552,938
Work injury insurance	12,230	301,835	(301,722)	12,343
Maternity insurance	745	55,755	(55,756)	744
Housing funds	35,459	17,039,706	(17,061,672)	13,493
Labour union funds and employee education funds	7,178	1,191,114	(1,188,121)	10,171
	<u>27,008,874</u>	<u>205,425,220</u>	<u>(208,058,780)</u>	<u>24,375,314</u>

(b) Defined contribution plans payable

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Basic pensions	729,258	30,066,915	(30,110,797)	685,376
Unemployment insurance	<u>23,453</u>	<u>2,976,056</u>	<u>(2,975,702)</u>	<u>23,807</u>
	<u>752,711</u>	<u>33,042,971</u>	<u>(33,086,499)</u>	<u>709,183</u>

The Group paid basic pensions and unemployment insurance to relevant institutions monthly according to the payment base and proportion which specified by the local labour and social security department, and the payment cannot be used to offset the amount that the Group should pay for employees in the future.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(26) Taxes payable

	31 December 2023	31 December 2022
Unpaid VAT	6,988,917	2,120,282
Enterprise income tax payable	3,597,472	5,860,218
Withholding of individual income tax for employees	1,613,838	1,631,271
	<u>12,200,227</u>	<u>9,611,771</u>

(27) Other payables

	31 December 2023	31 December 2022
Marketing and sales expenses payable	334,185,365	412,462,077
Guarantees payable	50,209,969	55,515,645
Long-term assets payable	47,165,016	32,239,791
Sales commission payable	4,783,592	4,783,592
Dividends payable (Note 9(6)(c))	-	1,340,716
Others	16,711,671	12,632,362
	<u>453,055,613</u>	<u>518,974,183</u>

As at 31 December 2023, other payables with an ageing of more than 1 year were RMB 59,320,221 (as at 31 December 2022: RMB 51,292,645). Other payables with an ageing of more than 1 year were mainly long-term assets payable and guarantees payable, because the payment point for the long-term assets payable was not reached, the amount was not settled.

(28) Other current liabilities

	31 December 2023	31 December 2022
Output VAT to be recognised	<u>33,896</u>	<u>40,160</u>

(29) Lease liabilities

	31 December 2023	31 December 2022
Lease liabilities	17,281,748	23,814,926
Less: Current portion of non-current liabilities	<u>(6,329,026)</u>	<u>(8,216,162)</u>
	<u>10,952,722</u>	<u>15,598,764</u>

(i) As at 31 December 2023, the Group had no events that were not included in the lease liabilities, but would result in potential future cash outflows.

(ii) As at 31 December 2023, the minimum lease payments needed to be paid within 1 year for the short-term lease contracts which were simplified according to the new lease standard of the Group was RMB 160,474 (31 December 2022: RMB 33,000).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(30) Deferred income

	31 December 2023	31 December 2022
Government grants (a)	2,152,575	4,534,750
Commercial compensation (b)	-	29,508,199
	<u>2,152,575</u>	<u>34,042,949</u>

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023	Cause of formation
Government grants (a)	4,534,750	20,573,286	(22,955,461)	2,152,575	Receipt of government grants
Commercial compensation (b)	29,508,199	-	(29,508,199)	-	Commercial compensation
	<u>34,042,949</u>	<u>20,573,286</u>	<u>(52,463,660)</u>	<u>2,152,575</u>	

(a) Government grants

	31 December 2022	Increase in the current year	Decrease in the current year		31 December 2023
			Recognised in other income	Recognised in non-operating income	
Government grants related to assets	4,054,750	-	(2,317,000)	-	1,737,750
Government grants related to revenue	480,000	20,573,286	(20,638,461)	-	414,825
	<u>4,534,750</u>	<u>20,573,286</u>	<u>(22,955,461)</u>	<u>-</u>	<u>2,152,575</u>

- (b) In 2018, the Group signed a market promotion service agreement with Shanghai Huizheng stating that since 1 November 2018, Shanghai Huizheng would carry out market promotion for LIBOD. According to the agreement, Shanghai Huizheng paid RMB 50,000,000 to the Group as a commercial compensation for a series of expenses incurred by the Group due to the product market switch caused by the change of the promotion service provider. The aforesaid commercial compensation is recognised as deferred income and amortised and confirmed as profit or loss during the period of the marketing service contract.

Due to the early termination of the Ribaudo marketing service agreement, the balance of deferred income from commercial compensation was recognised in profit or loss with a one-off amortisation in the current year.

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(31) Share capital

	31 December 2022	Change in the current year					31 December 2023
		Issue new shares	Scrip issue	Transferred from reserve	Others	Subtotal	
Listed tradable shares - Foreign shares listed overseas	32,600,000	-	-	-	-	-	32,600,000
Listed tradable shares - Domestic listed RMB-denominated ordinary A shares	70,300,000	757,210	-	-	-	757,210	71,057,210
<b>Total share capital</b>	<b>102,900,000</b>	<b>757,210</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>757,210</b>	<b>103,657,210</b>

	31 December 2021	Change in the current year					31 December 2022
		Issue new shares	Scrip issue	Transferred from reserve	Others	Subtotal	
Listed tradable shares - Foreign shares listed overseas	34,000,000	-	-	-	(1,400,000)	(1,400,000)	32,600,000
Listed tradable shares - Domestic listed RMB-denominated ordinary A shares	70,300,000	-	-	-	-	-	70,300,000
<b>Total share capital</b>	<b>104,300,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,400,000)</b>	<b>(1,400,000)</b>	<b>102,900,000</b>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(32) Capital surplus

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Share premium	1,151,996,350	66,104,433	-	1,218,100,783
Share-based payments (Note 6)	72,662,435	-	(1,842,812)	70,819,623
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	350,152	5,290,719	-	5,640,871
Other	-	-	(5,267,889)	(5,267,889)
	<u>1,225,008,937</u>	<u>71,395,152</u>	<u>(7,110,701)</u>	<u>1,289,293,388</u>
	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Share premium	1,200,120,029	-	(48,123,679)	1,151,996,350
Share-based payments (Note 6)	64,973,657	7,688,778	-	72,662,435
Other capital surplus - Share of changes in equity other than comprehensive income and profit distribution of investees under the equity method	-	350,152	-	350,152
	<u>1,265,093,686</u>	<u>8,038,930</u>	<u>(48,123,679)</u>	<u>1,225,008,937</u>

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(33) Other comprehensive income

	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2023 income statement					
	31 December 2022	Attributable to the Company after tax	Other comprehensive income settled to retained earnings	31 December 2023	Amount before income tax	Less: other comprehensiv e income transferred out this year	Deduct: income tax expenses	Attributable to the Company after tax	Attributable to minority shareholders after tax
Other comprehensive income that will not be reclassified to profit or loss									
Changes in fair value of other equity instrument investments	(5,019,742)	(589,115)	-	(5,608,857)	(589,115)	-	-	(589,115)	-
Other comprehensive income that will be reclassified to profit or loss									
Differences on translation of foreign currency financial statements	(181,279)	(68,233)	-	(249,512)	(68,233)	-	-	(68,233)	-
	<u>(5,201,021)</u>	<u>(657,348)</u>	<u>-</u>	<u>(5,858,369)</u>	<u>(657,348)</u>	<u>-</u>	<u>-</u>	<u>(657,348)</u>	<u>-</u>
	Other comprehensive income in the balance sheet			Other comprehensive income for the year ended 31 December 2022 income statement					
	31 December 2021	Attributable to the Company after tax	Other comprehensive income settled to retained earnings	31 December 2022	Amount before income tax	Less: other comprehensiv e income transferred out this year	Deduct: income tax expenses	Attributable to the Company after tax	Attributable to minority shareholders after tax
Other comprehensive income that will not be reclassified to profit or loss									
Changes in fair value of other equity instrument investments	(3,576,771)	(1,442,971)	-	(5,019,742)	(1,442,971)	-	-	(1,442,971)	-
Other comprehensive income that will be reclassified to profit or loss									
Differences on translation of foreign currency financial statements	(474,049)	292,770	-	(181,279)	292,770	-	-	292,770	-
	<u>(4,050,820)</u>	<u>(1,150,201)</u>	<u>-</u>	<u>(5,201,021)</u>	<u>(1,150,201)</u>	<u>-</u>	<u>-</u>	<u>(1,150,201)</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(34) Surplus reserve

	31 December 2022	Increase in the current year	Decrease in the current year	31 December 2023
Statutory surplus reserve	<u>52,150,000</u>	<u>-</u>	<u>-</u>	<u>52,150,000</u>
	31 December 2021	Increase in the current year	Decrease in the current year	31 December 2022
Statutory surplus reserve	<u>52,150,000</u>	<u>-</u>	<u>-</u>	<u>52,150,000</u>

In accordance with the *Company Law of the People's Republic of China* and the Company's Articles of Association, the Company should appropriate 10% of net profit (after making up for prior years' losses) for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. By the resolution of the Board of Directors, the Company did not withdraw the statutory surplus reserve due to the amount of accumulated statutory surplus reserve had reached 50% of the registered capital at the end of 2023.

(35) Undistributed profits

	2023	2022
Undistributed profits at the beginning of the year	882,244,301	816,277,203
Add: Net profit attributable to shareholders of the Company	108,627,368	137,997,098
Less: Appropriation to statutory surplus reserve	-	-
Other comprehensive income settled to retained earnings	-	-
Dividends payable to the Company's shareholders	<u>(72,560,047)</u>	<u>(72,030,000)</u>
Undistributed profits at the end of the year	<u>918,311,622</u>	<u>882,244,301</u>

In accordance with the shareholders' meeting on 30<sup>th</sup> May 2023, the Company recommends the payment of a final dividend of RMB 0.07 per ordinary share, calculated on 1,036,572,100 issued shares, totaling RMB 72,560,047 to all shareholders for the year of 2022.

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(36) Revenue and cost of sales

	2023	2022
Main operations revenue	<u>850,733,212</u>	<u>1,031,159,838</u>
	2023	2022
Main operations cost	<u>(70,628,161)</u>	<u>(84,062,068)</u>

(a) Main operations revenue and cost

	<u>2023</u>		<u>2022</u>	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
- Sales of pharmaceutical and diagnostic products	850,563,696	(70,519,210)	1,030,605,555	(82,563,494)
- Income from services	<u>169,516</u>	<u>(108,951)</u>	<u>554,283</u>	<u>(1,498,574)</u>
	<u>850,733,212</u>	<u>(70,628,161)</u>	<u>1,031,159,838</u>	<u>(84,062,068)</u>

(b) The Group's operating income is broken down as follows:

	<u>2023</u>			
	Pharmaceutical products	Diagnostic reagent	Others	Total
Main operations revenue Including: Confirmed at a certain point	<u>849,088,545</u>	<u>1,475,151</u>	<u>169,516</u>	<u>850,733,212</u>
	<u>2022</u>			
	Pharmaceutical products	Diagnostic reagent	Others	Total
Main operations revenue Including: Confirmed at a certain point	<u>1,028,454,018</u>	<u>2,151,537</u>	<u>554,283</u>	<u>1,031,159,838</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(37) Taxes and surcharges

	2023	2022	Payment standard
Real estate tax	1,749,224	1,188,471	1.2% of the 70% real estate's original cost
Educational surcharge	1,313,330	2,255,487	5% of the VAT paid
City maintenance and construction tax	1,271,709	2,360,313	5% or 7% of the VAT paid
Urban land use tax	546,617	518,837	The actual land area occupied, RMB 3-5/m <sup>2</sup>
Others	509,525	518,192	
	<u>5,390,405</u>	<u>6,841,300</u>	

(38) Selling expenses

	2023	2022
Marketing and academic promotion fees	223,074,672	396,830,453
Salary costs	111,409,696	104,843,098
Depreciation and amortisation	13,046,917	15,038,361
Travel expenses	11,498,460	9,266,261
Business hospitality	10,905,538	10,406,639
Conference fees	5,562,054	5,646,888
Depreciation of right-of-use assets	4,029,065	4,022,366
Office expenses	2,041,382	2,879,695
Rental fees	403,320	151,527
Shipping fees	266,785	303,764
Share-based payments expenses	(880,375)	2,227,187
Others	2,233,234	3,014,731
	<u>383,590,748</u>	<u>554,630,970</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(39) General and administrative expenses

	2023	2022
Salary costs	22,374,238	24,448,760
Administrative expenses	4,887,860	4,063,468
Audit fees	4,792,314	4,875,872
Depreciation and amortisation	3,419,202	3,759,960
Property fees	1,217,474	1,292,545
Consulting fees	1,128,784	217,509
Share-based payments expenses	(209,264)	2,420,255
Others	5,250,035	3,790,811
	42,860,643	44,869,180

(40) R&D expenses

	2023	2022
Outsourced R&D expenses	94,014,517	95,009,511
Salary costs	75,383,005	57,590,255
R&D department expenses	29,376,150	30,311,467
Information and materials costs	27,535,587	28,103,013
Depreciation	18,231,151	13,216,549
Share-based payments expenses	(777,435)	2,620,108
	243,762,975	226,850,903

(41) Financial income - net

	2023	2022
Interest costs	2,251,160	349,664
Add: Interest costs on lease liabilities	815,086	1,188,591
Interest expenses	3,066,246	1,538,255
Less: Interest income	(7,972,431)	(11,293,953)
Exchange losses - net	1,079,297	825,946
Others	123,250	141,145
	(3,703,638)	(8,788,607)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(42) Expenses by nature

The cost of sales, selling expenses, general and administrative expenses and R&D expenses in the income statements are listed as follows by nature:

	2023	2022
Changes in inventories of finished goods and work in progress	(154,882)	(3,839,735)
Consumed raw materials and low value consumables, etc.	55,423,547	50,973,999
Marketing and sales expenses	247,605,074	422,194,072
Employee benefit expenses	238,468,191	210,665,123
Less: Amounts capitalised in development costs	(3,597,759)	(2,690,269)
	234,870,432	207,974,854
Outsourced R&D expenses	94,014,517	95,009,511
Depreciation and amortisation	67,528,032	82,239,349
Less: Amounts capitalised in development costs	(5,295,807)	(50,203)
	62,232,225	82,189,146
R&D department expenses	29,376,150	30,311,467
Quality inspection expenses	6,200,854	6,908,739
Audit Fees	4,860,238	4,875,872
-audit services	4,716,389	4,664,098
-non-audit services	143,849	211,774
Rental (i)	815,162	319,437
Share-based payments expenses	(1,842,812)	7,688,778
Others	7,442,022	5,806,981
	<u>740,842,527</u>	<u>910,413,121</u>

- (i) As mentioned in Note 2(22), the rental expenses of short-term leases and low-value leases are directly included in the current profit and loss, and the amount for the year ended 31 December 2023 is RMB 815,162 (2022: RMB 319,437).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(43) Other income

	2023	2022
Government subsidy		
- Related to assets	2,317,000	2,317,000
- Related to revenue	20,638,461	7,868,017
Refund of handling fees for withholding and remitting personal income tax	2,624,607	280,250
	<u>25,580,068</u>	<u>10,465,267</u>

(44) Investment income/(losses)

	2023	2022
Loss of long-term equity investment accounted by equity method	23,539,527	20,399,820
Income from wealth management products	(19,193,688)	(19,115,240)
	<u>4,345,839</u>	<u>1,284,580</u>

In 2023 and 2022, the bank wealth management products purchased by the Group were measured at fair value and their changes were included in the current profit and loss. As at 31 December 2023 and 31 December 2022, the Group had no balance of wealth management products.

(45) Credit impairment reverse

	2023	2022
Accounts receivables bad debt losses/(reverse)	23,899,549	(2,411,610)
Other receivables bad debt losses/(reverse)	149,153	(925)
Long-term receivables bad debt losses	30,676	-
Provision for Bad debts of note receivable	116,676	-
	<u>24,196,054</u>	<u>(2,412,535)</u>

(46) Asset impairment losses

	2023	2022
Impairment losses on intangible assets	5,000,000	710,687
Impairment losses on inventories	3,447,773	2,226,889
	<u>8,447,773</u>	<u>2,937,576</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(47) Gains on disposals of assets

	2023	2022	Amount included in 2023 non-recurring profit and loss
Gains on disposals of fixed assets	<u>295,346</u>	<u>1,921,767</u>	<u>295,346</u>

(48) Non-operating income

	2023	2022	Amount included in 2023 non-recurring profit and loss
Others	<u>1,295,472</u>	<u>854,053</u>	<u>1,295,472</u>

(49) Non-operating expenses

	2023	2022	Amount included in 2023 non-recurring profit and loss
Losses from scrap of fixed assets	776,479	299,498	776,479
Inventory losses	20,000	824,030	20,000
Donation	-	626,565	-
Inventory shortage	-	2,203	-
Others	<u>60,596</u>	<u>79,646</u>	<u>60,596</u>
	<u>857,075</u>	<u>1,831,942</u>	<u>857,075</u>

(50) Income tax expenses

	2023	2022
Current income tax	4,047,970	1,700,658
Deferred income tax	<u>(14,969,765)</u>	<u>(6,679,308)</u>
	<u>(10,921,795)</u>	<u>(4,978,650)</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(50) Income tax expenses (Cont'd)

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2023	2022
Total profit	97,528,063	132,293,548
Income tax expenses calculated at applicable tax rate 25%	24,382,016	33,073,388
Effect of favourable tax rates	(9,711,893)	(13,179,045)
Deductible tax losses and temporary differences for which no deferred tax asset was recognise	1,585,541	1,543,194
Additional deduction of R&D expenses	(32,557,302)	(28,796,270)
Costs, expenses and losses not deductible for tax purposes	4,614,123	13,655,274
Utilisation of previously unrecognised and unrealised profits or losses arising from intra-group transactions	(125,000)	(125,000)
Utilisation of previously unrecognised deductible losses and deductible temporary differences	(1,099,017)	(9,135,162)
Recognition of previously unrecognised deductible losses and temporary differences	-	(3,559,825)
Reversing of previously recognised temporary differences	1,475,410	1,475,410
Others	514,327	69,386
Income tax expenses	(10,921,795)	(4,978,650)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(51) Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the consolidated net profit attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding.

	2023	2022
Consolidated net profit attributable to ordinary shareholders of the Company	108,627,368	137,997,098
Weighted average number of ordinary shares outstanding	1,034,048,067	1,030,195,417
Basic earnings per share	<u>0.11</u>	<u>0.13</u>
Among them:		
— Basic earnings per share from continuing operations:	0.11	0.13
— Basic earnings per share from discontinuing operations:	<u>-</u>	<u>-</u>

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average numbers of ordinary shares outstanding.

	2023	2022
Consolidated net profit attributable to ordinary shareholders of the Company	108,627,368	137,997,098
Weighted average number of ordinary shares outstanding	1,034,048,067	1,030,195,417
Add: Weighted average number increased due to the issue of restricted shares	<u>122,394</u>	<u>1,037,303</u>
The adjusted weighted average of the Company's outstanding common shares	1,034,170,461	1,031,232,720
Diluted earnings per share	<u>0.11</u>	<u>0.13</u>
Among them:		
— Basic earnings per share from continuing operations:	0.11	0.13
— Basic earnings per share from discontinuing operations:	<u>-</u>	<u>-</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(52) Notes to the cash flow statement

(a) Cash received relating to other operating activities

	2023	2022
Government grants	23,197,893	8,628,267
Interest income	7,573,767	7,973,328
Deposits and guarantees	-	8,674,312
Others	498,302	56,883
	<u>31,269,962</u>	<u>25,332,790</u>

(b) Cash paid relating to other operating activities

	2023	2022
Administrative expenses and data fees	29,376,150	30,144,899
Travel expenses	11,898,460	9,266,261
Business hospitality	10,905,538	10,406,639
Consulting service fees	7,308,005	9,792,364
Deposits and guarantees	5,305,676	-
Advertising expenses	1,306,342	2,250,963
Others	3,829,901	3,462,138
	<u>69,930,072</u>	<u>65,323,264</u>

(c) Cash received relating to other investing activities

	2023	2022
Selling wealth management products	<u>3,961,912,977</u>	<u>4,018,115,240</u>

(d) Cash paid relating to other investing activities

	2023	2022
Buying wealth management products and fixed deposits	<u>3,909,000,000</u>	<u>4,029,000,000</u>

(e) Cash paid relating to other financing activities

	2023	2022
Payment of lease liabilities	9,375,004	9,515,601
Payment of lease deposit	312,075	137,978
Shares repurchase expenses	-	8,699,543
	<u>9,687,079</u>	<u>18,353,122</u>

In 2023, the total lease-related cash outflow paid by the Group was RMB 10,190,166 (2022: RMB 9,835,038). Except for the amount of the above-mentioned lease liabilities payment included in financing activities, the remaining cash outflows were included in operating activities.

**5 Notes to the consolidated financial statements (Cont'd)**

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

(53) Supplementary information to the cash flow statement (Cont'd)

(a) Supplementary information to the cash flow statement

Reconciliation from net profit to cash flows from operating activities

	2023	2022
Net profit	108,449,858	137,272,198
Add: Asset impairment losses	8,447,773	2,937,576
Credit impairment reverse	24,196,054	(2,412,535)
Depreciation of right-of-use assets	8,033,162	8,136,864
Depreciation of fixed assets	44,904,944	46,397,219
Amortisation of intangible assets	6,989,734	26,436,369
Amortisation of long-term prepaid expenses	2,304,385	1,218,694
Gains on disposals of fixed assets and other long-term assets	(295,346)	(1,921,767)
Losses on scrapping of fixed assets	776,479	299,498
Financial expenses/(income)	2,667,582	(1,782,370)
Investment losses	4,345,839	1,284,580
Increase in deferred tax assets	(14,969,765)	(6,679,308)
Increase in inventories	(6,572,373)	(5,841,022)
Share-based payments expenses (reversed) / increased	(1,842,812)	7,688,778
Increase in operating receivables	(10,474,830)	(89,729,939)
Decrease/(Increase) in operating payables	(74,054,860)	48,718,819
Decrease in deferred income	(31,890,374)	(6,755,032)
Net cash flows from operating activities	<u>71,015,450</u>	<u>165,268,622</u>

Significant operating, investing and financing activities that do not involve cash receipts and payments

	2023	2022
Purchase of inventories by bank acceptance notes	5,091,103	-
Purchase of long-term assets by bank acceptance notes	60,643,424	69,051,397
Increase in right-of-use assets in the current period	2,425,257	960,531
	<u>68,159,784</u>	<u>70,011,928</u>

Net increase / (decrease) in cash and cash equivalents

	2023	2022
Cash at the end of the year	1,195,895,997	1,289,302,664
Less: Cash at the beginning of the year	(1,289,302,664)	(1,208,880,911)
Net increase in cash and cash equivalents	<u>(93,406,667)</u>	<u>80,421,753</u>

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**5 Notes to the consolidated financial statements (Cont'd)**

(53) Supplementary information to the cash flow statement (Cont'd)

(b) Movements in liabilities arising from financing activities

	Bank borrowings (including maturity within one year)	Lease Liability (including maturity within one year)	Total
31 December 2022	101,000,000	23,814,926	124,814,926
Net cash flows from financing activities	(102,251,160)	(9,375,004)	(111,626,164)
Interest accrued during the year	2,251,160	815,086	3,066,246
Movements which doesn't involved in cash receipts and payments	(1,000,000)	2,026,740	1,026,740
31 December 2023	-	17,281,748	17,281,748

(c) Cash

	31 December 2023	31 December 2022
Cash at bank and on hand	1,195,895,997	1,289,302,664
Less: Restricted cash at bank	-	-
Cash	1,195,895,997	1,289,302,664

(54) Foreign currency items

31 December 2023			
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand - USD	2,984,766	7.0827	21,140,202
31 December 2022			
	Foreign currency balance	Exchange rate	RMB balance
Cash at bank and on hand - USD	497,596	6.9646	3,465,557
HKD	12,774	0.8933	11,411
			3,476,968

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**6 Share-based payments**

(1) Equity-settled share-based payments

Restricted shares (Type 2) scheme

(a) Abstract

Pursuant to the proposal of *About the 2021 restricted shares scheme (draft) and the related summary* approved on the Group's 1st general meeting of shareholders of A-share and H-share in 2021 which was held on 27 May 2021, and the *proposal of The adjustment of the list, number and price of incentive objects granted for the first time in the 2021 restricted shares scheme*, the *proposal of Granting restricted shares to incentive objects for the first time* and the other relevant proposals approved at the 10th (Interim) meeting of the seventh Board of Directors held on 22 July 2021, the Group implemented the restricted share scheme to incentive objects. The total amount were 32.77 million restricted shares (Type 2) at RMB 8.90/share as the grant price, and 258 incentive objects.

According to the scheme, the number of shares granted to incentive objects accounts for 30%, 30% and 40% of the total amount of shares granted every year within 3 years from the date of the first grant, and each grant of shares shall be subject to the corresponding grant conditions.

Pursuant to the *proposal of Granting reserved restricted shares to incentive objects* approved at the 15th (Interim) meeting of the seventh Board of Directors and the 15th (Interim) meeting of the seventh Board of Supervisors held on 26th May 2023, the Company granted 523 million reserved restricted shares to 125 incentive objects at the incentive price of RMB 8.90/share.

The above incentive plan will evaluate the performance of the company and the individual target of the incentive. Within 2 years from the date of the first grant of the incentive object, the annual amount of vested interests shall account for 50% of the total amount of vested interests, 50%, and the premise of each vested interest is to meet the corresponding vesting conditions.

(b) Movements of restricted shares for the year ended 31 December 2023

	2023	2022
No. of restricted shares issued at the beginning of the year	24,574,000	32,460,000
No. of restricted shares granted for the year	-	5,230,000
No. of restricted shares exercised for the year	(7,572,100)	-
No. of restricted shares expired for the year	(17,001,900)	(13,116,000)
No. of restricted shares issued at the end of the year	<u>-</u>	<u>24,574,000</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**6 Share-based payment (Cont'd)**

(1) Equity-settled share-based payments (Cont'd)

Restricted shares (Type 2) scheme (Cont'd)

(b) Movements of restricted shares for the year ended 31 December 2023 (Cont'd)

Equity-settled share-based payments expenses are listed below:

	2023	2022
Cost of sales	24,262	421,228
R&D expenses	(777,435)	2,620,108
General and administrative expenses	(209,264)	2,420,255
Selling expenses	(880,375)	2,227,187
	<u>(1,842,812)</u>	<u>7,688,778</u>

(c) As of December 31, 2023, due to the Company's performance failing to meet the vesting conditions, among the remaining portion of the Type2 restricted stock and granted for the first time, the residual portion during the waiting period has lapsed.

## Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

(All amounts in RMB Yuan unless otherwise stated)

#### 7 Equity in other subjects

##### (1) Equity in significant subsidiaries

##### (a) The structure of the Group

Name	Corporate category	Principal place of business	Place of registration	Principal activities	Registered capital/information on issued equity and claims	Share proportion		Acquisition method
						Direct	Indirect	
Taizhou Pharmaceutical	Limited liability company	Taizhou Jiangsu	No. 1 Yaocheng Avenue, Taizhou City, Jiangsu Province	Production of freeze-dried powder injections and APIs; research and development of pharmaceuticals and medical devices, technology development, technology transfer, technology consulting and technology promotion services, sales of Class II medical devices.	100,000,000	100.00%	-	Set up
Tracing Bio-technology	Limited liability company	Shanghai	No. 308 Cailun Road, Shanghai LOCKHART RD.	Research and development of medical diagnostic products (except human stem cells, genetic diagnosis and therapeutic technology development and application) and related technical services, sales of daily necessities and Class II clinical laboratory analysis instruments and software.	74,800,000	94.92%	-	Set up
Fernovelty Holding	Limited liability company	Hong Kong	WANCHAI, RM. 1501, 15F	Invest in overseas medical projects.	35,271,750	100.00%	-	Set up

##### (b) Subsidiaries with significant minority interests

As at 31 December 2023 and 31 December 2022, the Group determined that there was no significant minority interest in the subsidiary, taking into account factors such as whether the subsidiary was a listed company, the proportion of its minority shareholders' equity to the Group's consolidated shareholders' equity, and the proportion of minority shareholders' profit and loss to the Group's consolidated net profit.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**7 Equity in other subjects(Cont'd)**

(2) Equity in joint ventures and associates(Cont'd)

(a) Summarised basic information for material joint ventures and associates

The Group takes into account factors such as whether joint ventures and associates are listed companies, the proportion of their book value to the total consolidated assets of the Group, the proportion of long-term equity investment income accounted for by the equity method to the consolidated net profit of the Group, and determines the important joint ventures and associates as follows:

	Principal place of business	Place of registration	Principal activities	Whether strategic to the Group's activities	Share proportion	
					Direct	Indirect
Joint venture –						
Changzhou BVCF	Changzhou	Changzhou	Healthcare investment	No	29.85%	-
Associates –						
WD Pharmaceutical	Shanghai	Shanghai	Research and experimental development	No	40.36%	-

The Group uses the equity method to account for the above equity investments.

(b) Summarised financial information for material joint ventures

Changzhou BVCF

	31 December 2023	31 December 2022
Current assets	13,193,192	13,817,761
Non-current assets	170,391,217	199,472,915
Total assets	<u>183,584,409</u>	<u>213,290,676</u>
Current liabilities	<u>(5,125,941)</u>	<u>(5,166,236)</u>
Equity attributable to shareholders of the Company	<u>178,458,468</u>	<u>208,124,440</u>
Share of net assets by shareholding	<u>54,380,437</u>	<u>63,420,347</u>
Carrying amount of investments in joint ventures	<u>56,538,459</u>	<u>65,578,369</u>

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**7 Equity in other subjects (Cont'd)**

(2) Equity in joint ventures and associates (Cont'd)

(b) Summarised financial information for material joint ventures (Cont'd)

	<u>2023</u>	<u>2022</u>
General and administrative expenses	(4,219,996)	(3,612,083)
Financial expenses	190,183	234,376
Profit in changes of fair value (losses) / gains	(25,636,159)	1,410,000
Net profits	<u>(29,665,972)</u>	<u>(1,967,707)</u>
Total comprehensive income	<u>(29,665,972)</u>	<u>(1,967,707)</u>
Dividends received by the Group from joint ventures for the year	-	-

(c) Summarised financial information for material associates

(i) WD Pharmaceutical

	<u>31 December 2023</u>	<u>31 December 2022</u>
Current assets	64,921,799	106,312,730
Non-current assets	492,611,145	485,968,096
Total assets	<u>557,532,944</u>	<u>592,280,826</u>
Current liabilities	(7,320,618)	(10,833,135)
Non-current liabilities	(84,741)	(366,240)
Total liabilities	<u>(7,405,359)</u>	<u>(11,199,375)</u>
Equity attributable to shareholders of the Company	<u>550,127,585</u>	<u>581,081,451</u>
Share of net assets by shareholding	<u>222,031,493</u>	<u>229,912,430</u>
Carrying amount of investments in associate	<u>230,979,734</u>	<u>240,188,632</u>
	<u>2023</u>	<u>2022</u>
General and administrative expenses	(10,185,054)	(14,741,603)
R&D expenses	(25,504,706)	(26,277,300)
Net loss	<u>(32,696,761)</u>	<u>(32,098,441)</u>
Total comprehensive loss	<u>(32,696,761)</u>	<u>(32,098,441)</u>
Dividends received by the Group from associate for the year	-	-

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**7 Equity in other subjects (Cont'd)**

(2) Equity in joint ventures and associates (Cont'd)

(d) Summarised financial information for non-material joint ventures and associates:

	Principal place of business	Place of registration	Principal activities	Whether strategic to the Group's activities	Share proportion	
					Direct	Indirect
Associate –						
Derma	Shanghai	Shanghai	Medical investment management Efficient screening of new drugs in China, development of "me-too" and natural	No	20%	-
Lead Discovery	Shanghai	Shanghai	medicine technology	No	35%	-

The Group uses the equity method to account for the above equity investment.

The associate is an unlisted company and has no significant impact on the Group's financial information.

In 2012, the Company's carrying amount of investments in Lead Discovery had been fully made provision for impairment.

**8 Segment information**

The Group is principally engaged in research and development as well as sales of pharmaceutical products. Therefore, the Group does not distinguish between different business segments.

The Company and its subsidiaries other than Fernovelty Holding all operate in Mainland China. The Group's revenue is mainly derived from Mainland China, and it does not distinguish between different regional segments.

**9 Related parties and related party transactions**

(1) The parent company

The Company has no parent company or ultimate controlling party.

(2) Significant subsidiaries

For basic and related information of significant subsidiaries, please refer to Note 7.

(3) Joint ventures and associates

For basic and related information of joint ventures and associates, please refer to Note 7.

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**9 Related parties and related party transactions (Cont'd)**

(4) Other related parties

Relationship with the  
Group

SPH	Shareholder
Shanghai Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shanghai Suzuken Chinese Medicine Co., Ltd.	Subsidiary of SPH
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	Subsidiary of SPH
China Medical Foreign Trading Liao Ning Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Shaanxi Co., Ltd.	Subsidiary of SPH
Shanghai Pharmaceutical Holding Zhenjiang Co., Ltd.	Subsidiary of SPH
SPH Changzhou Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Keyuan Xinhai Pharmaceutical Jilin Co., Ltd.	Subsidiary of SPH
Shandong Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Ningbo Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	Subsidiary of SPH
Beijing Keyuan Xinhai Pharmaceutical Co., Ltd.	Subsidiary of SPH
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shanghai New Asia Pharmaceutical Co., Ltd. ("New Asia Pharmaceutical")	Subsidiary of SPH
Shanghai Medical Instruments Wholesale Department Ltd.	Subsidiary of SPH
Shanghai Pharmaceutical Group (Benxi) North Pharmaceutical Co., Ltd.	Subsidiary of SPH
Shanghai Pharmaceutical Keyuanxin Hainei Mongolia Medical Company Co.	Subsidiary of SPH
Jiangxi Nanhua Pharmaceutical Co., Ltd.	Joint venture of SPH

(5) Related party transactions

(a) Pricing policies

The products sold by the Group to related parties are priced on the basis of prices sold to similar third parties.

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**9 Related parties and related party transactions (Cont'd)**

(5) Related party transactions (Cont'd)

(b) Sales of goods

Related party	Related party transaction	2023	2022
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	28,169,051	12,185,062
Shanghai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	23,454,628	20,948,363
SPH Keyuan Xinhai Pharmaceutical Shaanxi Co., Ltd.	Sale of pharmaceutical products	9,378,105	11,441,758
Shanghai Pharmaceutical Holding Zhenjiang Co., Ltd.	Sale of pharmaceutical products	2,462,868	2,721,655
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	1,962,401	1,285,984
China Medical Foreign Trading Liao Ning Co., Ltd.	Sale of pharmaceutical products	1,666,233	16,883,495
SPH Keyuan Xinhai Pharmaceutical Jilin Co., Ltd.	Sale of pharmaceutical products	1,472,623	654,499
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	Sale of pharmaceutical products	1,254,564	158,585
SPH Ningbo Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	793,462	1,730,755
SPH Changzhou Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	729,676	4,383,163
Shanghai Pharmaceutical Keyuanxin Hainei Mongolia Medical Company Co.	Sale of pharmaceutical products	726,645	-
Beijing Keyuan Xinhai Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	697,102	666,771
Shanghai Suzuken Chinese Medicine Co., Ltd.	Sale of pharmaceutical products	627,862	37,057,428
Shandong Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	622,195	1,155,504
Jiangxi Nanhua Pharmaceutical Co., Ltd.	Sale of pharmaceutical products	585,978	6,658,686
		<u>74,603,393</u>	<u>117,931,708</u>

(c) Provision of services

Related party	Related party transaction	2023	2022
WD Pharmaceutical	Manufacturing consignment	148,279	483,009

(d) Purchase of goods and acceptance of service

Related party	Related party transaction	2023	2022
Shanghai Pharmaceutical Group (Benxi) North Pharmaceutical Co., Ltd.	Outsourced R&D	366,509	225,377
New Asia Pharmaceutical	Testing fee	46,415	44,151
Shanghai Medical Instruments Wholesale Department Ltd.	Purchase of goods	-	2,390
		<u>412,924</u>	<u>271,918</u>

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**9 Related parties and related party transactions (Cont'd)**

(5) Related party transactions (Cont'd)

(e) Remuneration of key management

	2023	2022
Remuneration of key management	<u>11,530,430</u>	<u>22,990,631</u>

(6) Receivables from and payables to related parties

(a) Accounts receivables

	31 December 2023		31 December 2022	
	Book balance	Provision for bad debts	Book balance	Provision for bad debts
Shanghai Suzuken Chinese Medicine Co., Ltd.	10,259,323	(5,389,490)	28,762,914	(30,184)
Heilongjiang Keyuan Xinhai Pharmaceutical Co., Ltd.	6,748,004	(190,560)	12,550,614	(496,490)
SPH Keyuan Xinhai Pharmaceutical Shaanxi Co., Ltd.	5,465,164	(410,169)	4,205,440	(33,644)
China Medical Foreign Trading Liao Ning Co., Ltd.	5,348,759	(2,451,465)	4,061,601	(11,209)
Shanghai Pharmaceutical Co., Ltd.	3,579,966	(77,206)	5,370,120	-
Shanghai Pharmaceutical Holding Zhenjiang Co., Ltd.	1,323,491	(86,303)	1,458,240	(7,291)
SPH Changzhou Pharmaceutical Co., Ltd.	499,830	(32,593)	2,809,198	(11,256)
Beijing Keyuan Xinhai Pharmaceutical Shanxi Co., Ltd.	261,640	(17,061)	271,277	(54,255)
Shanghai Pharmaceutical Holdings Jiangsu Co., Ltd.	247,098	(14,365)	515,795	(107,042)
SPH Huaxi (Sichuan) Pharmaceutical Co., Ltd.	243,432	(5,250)	243,432	-
SPH Ningbo Pharmaceutical Co., Ltd.	83,631	(1,804)	315,383	(2,105)
Shandong Pharmaceutical Co., Ltd.	25,110	(542)	125,550	(629)
Jiangxi Nanhua Pharmaceutical Co., Ltd.	-	-	2,021,315	-
	<u>34,085,448</u>	<u>(8,676,808)</u>	<u>62,710,879</u>	<u>(754,105)</u>

(b) Contract liabilities

	31 December 2023	31 December 2022
Shanghai SPH New ASIA Pharmaceutical Co., Ltd	<u>16,800</u>	-

(c) Other payables

	31 December 2023	31 December 2022
SPH	-	1,340,716
Shanghai Pharmaceutical Group (Benxi) North Pharmaceutical Co., Ltd.	<u>-</u>	<u>72,500</u>
	<u>-</u>	<u>1,413,216</u>

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**9 Related parties and related party transactions (Cont'd)**

(7) Benefits and interests of directors

(a) Directors and chief executive's emoluments

The emoluments in respect of each of the executive directors, supervisors and chief executives paid/payable by the Group for the year ended 31 December 2023 are as follows:

	Fee	Basic salaries and allowances	Retirement benefit costs	Bonus	Share-based payment expenses	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
<b>Executive directors</b>							
Mr. Wang Hai Bo	-	640,000	-	-	-	-	640,000
Mr. Su Yong	-	475,000	57,540	-	-	-	532,540
Mr. Zhao Da Jun	-	1,693,330	189,540	-	-	-	1,882,870
Mrs. Xue Yan	-	1,091,670	85,320	-	-	-	1,176,990
<b>Independent directors</b>							
Mr. Zhou Zhong Hui	-	83,310	-	-	-	-	83,310
Mr. Lam Yiu Kin	-	83,310	-	-	-	-	83,310
Mr. Xu Qing	-	83,310	-	-	-	-	83,310
Mr. Yang Chun Bao	-	83,310	-	-	-	-	83,310
Mr. Wang Hong Guang	-	116,670	-	-	-	-	116,670
Mr. Lin Zhao Rong	-	116,670	-	-	-	-	116,670
Mr. Xu Pei Long	-	116,670	-	-	-	-	116,670
<b>Supervisors</b>							
Mr. Liu Xiao Long	-	62,500	-	-	-	-	62,500
Mr. Huang Jian	-	150,000	-	-	-	-	150,000
Mrs. Qu Ya Nan	-	273,360	50,140	-	-	-	323,500
Mrs. Yu Dai Qing	-	225,000	57,540	-	-	-	282,540
Mr. Wang Luo Chun	-	225,000	57,540	-	-	-	282,540

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**9 Related parties and related party transactions (Cont'd)**

(7) Benefits and interests of directors (Cont'd)

(a) Directors and chief executive's emoluments (Cont'd)

The emoluments in respect of each of the executive directors, supervisors and chief executives paid/payable by the Group for the year ended 31 December 2022 are as follows:

	Fee	Basic salaries and allowances	Retirement benefit costs	Bonus	Share-based payment expenses	Emoluments in respect of director's other services in connection with the management of the affairs of the Company or its subsidiary undertaking	Total
Executive directors							
Mr. Wang Hai Bo	-	2,269,000	-	577,000	364,026	-	3,210,026
Mr. Su Yong	-	1,608,000	134,000	616,000	436,830	-	2,794,830
Mr. Zhao Da Jun	-	1,608,000	163,000	616,000	436,830	-	2,823,830
Independent directors							
Mr. Zhou Zhong Hui	-	200,000	-	-	-	-	200,000
Mr. Lam Yiu Kin	-	200,000	-	-	-	-	200,000
Mr. Xu Qing	-	200,000	-	-	-	-	200,000
Mr. Yang Chun Bao	-	200,000	-	-	-	-	200,000
Supervisors							
Mr. Liu Xiao Long	-	150,000	-	-	-	-	150,000
Mr. Huang Jian	-	150,000	-	-	-	-	150,000

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**9 Related parties and related party transactions (Cont'd)**

(7) Benefits and interests of directors (Cont'd)

(b) Directors' retirement benefits

There are no retirement benefits for the directors. The Group only contributes to state-sponsored retirement schemes for the directors in PRC.

(c) Directors' termination benefits

There are no directors' termination benefits for the directors.

(d) Consideration provided to third parties for making available directors' services

The Company did not pay consideration to any third parties for making available directors' services during the year (2022: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

No loans, quasi-loans and other dealings were made available in favour of directors, bodies corporate controlled by and entities connected with directors subsisted at the end of the year or at any time during the year (2022: Nil).

(8) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2023 include 2 directors (2022: 3 directors), whose emoluments are reflected in Note 9(7). The emoluments paid and payable to the other 3 individuals (2022: 2 individuals) for the year are as follows:

	2023	2022
Salary and allowance	4,380,830	3,216,000
Housing funds, medical insurance and other social insurance	242,150	150,000
Retirement benefit costs	233,110	145,000
Bonus	-	1,294,000
Share-based payments expenses	-	873,660
	<u>4,856,090</u>	<u>5,678,660</u>
	<u>Head count</u>	
	2023	2022
Emoluments bands:		
HKD 1,000,000 to HKD 1,500,000	-	-
HKD 1,500,000 to HKD 2,000,000	3	-
HKD 3,000,000 to HKD 3,500,000	-	2
	<u>3</u>	<u>2</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**10 Contingencies**

- (1) Contingent liabilities and their financial impacts arising from significant pending litigation or arbitration

The Group had no significant pending litigation or arbitration.

- (2) Contingent liabilities and their financial impacts arising from debt guarantee to other entities

The Group did not provide any debt guarantee to other entities.

**11 Commitments**

- (1) Capital commitments

Capital expenditures contracted for by the Group but are not yet necessary to be recognised on the balance sheet as at the balance sheet date are as follows:

	31 December 2023	31 December 2022
Buildings, machinery and equipment	19,655,372	138,017,713

**12 Subsequent events after the balance sheet date**

- (1) Description of profit distribution

	Amount
Proposed dividend distribution	72,560,047

By the resolution of the Broad of Directors on 28<sup>th</sup> March 2024, the BoD Board proposed that the Company to distributed a dividends at the price of RMB 0.07 per to all shareholders, which is still waiting for the consideration and approval by the general meeting of shareholders of the Company and has not been recognised as a liability in the financial statements.

**13 Financial instruments and risks**

The Group's activities expose it to a variety of financial risks: market risk (primarily including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management scheme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

- (1) Market risk

- (a) Foreign exchange risk

The Group's main business is located in the PRC and its main business is settled in RMB. Therefore, the Group had no significant foreign exchange risk.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**13 Financial instruments and risks (Cont'd)**

(1) Market risk (Cont'd)

(b) Interest rate risk

The Group's interest rate risk arises from bank borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial performance. The Group adjusts timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2023 and 2022, the Group did not enter into any interest rate swap agreements.

As at 31 December 2023 and 2022, the Group had no significant interest rate risk.

(c) Other price risk

The Group's other price risk arises mainly from various investments in equity instruments with a risk of changes in the prices of the equity instruments.

The Group had no significant price risk.

(2) Credit risk

The Group's credit risk mainly arises from cash at bank and on hand, notes receivables, accounts receivables and other receivables. As at the balance sheet date, the carrying amount of the Group's financial assets represented its maximum credit risk exposure; there was no credit risk exposure arising from the performance of financial guarantees off the balance sheet.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at State controlled banks and other large or medium size listed banks with good reputation and high credit rating. Management does not expect that there will be almost no significant losses from non-performance by these banks.

In addition, the Group has policies to limit the credit risk exposure on accounts receivables, other receivables and notes receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

As at 31 December 2023, the Group had no significant collateral or other credit enhancements held as a result of the debtor's mortgage (31 December 2022: Nil).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**13 Financial instruments and risks (Cont'd)**

(3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The financial liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

	31 December 2023				Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
Financial liabilities -					
Short-time borrowing	-	-	-	-	-
Accounts payables	8,054,847	-	-	-	8,054,847
Other payables	453,055,613	-	-	-	453,055,613
Lease liabilities	<u>7,086,946</u>	<u>3,018,756</u>	<u>6,188,284</u>	<u>3,094,142</u>	<u>19,388,128</u>
	<u>468,197,406</u>	<u>3,018,756</u>	<u>6,188,284</u>	<u>3,094,142</u>	<u>480,498,588</u>
	31 December 2022				Total
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	
Financial liabilities -					
Short-time borrowing	103,309,763	-	-	-	103,309,763
Accounts payables	7,431,420	-	-	-	7,431,420
Other payables	518,974,183	-	-	-	518,974,183
Lease liabilities	<u>8,216,162</u>	<u>5,226,746</u>	<u>5,340,376</u>	<u>5,031,642</u>	<u>23,814,926</u>
	<u>637,931,528</u>	<u>5,226,746</u>	<u>5,340,376</u>	<u>5,031,642</u>	<u>653,530,292</u>

**14 Fair value estimates**

The level in which fair value measurement is - 97 -categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**14 Fair value estimates (Cont'd)**

(1) Assets measured at fair value on a recurring basis

As at December 31 2023, continuing assets measured at fair value are shown in the three levels above as follows:

	Level 1	Level 2	Level 3	Total
Financial assets-				
Wealth management				
products	-	-	-	-
Investments in other equity				
instruments	15,126	-	-	15,126
	<u>15,126</u>	<u>-</u>	<u>-</u>	<u>15,126</u>

As at December 31 2022, continuing assets measured at fair value are shown in the three levels above as follows:

	Level 1	Level 2	Level 3	Total
Financial asset-				
Wealth management				
products	-	-	-	-
Investments in other equity				
Instruments	604,241	-	-	604,241
	<u>604,241</u>	<u>-</u>	<u>-</u>	<u>604,241</u>

The above level 3 asset changes are as follows:

	Wealth management products
1 January 2022	-
Purchase	3,999,000,000
Sell	(4,018,115,240)
Gain or loss included in profit or loss	<u>19,115,240</u>
31 December 2022	-
Purchase	3,909,000,000
Sell	(3,928,193,688)
Gain or loss included in profit or loss	<u>19,193,688</u>
31 December 2023	<u>-</u>

All the gain or loss included in profit or loss is recorded in investment income.

(2) Assets and liabilities not measured at fair value but for which the fair value is disclosed

The financial assets and liabilities measured at amortized cost of the Group mainly include cash at bank and on hand, accounts receivables and accounts payables.

There was little difference between the carrying amount and fair value of the Group's financial assets and financial liabilities which were not measured at fair value.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**15 Capital management**

The Group's capital management policies aim to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefit for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, refund capital to shareholders, issue new shares or sell assets to reduce debts.

The Group's total capital is added by the shareholders' equity as shown in the consolidated balance sheet and the net debt. The Group is not subject to external mandatory capital requirements, and monitors capital on the basis of debt ratio as other company in this industry. This ratio is calculated with net debt divided by the total capital, while the net debt equals borrowings after netting off cash at bank and on hand. As at 31 December 2023 and 31 December 2022, the Group has no borrowing balance. Therefore, the debt ratio was not applicable.

**16 Notes to the Company's financial statements**

(1) Notes receivables

	31 December 2023	31 December 2022
Bank acceptance notes	139,581,384	171,417,288
Commercial acceptance notes	263,665	-
Less: Provision for bad debts	(116,676)	-
	<u>139,728,373</u>	<u>171,417,288</u>

(a) As at 31 December 2023, the Company had no pledged notes receivable as presented in notes receivable

(b) At December 31, 2023, the Company endorsed notes, and as a result, all significant risks and rewards of ownership have been transferred to other party, leading to the derecognition of the notes with a book value of RMB 52,960,729 (Year 2022: RMB 59,923,516)

As at 31 December 2023, the Company's notes receivables endorsed or discounted but not yet due are as follows:

	De-recognised	Not de-recognised
Bank acceptance notes (i)	<u>4,094,011</u>	<u>2,134,720</u>

(i) In 2023, a partial portion of the bank acceptance notes were endorsed or discounted by the Company which were classified as financial assets at amortised cost.

(c) Provision for bad debts

The Company's notes receivables are generated from daily business activities such as the sales of goods and the provision of labour services. Regardless of whether there was a significant financing component, loss provisions are measured in accordance with the expected credit losses throughout the lifetime.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements(Cont'd)**

- (1) Notes receivables(Cont'd)  
(c) Provision for bad debts(Cont'd)

The provision for doubtful accounts on notes receivable is analyzed by category as follows:

	31 December 2023				31 December 2022			
	Book balance		Bad debts		Book balance		Bad debts	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision of bad debts made on a collective basis(i)	139,845,049	100%	(116,676)	0.08%	171,417,288	100%	-	-

- (i) The analysis of notes receivable for the combined provision for doubtful accounts is as follows:

Portfolio - Bank Acceptance notes:

At December 31, 2023, the Company measured the provision for doubtful accounts based on expected credit losses over the entire duration of the company, and the relevant amount was RMB 116,628 (December 31, 2022: nil), which was recognized in the current period's profit and loss of RMB 116,628 (Year 2022: nil). As at 31 December 2023 and 31 December 2022, the Company considered that the bank acceptance notes held did not have significant credit risk and would not cause credit losses due to bank defaults, so no provision for bad debt was made.

Portfolio - Commercial Acceptance notes:

At December 31, 2023, the Company measured the allowance for bad debts on the basis of expected credit losses over the entire duration of the commercial acceptances in this portfolio, with the relevant amount of RMB 48 (December 31, 2022: nil), which was included in the current profit or loss of RMB 48 (Year 2022: nil).

- (2) Accounts receivables

	31 December 2023	31 December 2022
Accounts receivables	428,586,337	466,087,120
Less: Provision for bad debts	(35,743,794)	(12,094,132)
	<u>392,842,543</u>	<u>453,992,988</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(2) Accounts receivables (Cont'd)

(a) The ageing of accounts receivables is analysed as follows:

	31 December 2023	31 December 2022
Within 1 year	422,394,716	464,464,415
1 to 2 years	6,191,621	1,622,705
	<u>428,586,337</u>	<u>466,087,120</u>

(b) As at 31 December 2023, the top five accounts receivables based on the balance of the debtors are summarised and analysed as follows:

	Balance	Amount of provision for bad debts	% of total balance
Total top five accounts receivables	<u>248,940,446</u>	<u>(13,495,164)</u>	<u>58.08%</u>

(c) Provision for bad debts

	31 December 2022	<u>Change amount in the period</u>			31 December 2023
		Accrual	Reverse	Write-off	
Provision for bad debts of accounts receivables	(12,094,132)	(23,649,662)	-	-	<u>(35,743,794)</u>

For the accounts receivables, regardless of whether there was a significant financing component, the Company calculated loss provisions in accordance with the lifetime expected credit losses.

The provision for doubtful accounts receivable by category is analyzed as follows:

	<u>31 December 2023</u>				<u>31 December 2022</u>			
	Book balance		Bad debts		Book balance		Bad debts	
	Amount	%	Amount	%	Amount	%	Amount	%
Provision for bad debts on a single basis(i)	-	-	-	-	-	-	-	-
Provision of bad debts made on a collective basis(ii)	<u>428,586,337</u>	100%	(35,743,794)	8.34%	<u>466,087,120</u>	100%	(12,094,132)	2.59%
	<u>428,586,337</u>	100%	(35,743,794)	8.34%	<u>466,087,120</u>	100%	(12,094,132)	2.59%

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(2) Accounts receivables (Cont'd)

(c) Provision for bad debts (Cont'd)

(i) As at 31 December 2023 and 31 December 2022, the Company did not make provision for bad debts for accounts receivables on an individual basis.

(ii) As at 31 December 2023, the analysis of accounts receivables for the provision of bad debts made on a collective basis is as follows:

Group - sales receivable:

	31 December 2023		
	Book balance	Provision for bad debts	
	Amount	Lifetime expected credit loss rate	Amount
Not overdue	112,321,611	2.31%	(2,589,762)
Overdue within 120 days	113,108,180	4.98%	(5,628,392)
Overdue 121 days to 1 year	196,964,925	10.83%	(21,334,019)
Overdue 1 to 2 years	6,191,621	100.00%	(6,191,621)
	428,586,337		(35,743,794)

As at 31 December 2022, the analysis of accounts receivables for the provision of bad debts made on a collective basis is as follows:

Group - sales receivable:

	31 December 2022		
	Book balance	Provision for bad debts	
	Amount	Lifetime expected credit loss rate	Amount
Not overdue	231,985,036	-	-
Overdue within 120 days	192,069,900	0.76%	(1,456,453)
Overdue 121 days to 1 year	40,409,479	22.31%	(9,014,974)
Overdue 1 to 2 years	1,622,705	100.00%	(1,622,705)
	466,087,120		(12,094,132)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(3) Other receivables

	31 December 2023	31 December 2022
Amounts due from subsidiaries	122,368,411	96,863,663
Amounts due from related parties	23,753,000	23,753,000
Deposits receivable	2,194,748	2,930,486
Petty cash for employees receivable	180,140	250,644
Guarantees receivable	-	10,380
Others	588,635	871,911
	<u>149,084,934</u>	<u>124,680,084</u>
Less: Provision for bad debts	<u>(23,844,907)</u>	<u>(51,953,000)</u>
	<u>125,240,027</u>	<u>72,727,084</u>

(a) The ageing of other receivables is analysed as follows:

	31 December 2023	31 December 2022
Within 1 year	120,264,169	98,009,917
1 to 2 years	2,935,455	993,681
2 to 3 years	824,846	611,562
Above 3 years	25,060,464	25,064,924
	<u>149,084,934</u>	<u>124,680,084</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

- (3) Other receivables (Cont'd)  
(b) Movements in provision for losses and changes in book balance

The analysis of bad debt provisions of other receivables by category is as follows:

	31 December 2023			
	Book balance		Bad debts	
	Amount	%	Amount	%
Provision for bad debts made on an individual basis	23,753,000	15.93%	(23,753,000)	100.00%
Provision of bad debts made on a collective basis	125,331,934	84.07%	(91,907)	0.07%
	<u>149,084,934</u>	<u>100.00%</u>	<u>(23,844,907)</u>	
	31 December 2022			
	Book balance		Bad debts	
	Amount	%	Amount	%
Provision for bad debts made on an individual basis	51,953,000	41.67%	(51,953,000)	100.00%
Provision of bad debts made on a collective basis	72,727,084	58.33%	-	-
	<u>124,680,084</u>	<u>100.00%</u>	<u>(51,953,000)</u>	

- (i) As at 31 December 2023, the analysis of bad debt provisions of other receivables in Stage 1 is as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Made on a collective basis:			
Amounts due from subsidiaries	122,368,411		-
Deposits and guarantees	2,194,748	3.10%	(68,065)
Petty cash for employees receivable	180,140	3.10%	(5,587)
Others	<u>588,635</u>	3.10%	<u>(18,255)</u>
	<u>125,331,934</u>		<u>(91,907)</u>

As at 31 December 2023 and 31 December 2022, the Company had no other receivables in Stage 2.

As at 31 December 2023, the analysis of bad debt provisions of other receivables in Stage 3 is as follows:

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(3) Other receivables (Cont'd)

(b) Movements in provision for losses and changes in book balance (Cont'd)

	Book balance	Lifetime expected credit loss rate	Provision for bad debts
Made on an individual basis:			
Amounts due from subsidiaries			
Amounts due from related parties	<u>23,753,000</u>	100.00%	<u>(23,753,000)</u>

(ii) As at 31 December 2022, the analysis of bad debt provisions of other receivables in Stage 1 is as follows:

	Book balance	12-month expected credit loss rate	Provision for bad debts
Made on a collective basis:			
Amounts due from subsidiaries	68,663,663	-	-
Deposits and guarantees	2,940,866	-	-
Petty cash for employees receivable	250,644	-	-
Others	<u>871,911</u>	-	-
	<u>72,727,084</u>		<u>-</u>

As at 31 December 2022 and 31 December 2021, the Company had no other receivables in Stage 2.

As at 31 December 2022, the analysis of bad debt provisions of other receivables in Stage 3 is as follows:

	Book balance	Lifetime expected credit loss rate	Provision for bad debts
Made on an individual basis:			
Amounts due from subsidiaries	28,200,000	100.00%	(28,200,000)
Amounts due from related parties	<u>23,753,000</u>	100.00%	<u>(23,753,000)</u>
	<u>51,953,000</u>		<u>(51,953,000)</u>

(c) Provision for bad debts

	31 December 2022	Accrual	Reverse	31 December 2023
Provision for bad debts of other receivables	<u>(51,953,000)</u>	(91,907)	28,200,000	<u>(23,844,907)</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(3) Other receivables (Cont'd)

(d) As at 31 December 2023, the top five other receivables based on the balance of the debtors are summarised and analysed as follows:

	Nature	Balance	Ageing	% of total amount	Provision for bad debts
Subsidiary1	Entrusted Loan	25,000,000	Within 1 year	16.77%	-
	Advance payment	94,418,729	Within 1 year	63.33%	-
	Advance payment	2,787,297	1 to 2 years	1.87%	-
Related party Company1	Borrowing	23,753,000	Above 3 years	15.93%	(23,753,000)
	Deposit	1,267,464	Above 3 years	0.85%	(39,307)
Company2	Deposit	572,004	2 to 3 years	0.38%	(17,739)
Company3	Deposit	162,384	Within 1 year	0.11%	(17,432)
		<u>147,960,878</u>		<u>99.25%</u>	<u>(23,827,478)</u>

(4) Long-term equity investments

	31 December 2023	31 December 2022
Subsidiaries (a)	562,425,831	494,592,081
Joint ventures (b)	56,538,459	65,578,369
Associates (c)	<u>231,312,490</u>	<u>240,521,388</u>
	<u>850,276,780</u>	<u>800,691,838</u>
Less: Provision for impairment of long-term equity investments		
- Subsidiaries	(73,824,860)	(45,221,800)
- Associates	<u>(332,756)</u>	<u>(332,756)</u>
	<u>(74,157,616)</u>	<u>(45,554,556)</u>
	<u>776,119,164</u>	<u>755,137,282</u>

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(4) Long-term equity investments (Cont'd)

(a) Subsidiaries

	31 December 2022	Changes in the current year				31 December 2023	Ending balance of provision for impairment	Cash dividends declared this year
		Increase in investment	Decrease in investment	Provision for impairment	Others			
Taizhou Pharmaceutical Tracing	444,381,021	-	-	-	-	444,381,021	-	-
Bio-technology	1,326,060	50,000,000	-	(28,603,060)	-	22,723,000	(60,050,060)	-
Fernovelty Holding	3,663,200	17,833,750	-	-	-	21,496,950	(13,774,800)	-
	<u>449,370,281</u>	<u>67,833,750</u>	<u>-</u>	<u>(28,603,060)</u>	<u>-</u>	<u>488,600,971</u>	<u>(73,824,860)</u>	<u>-</u>

Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(4) Long-term equity investments (Cont'd)

(b) Joint ventures

	Changes in the current year									31 December 2023	Ending balance of provision for impairment
	31 December 2022	Increase in investment	Decrease in investment	Share of net loss under equity method	Adjustments in OCI	Other changes in equity	Declare cash dividends or profits	Provision for impairment	Others		
Changzhou BVCF	65,578,369	-	-	(9,039,910)	-	-	-	-	-	56,538,459	-

(c) Associates

	Changes in the current year									31 December 2023	Ending balance of provision for impairment
	31 December 2022	Increase in investment	Decrease in investment	Share of net loss under equity method	Adjustments in OCI	Other changes in equity	Declare cash dividends or profits	Provision for impairment	Others		
Lead Discovery	332,756	-	-	-	-	-	-	-	-	332,756	(332,756)
Derma	-	-	-	-	-	-	-	-	-	-	-
WD Pharmaceutical	240,188,632	-	-	(14,499,617)	-	5,290,719	-	-	-	230,979,734	-
	240,521,388	-	-	(14,499,617)	-	5,290,719	-	-	-	231,312,490	(332,756)

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(5) Right-of-use assets

	Buildings
Cost	
31 December 2022	<u>35,389,326</u>
Increase in the current year	
New lease contracts	2,425,257
Decrease in the current period	
Lease expiry	(552,134)
Lease termination	<u>(582,448)</u>
31 December 2023	<u>36,680,001</u>
Accumulated depreciation	
31 December 2022	<u>(12,645,567)</u>
Increase in the current year	
Accrual	(7,899,940)
Decrease in the current period	
Lease expiry	552,134
Lease termination	<u>183,931</u>
31 December 2023	<u>(19,809,442)</u>
Carrying amount	
31 December 2023	<u>16,870,559</u>
31 December 2022	<u>22,743,759</u>

(6) Lease liabilities

	31 December 2023	31 December 2022
Lease liabilities	17,281,748	23,675,004
Less: Current portion of non-current liabilities	<u>(6,329,026)</u>	<u>(8,076,240)</u>
	<u>10,952,722</u>	<u>15,598,764</u>

As at 31 December 2023, the Company had no events that were not included in the lease liabilities while resulting in potential future cash outflows.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**16 Notes to the Company's financial statements (Cont'd)**

(7) Revenue and cost of sales

	2023	2022
Main operations revenue	711,193,122	929,019,211
Other operations revenue	2,021	9,606
	<u>711,195,143</u>	<u>929,028,817</u>
	2023	2022
Main operations cost	(58,894,634)	(59,463,707)
Other operations cost	(2,021)	(9,606)
	<u>(58,896,655)</u>	<u>(59,473,313)</u>

(a) Main operations revenue and cost

	2023		2022	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
- Sales of pharmaceutical and diagnostic products	692,136,951	(39,859,702)	916,951,801	(47,444,084)
- Provision of technology service	19,056,171	(19,034,932)	12,067,410	(12,019,623)
	<u>711,193,122</u>	<u>(58,894,634)</u>	<u>929,019,211</u>	<u>(59,463,707)</u>

(b) Other operations revenue and cost

	2023		2022	
	Other operations revenue	Other operations cost	Other operations revenue	Other operations cost
- Provision of service	2,021	(2,021)	9,606	(9,606)

(c) The Company's operating income is broken down as follows:

	2023		
	Pharmaceutical products	Others	Total
Main operations revenue			
Including: Confirmed at a certain point	692,136,951	19,056,171	711,193,122
Other operations revenue	-	2,021	2,021
	<u>692,136,951</u>	<u>19,058,192</u>	<u>711,195,143</u>

**Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

(7) Revenue and cost of sales (Cont'd)

(c) The Company's operating income is broken down as follows:

	2022		Total
	Pharmaceutical products	Others	
Main operations revenue			
Including: Confirmed at a certain point	916,951,801	12,067,410	929,019,211
Other operations revenue	-	9,606	9,606
	<u>916,951,801</u>	<u>12,077,016</u>	<u>929,028,817</u>

(8) Investment losses

	2023	2022
Losses of long-term equity investment accounted by equity method	23,539,527	20,399,820
Income from wealth management products	(18,658,756)	(18,174,955)
Interest income from entrusted loans	<u>(1,433,422)</u>	<u>(1,342,744)</u>
	<u>3,447,349</u>	<u>882,121</u>

The Company did not have any significant restrictions on repatriation of investment income.

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**1 Statement of non-recurring profit or loss for the year ended 31 December 2023**

	2023
Profit or loss from disposals of non-current assets	295,346
Government grants recognised in profit or loss for the current period, excluding those that are closely related to the normal business operations, and are granted in line with the national policies, regulations and standards, and have an on-going impact on the Company's profit or loss	25,580,068
Except for the effective hedging activities related to the normal business operations, profit or loss arising from changes in fair value of financial assets and financial liabilities held, as well as those arising from disposals of financial assets and financial liabilities	19,193,688
Other non-operating income and expenses excluding the above items	438,397
	<u>45,507,499</u>
Effect of income tax	(6,747,097)
Effect of minority interests (net of tax)	(26,765)
	<u>38,733,637</u>

**(1) Basis for preparation of statement of non-recurring profit or loss for the year ended 31 December 2023**

The China Securities Regulatory Commission issued the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering Their Securities to the Public - Non-recurring Profit or Loss (2023 Revision) ("Explanatory Announcement No.1 2023 Version") in 2023, which came into effect since the date of issuance. The Group prepared the statement of non-recurring profit or loss for the year ended 31 December 2023 in accordance with the Explanatory Announcement No.1 2023 Version.

Pursuant to the Explanatory Announcement No.1 2023 Version, non-recurring profit or loss refers to profit or loss arising from transactions and events that are not directly related to the Company's normal business operations, also from transactions and events that are related to the Company's normal business operations, but will interfere with the right judgement of users of the financial statements on the Company's operation performance and profitability due to their special nature and occasional occurrence.

**(2) The application of the Explanatory Announcement No.1 2023 Version has no impact on non-recurring profit or loss for the year ended 31 December 2022.**

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**2 Statement of non-recurring profit or loss for the year ended 31 December 2022**

	2022
Profit or loss from disposals of non-current assets	1,921,767
Government grants recognised in profit or loss for the current period, excluding those that are closely related to the normal business operations, and are granted in line with the national policies, regulations and standards, and have an on-going impact on the Company's profit or loss	10,465,267
Except for the effective hedging activities related to the normal business operations, profit or loss arising from changes in fair value of financial assets and financial liabilities held, as well as those arising from disposals of financial assets and financial liabilities	19,115,240
Other non-operating income and expenses excluding the above items	(977,889)
	<u>30,524,385</u>
Effect of income tax	(4,576,637)
Effect of minority interests (net of tax)	(2,064)
Profit or loss from disposals of non-current assets	<u>25,945,684</u>

**(1) Basis for preparation of statement of non-recurring profit or loss for the year ended 31 December 2022**

The Group prepared the statement of non-recurring profit or loss for the year ended 31 December 2022 in accordance with the Explanatory Announcement No.1 2008 Version.

**3 Reconciliation of domestic and foreign financial statements**

On 24 February 2020, according to the approval of the temporary shareholders' meeting, the Group started to use the consolidated financial statements prepared under CAS to file the annual report with the Stock Exchange of Hong Kong from the year ended 31 December 2019. Since that, the Group did not prepare the reconciliation between the financial statements prepared under CAS and IFRS.

**SUPPLEMENTARY INFORMATION OF FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2023**

(All amounts in RMB Yuan unless otherwise stated)

**4 Return on net assets and earnings per share**

	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
	2023	2023	2023
Net profit attributable to ordinary shareholders of the Company	4.69%	0.11	0.11
Net profit attributable to ordinary shareholders of the Company after deducting non- recurring profit or loss	3.04%	0.07	0.07
	Weighted average return on net assets (%)	Earnings per share	
	2022	Basic earnings per share	Diluted earnings per share
	2022	2022	2022
Net profit attributable to ordinary shareholders of the Company	6.21%	0.13	0.13
Net profit attributable to ordinary shareholders of the Company after deducting non- recurring profit or loss	5.07%	0.11	0.11

## DEVELOPMENT CONCEPTS AND OBJECTIVE

The Group is mainly engaged in innovative research and development, production and marketing of biomedicine. Since its establishment, with the ultimate goal to stay as an innovator and a leader in the bio- pharmaceutical industry, the Group has committed to exploring unmet needs and deficiencies of clinical and patients treatment as well as developing novel and more effective treatments and medicines, so as to realize our mission that “The More We Explore, the Healthier Human Beings Will Be”.

After more than 20 years of technology accumulation and development, the Group has successively established genetic engineering technology platforms, photodynamic technology platforms, nanotechnology platforms, oral solid preparation technology platforms, etc., and has promoted a number of drug projects in different stages of research. These research know-how and projects have laid a solid foundation for the Group. Based on factors such as technology accumulation, talent advantages, competitive situation, and scale strength, the Group will strategically focus on research and commercialization in advantageous areas for a long time to come, with a view to achieving a solid advantageous position in both the pharmaceutical segment and the capital market.

- Strategically focus on the field of photodynamic technology. The Group's photodynamic technology is at the world's leading level, and photodynamic drugs are also one of the Group's important group of products. We have the foundation to strategically focus on this direction and have clear competitive advantages. We will make full use of the technical reserves, market resources, clinical reputation and other favorable competitive advantages accumulated over the years to continuously strengthen the research and development and commercialization of photodynamic drugs. It is necessary to concentrate resources and increase the Group's investment in the field of photodynamics in all aspects, from special equipment to innovative drugs, to rapidly promoting research and development, registration and commercialization, to forming a comprehensive situation in the field of photodynamic technology, and to achieve all-round achievements in this field, which contributes to the dominating and leadership position of the Group.
- Rapidly promote the research and development and commercialization of antibody drug conjugates (ADCs). Although competition of research and development in the field of ADC drug is currently very fierce, there is still no shortage of competitive projects and drugs. Some of the Group's ADC drug research and development projects still have certain competitive advantages in segmented fields. We will rapidly promote their research and development and commercialization, actively participate in market competition, and expand the Group's industrial scale and strengthen its industrial capabilities. At the same time, we also look forward to rapidly reaching new heights and achieving a stable position in the field through continuous accumulation of know-how and various forms of cooperation.

At the same time, we will also pay close attention to new trend of growth, take into account the balance between innovation and commercialization, and the balance between research and marketing, so as to achieve steady and long-term development.

## **RESEARCH STRATEGY, REVIEW AND PROSPECTS**

During the Reporting Period, the Group's innovative R&D areas mainly focused on photodynamic drugs for skin diseases and precancerous lesions, photodynamic drugs for intraoperative visualization, antibody-drug conjugates for tumors, small molecular targeting drugs for autoimmune diseases and tumors and other drugs with patents or technical barriers.

### **PHOTODYNAMIC DRUGS**

The Group is a leader in the development of international photodynamic drugs. The drug indications developed and under development include condyloma acuminata, Port Wine Stains ("PWS"), moderate and severe acne, Actinic Keratosis ("AK"), cervical intraepithelial neoplasia, breast cancer, glioma and bladder cancer, etc. Photodynamic drugs are a representative and unique product line of the Group to discover disease patterns and formulate treatment rules. We will continue to build on its feature of "one drug, several indications" and "a new scalpel for clinical treatment"; and will design special therapy for some precancerous lesions which cannot be treated or intervened for the moment.

The Group's current photodynamic research and development pipeline is mainly located in two directions: Photodynamic Therapy ("PDT") and Photodynamic Diagnosis (PDD).

In the photodynamic therapy of skin-related diseases, the Group has continuously expanded the new clinical testing of listed drugs on the basis of more than ten years of photodynamic drug research and development and clinical exploration; On the other hand, new photosensitive compounds and supporting medical devices are constantly needed for the treatment of skin diseases that have not been clinically treated at present.

In other fields of photodynamic therapy, the Group will also pay attention to the subdivision directions such as antibacterial Photodynamic Therapy (aPDT) and Photo immunotherapy (PIT), and actively carry out related early research. It also focuses on the rational design of photosensitizers and the local direction of photosensitizers to further broaden the application scope and scenarios of PDT. The Group's goal is to bring accurate, controllable, efficient and low-injury photodynamic therapy schemes to more clinical departments, provide safe and convenient treatment for patients, and at the same time give medical experts a better choice of schemes.

The Group's current photodynamic diagnostic technology is also called Intraoperative Molecular Image ("IMI") technology. During the reporting period, the Group submitted a total of 3 investigational new drug ("IND") applications for photodynamic diagnosis items, namely, clinical research on the application of different dosage forms of aminolevulinic acid hydrochloride preparations in intraoperative fluorescence visualization indications for glioma cancer and breast cancer. The above projects are based on a similar working mechanism, that is, due to the stronger metabolic ability of tumor cells compared with normal cells, the tumor cells will be specifically enriched with protoporphyrin IX, which can emit red fluorescence under irradiation to realize the visualization of tumor during surgical resection. This technology is expected to help doctors judge the edge of tumor in real time during operation, find lesions that are difficult to identify under white light of conventional surgery, and finally achieve more complete and thorough tumor resection. In addition to IMI technologies, based on metabolic differences, such as aminolevulinic acid hydrochloride, the Group is also actively deploying IMI technologies based on tumor-specific receptors with different targeting molecules in order to provide intraoperative navigation for indications such as lung cancer, pancreatic cancer and so on.

The Group is also supporting the medical devices for the use of photodynamic diagnosis and photodynamic therapy, and will gradually promote the implementation of their commercialization.

As the first commercialization project of the Group, the therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology (the brand name of ALA,艾拉®) for the treatment of condyloma acuminata obtained positive market response after it was launched for sale. It has become the clinical drug of choice. To expand the application to new indications of this drug is one of the key R&D projects of the Group.

The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the textbook of Dermatovenerology from 2013 and the latest ninth edition of Dermatovenerology adds the new application of the aforementioned therapy on the acne treatment. The therapy of ALA combined with photodynamic technology was also recorded in the "Condyloma Acuminata Diagnosis and Treatment Guidelines (2021)" and "Condyloma Acuminata Treatment Expert Consensus (2017)" issued by the Chinese Medical Association.

The phase II clinical trial of Aminolevulinic Acid Hydrochloride combined with photodynamic technology used for the treatment of CIN infected by HPV ("CIN") has been basically completed during the Reporting Period, and Phase III clinical research will be carried out as soon as possible. Cervical precancerous lesion is a barrier in treatment. Adhering to the clinical research and development of this project will benefit the majority of women patients, and we will strive to obtain the registration of new indications as early as we can.

The phase II clinical trial of Aminolevulinic Acid Hydrochloride combined with photodynamic technology used for the treatment of moderate and severe acne has been completed during the Reporting Period. Meanwhile, taking into account the feedback from clinicians in the actual treatment process, the Group is further studying painless treatment options and the clinical superiority of local medication over system medication. The therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology was recorded in the "Guidelines for Acne Treatment in China (2019)" and "Expert consensus on the clinical application of amino ketoglutarate photodynamic therapy for the treatment of acne vulgaris (2022)" issued by the Chinese Medical Doctor Association.

The phase II clinical trial of Aminolevulinic acid hydrochloride used for the treatment of actinic keratosis ("AK", known as photo linear keratosis, solar keratosis and senile keratosis) was undergoing during the Reporting Period. AK mostly occurs in the exposed parts such as face, scalp or dorsum of the hands, and mostly occurs in the middle-aged and elderly people. Photodynamic therapy for the treatment of AK has been approved abroad. At present, the existing treatments in China include freezing, curettage, external drug application, etc. The therapy of Aminolevulinic Acid Hydrochloride combined with photodynamic technology was recorded in the "Guidelines for Clinical Application of Photodynamic Therapy in Dermatology (2021)" and "Consensus of Chinese Clinical Diagnosis and Treatment Experts on Photo keratosis (2021)" issued by the Chinese Medical Association.

The IND application for Phase II clinical trial of aminolevulinic acid granules for intraoperative visualization of breast cancer in adult breast conservative surgery has been accepted during the Reporting Period. Breast cancer is one of the most common malignant tumors in women with the incidence ranking the first in female tumors, which seriously endangers women's physical and mental health. According to IARC data, China ranks first in the world in the number of new breast cancer cases in 2020, with about 420,000 cases. At present, the main diagnosis and treatment methods of breast cancer include surgical treatment, radiotherapy, chemotherapy, targeted therapy and immunotherapy, among which breast-conserving surgery for patients with early breast cancer has been widely recognized. The goal of breast-conserving surgery is to completely remove the tumor while preserving the surrounding healthy tissues as much as possible. However, the current technology is not yet sufficient to doctors to determine in real-time whether the tumor has been completely removed. The Company intends to develop this intraoperative fluorescence-guided technology to visualize the residual tumor and the resection margin, so as to guide the resection range in real time, to help the patients in China and fulfill the unmet medical needs in clinical practice.

The application for confirmatory clinical trial of aminolevulinic acid hydrochloride granules for visualization of non-muscular invasive bladder cancer during transurethral resection of bladder tumor has been accepted during the Reporting Period. Bladder cancer is a kind of malignant tumor with high recurrence rates. According to whether the tumor has penetrated into the bladder muscle, it can be divided into non-muscular invasive bladder cancer (“NMIBC”) and muscular invasive bladder cancer (MIBC). According to public information, NMIBC accounts for about 75% of bladder cancers. Transurethral resection of bladder tumor (“TURBT”) is currently the preferred surgical treatment for NMIBC so as to completely remove the tumor. In clinical treatment, incomplete tumor resection in TURBT surgery is one of the important reasons for the recurrence of NMIBC. Therefore, The Company intends to develop this intraoperative fluorescence-guided technology to improve the detection rate of NMIBC during TURBT, which supports doctors to conduct a complete tumor resection so as to reduce the risk of recurrence.

The application for confirmatory clinical trial of aminolevulinic acid hydrochloride powder for oral solution for intraoperative visualization of glioma has been accepted during the Reporting Period. Glioma is the most common primary intracranial tumor, which is characterized by high incidence, high recurrence rate, high mortality rate and low cure rate. Surgical resection is the stand of care at domestic and abroad, and the survival and prognosis of patients is related to the degree of surgical resection. Therefore, the basic principle of surgery is to remove as much diseased tissue as possible without damaging adjacent normal brain tissue. However, most of the gliomas are invasive growth. The boundary between gliomas and the surrounding normal brain tissue is not clear so that it is difficult to conduct complete surgical resection. Refer to the overseas listed product which used for the visualization of malignant tissue during adult malignant glioma, the Company confirmed that ALA fluorescence guided technology formed by the coordination of aminolevulinic acid hydrochloride can bring practical clinical benefits to patients undergoing surgical treatment of high-grade gliomas. The Company intends to process this project to visualize the tumour margin, so as to guide the resection range in real time, to help surgeons improve complete resection rate while reserving healthy tissue. The Company wish this technology could improve the postoperative quality of life of patients and prolong the survival period of patients.

FuMeiDa (the brand name of Hemoporfin for injection), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. PWS is a common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The lesions tend to become darker and thicker with time and rarely fade away for life. PWS occurs in anywhere on the body and particularly in face and neck and is reported about 0.3~0.4% incidence of infants worldwide. Before age 40, over 65% of patients without treatment will face the situation of thicken and modular lesions cause great emotional depression. FuMeiDa launched to market in 2017. The phase II clinical trial of Hemoporfin as 505b (1) drug was undergoing in the United States. Based on the large reliable number of real data of clinical treatment in China as well as patented technologies continuously discovered and developed in treatment to improve curative effect and reduce side effects of FuMeiDa, we have reason to expect that once it is successfully listed in the United States, Hemoporfin will help patients around the world change their life and lay the foundation for the innovative development model adhered to by the Group.

Meanwhile, the Group is also continuing its exploration and screening of new photosensitizers to lay out photodynamic drug reserves of the Group in advance.

In the future, the Group will continue to work on the further exploration and optimization of photodynamic therapy schemes. From the perspective of clinical actual needs, the Group will make the best use of the unique advantages of photodynamic therapy different from traditional treatment methods, and develop new photodynamic drugs or new photodynamic combined therapy schemes.

## ANTIBODY-DRUG CONJUGATES (ADC)

ADC is an important research and development direction and the selection of commercial target of the Company's genetic engineering technical platform. Possessing the powerful lethality of small molecular drugs and targeting property of monoclonal antibodies, ADC has become a hot item in the research and development of targeted tumor therapy over the past decade.

The Group's first ADC is the Recombinant Anti-CD30 Human-mouse Chimeric Monoclonal Antibody-MCC-DM1 Injection ("CD30-DM1 ADC") for the treatment of tumors, which is actually an explore of DM1-ADC in CD30 target and a combination of ADCETRIS® (CD30-MMAE) and Kadcyla® (Her2-DM1/T-DM1). According to public information, the sales volume of ADCETRIS® (as the first new drug approved for the treatment of Hodgkin's lymphoma and filling the gap in this field after nearly 30 years) reached \$1.47 billion in 2022 and the sales volume of Kadcyla® (for the adjuvant therapy of early breast cancer) exceeded \$2.29 billion in 2022. As a trial project in the field of ADC was undertaken for the first time, the project has led the Group to accumulate considerable and technical skills for further research on ADC.

The Group's second ADC is a Trop2-directed antibody drug conjugate ("Trop2-SN38 ADC", also known as "FDA018 antibody drug conjugate for injection") for triple negative breast cancer, bladder cancer, gastric cancer and other tumors. This is a Me-too drug with a linker different from the original drug. According to existing research results, it has similar pharmacological properties and in vitro pharmacodynamics to original drug and has similar pharmacodynamics and pharmacokinetic characteristics in model animals. The project has basically completed the phase I clinical research and has successfully completed the process of scale-up study and trial production at Taizhou Fudan-Zhangjiang, which is expected to get the same or better clinical results as the original drug.

In recent years, we have built a new linker-drug platform ("BB05 Platform") in respect of small molecule. This laid the foundation for the Group's subsequent development of Me-better or innovative ADCs. The ADC projects currently being developed by the Group on the basis of this BB05 Platform includes:

- The Her2 directed antibody drug conjugate ("Her2-BB05 ADC", also known as "FDA022 antibody drug conjugate for injection") for the treatment of metastatic breast cancer and metastatic gastric cancer, carried out phase I clinical study during the Reporting Period which the first patient has been enrolled in the study. The drug is composed of monoclonal antibodies against human epidermal growth factor receptor 2 (HER2) target coupled with BB05. The drug can bind to HER2-expressed tumor cells and endocytosis, releasing small molecule cytotoxic drugs (topoisomerase I inhibitors) in lysosomes by protease cleavage to kill the tumor cells. The drug is intended to be developed for the treatment of advanced solid tumors with HER2-positive expression, such as breast cancer, gastric cancer, lung cancer, colorectal cancer, etc.;

- The phase I clinical trial of Trop2 directed antibody drug conjugate (“Trop2-BB05 ADC”, also known as “FZ-AD004 antibody drug conjugate for injection”) for the treatment of solid tumors such as lung cancer and triple negative breast cancer was undergoing during the Reporting Period. The IND application of this project had been approved in April 2023 and the first patient has been successfully enrolled in the phase I clinical study; The drug is composed of monoclonal antibodies against human trophoblast cell surface glycoprotein antigen (“TROP-2”) target coupled with BB05. TROP-2 is expressed at different levels, and its expression level is significantly increased in various carcinomas, such as breast cancer, lung cancer, and stomach cancer. The drug can bind to high TROP-2-expressed tumor cells and endocytosis, releasing small molecule cytotoxic drugs (topoisomerase I inhibitors) in lysosomes by protease cleavage to kill the tumor cells. The drug is intended to be developed for the treatment of advanced solid tumors including but not limited to lung cancer, breast cancer, gastric cancer, esophageal cancer, colorectal cancer, urothelial cancer, bladder cancer and endometrial cancer, etc.; and
- The IND application for Phase I clinical trial of DLL3 directed antibody drug conjugate (“DLL3-BB05 ADC”, also known as “FZ-AD005 antibody drug conjugate for injection”) mainly for the treatment of small cell lung cancer was approved in December 2023. According to the public data, the Drug is currently first topoisomerase inhibitors ADC targeting DLL3. The Drug can bind to DLL3-positive tumor cells and endocytosis, releasing small molecule cytotoxic drugs (topoisomerase I inhibitors) in lysosomes by protease cleavage to kill the tumor cells. The Drug is intended to be developed for the treatment of advanced solid tumors including but not limited to small cell lung cancer, large cell neuroendocrine carcinoma and prostatic cancer, etc.

We have the research and development capabilities in development of biologics agents, small molecules and ADC linkage. With the completion of the construction and its successful production of the antibody coupling drug workshop of Taizhou, ADC medicine will become one of the important product groups of the Group.

## **OTHER DRUGS**

Parkinson’s disease, also known as tremor paralysis, is one of the most common neurodegenerative diseases. People usually get the disease at the age of 50 to 60, caused by lack of dopamine in the brain which prevents brain nerve cells from properly controlling motor functions, resulting in tremor of hands and feet, slow movement, sleep disturbance and other symptoms that affect the quality of life. At present, the mainstream drug for the treatment of early Parkinson's disease in clinical practice - levodopa preparation has two types: rapid release dosage form and sustained release dosage form, but all products have not achieved the ideal effect of long-term stable release and absorption of levodopa. Fluctuating blood drug concentration will accelerate the course of disease and produce other adverse reaction symptoms, which makes clinicians have concerns about the early use of levodopa as a treatment scheme. The carzodopa controlled-release tablet project (WD-1603) of the Company for the treatment of early Parkinson's disease has completed the phase II clinical research, and was undergoing commercialization process through scale-up research during the Reporting Period. This project belongs to National Medical Products Administration (“NMPA”) Class 2 new drug in China and FDA 505 (b)(2) new drug in the United States. The project adopts the UGI-Pump® under the associate of the Group, Shanghai Handu Pharmaceutical Technology Co., Limited (“Shanghai Handu”) patented technology platform which can prolong the retention time of levodopa dosage form in the upper gastrointestinal tract, and continuously and stably release the drug during the retention time, so as to obtain a stable blood drug concentration, delay the process of Parkinson's disease to a great extent and reduce the adverse reactions caused by the drug. During the reporting period, the PCT patent of this drug has been authorized in China, Japan and United States. We will promote the phase III clinical research of this project as soon as possible.

LIBOd® (里葆多®) for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. LIBOd® is used for the treatment of AIDS-relating Kaposi's sarcoma, breast cancer and ovarian cancer. According to the requirements of relevant PRC laws and regulations, the Company has received the Notification of Approval for Supplementary Drug Application (《藥品補充申請批准通知書》) of the quality and efficacy consistency evaluation of generic drugs for chemical injection (“Consistency Evaluation”) during the Reporting Period issued by the NMPA. The Doxorubicin Hydrochloride Liposome Injection (LIBOd®) (specifications: 10ml:20mg) has passed the Consistency Evaluation of generic drug on quality and efficacy.

The in vivo bioequivalence study and the confirmatory clinical study on obeticholic acid project with a synthetic patent for the treatment of hepatobiliary disease has been completed. The Group will apply for its production registration as soon as possible. It is a generic drug of a medicine developed in the United States and listed worldwide for the treatment of primary biliary cirrhosis (PBC). Such drug has a large market in China which is a country with high incidence of hepatobiliary disease. The Group has engaged a third-party research institution to break through the patent restrictions on the original drug and was granted the patent in China. On 15 March 2020, the National Health Commission, in conjunction with the Ministry of Science and Technology, the Ministry of Industry and Information Technology, the State Medical Insurance Bureau, the National Medical Products Administration and the State Intellectual Property Office, organized experts to select and demonstrate the drugs that are not yet applying for registration and lack of clinical supply (insufficient competition) for the domestic patent due, and formulated the Second Batch of Encouraged Generic Drugs Catalogue, which clearly defined in the catalogue 17 drugs and formulations encouraged to be imitated, including obeticholic acid tablets.

The Group has formed a complete cycle in innovation, research, manufacturing and marketing of biomedicine. We will continue to focus strategically on advantageous areas, rapidly promote research and development and commercialization of our products, and at the same time give attention to the balance between innovation and commercialization of our products, and give attention to the balance between research and marketing, so as to enhance our core competitiveness and ability of enterprises and achieve a stable dominant position in the pharmaceutical subdivision and become an innovator and market leader in the biomedical industry.

By the end of the year 2023, the major drugs and progress under R&D of the Group are summarized as follows:

R&D Field	Technical Field	Project Name	Registration Type	Proposed Indications	Progress	Comparison with Industry Technical Level
R&D Field of Photodynamic Drugs	Photodynamic technology	Hemoporfin (海姆泊芬) (T0004/ F0026)	Class 1 innovative chemical drug	PWS	Clinical trial phase IV completed	International leading level: new compound and new indication
			505(b)(1)		Clinical trial phase II in the U.S started	
		Aminolevulinic acid - CIN (F0005)	Class 2.4 improved new drug	Cervical diseases infected by HPV	Clinical trial phase II enrollment completed & statistics in progress	International leading level: new indication
		Aminolevulinic acid - Acne (F0014)	Class 2.4 improved new drug	Acne	Clinical trial phase II completed	International leading level: new indication
		Aminolevulinic acid - AK (F0037)	Class 2.2 improved new drug	Actinic keratosis	Clinical trial phase II	International advanced level
		Aminolevulinic acid - brain gliomas (F0009)	Class 3 generic drug	Surgical visualization of Brain gliomas	Application for confirmatory clinical trial accepted	International advanced level
		Aminolevulinic acid -bladder cancer (F0044)	Class 3 generic drug	Surgical visualization of Bladder cancer	Application for confirmatory clinical trial accepted	International advanced level
Aminolevulinic acid - breast cancer (F0045)	Class 2.4 improved new drug	Surgical visualization of Breast cancer	Application for clinical trial phase II accepted	International advanced level		
R&D Field of ADC	ADC engineering	CD30-DM1 ADC (F0002)	Class 1 therapeutic biological products	Tumors	Clinical trial phase I enrollment completed & statistics in progress	International leading level: new compound
		Trop2-SN38 ADC (F0024)	Class 1 therapeutic biological products	Tumors	Clinical trial phase I	International advanced level
		Her2-BB05 ADC (F0034)	Class 1 therapeutic biological products	Tumors	Clinical trial phase I	International advanced level
		Trop2-BB05 ADC (F0040)	Class 1 therapeutic biological products	Tumors	Clinical trial phase I	International advanced level
		DLL3-BB05 ADC (F0041)	Class 1 therapeutic biological products	Tumors	Implied permission for clinical trial phase I	International advanced level: new compound

<b>R&amp;D Field</b>	<b>Technical Field</b>	<b>Project Name</b>	<b>Registration Type</b>	<b>Proposed Indications</b>	<b>Progress</b>	<b>Comparison with Industry Technical Level</b>
R&D Field of Other Drugs	Nano technology	Doxorubicin liposome (鹽酸多柔比星脂質體) (F0033)	Class 6 generic drug	Tumors	Domestic bioequivalence evaluation research and registration passed	International advanced level
	Osmotic pump technology	Carzodopa controlled-release tablet (WD-1603)	Class 2.2 improved new drug	Early Parkinson's disease	Clinical trial phase II completed	International advanced level
	Small molecular targeting drugs	FZJ-003 oral preparation – AD (F0042)	Class 1 innovative chemical drug	Atopic dermatitis	Clinical trial phase II started	International advanced level
		FZJ-003 oral preparation – UC (F0043)	Class 1 innovative chemical drug	Ulcerative colitis	Clinical trial phase II started	International advanced level
		FZJ-003 oral preparation – RA (F0025)	Class 1 innovative chemical drug	Rheumatoid arthritis	Clinical trial phase I completed	International advanced level
		FZJ-003 gel – AD (F0039)	Class 1 innovative chemical drug	Atopic dermatitis	Clinical trial phase I started	International advanced level
	Drugs with patents or technical barriers	Obeticholic acid (F0019)	Class 3 generic drug	Hepatobiliary disease Autoimmune diseases	Confirmatory clinical study enrollment completed & statistics in progress	International advanced level

## OPERATION STRATEGY, REVIEW AND PROSPECTS

The Group's operating strategy is to do a good job of domestic academic promotion of listed products, so that products can be applied among more patients. When conditions are ripe, international (mainly European and the United States) registration of listed products should be carried out as soon as possible to benefit more patients and obtain greater therapeutic value and commercial benefits. Secondly, China has joined the ICH Organization, which lays the foundation for the internationalization of research. Therefore, the medium and long-term research projects being developed by the Group must be able to register at home and abroad (such as the United States) in order to achieve the goal of the internationalization of the long-term development of the Group. Finally, we need to pay close attention to the selection and development of external investment projects, in order to balance the short-term and long-term development plans of the Group, and ultimately achieve the goal of the development of the Group and the realization of shareholders' benefit.

During the Reporting Period, due to the sales revenue contributed by LIBOd<sup>®</sup> did not meet the expectation, the revenue of the Group decreased by 17.50% compared with that of last year. ALA(艾拉<sup>®</sup>) which is indicated for the treatment of dermal HPV infectious disease and proliferative disease, LIBOd<sup>®</sup> which is indicated for the treatment of tumor and FuMeiDa which is indicated for PWS are three major products of the Group, and together contributed 99.72% of main operations revenue by the Group.

ALA (艾拉<sup>®</sup>), first in class drug, the first photodynamic drug for the treatment of condyloma acuminata in the world. It was launched in the market in 2007. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminata. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, no scar formation, and much lower adverse reaction rate and recurrence rate comparing with previous average level. During the Reporting Period, the contribution of ALA to sales revenue of the Group remained stable compared with that of last year.

LIBOd<sup>®</sup> (里葆多<sup>®</sup>) for the treatment of tumors, the first generic drug from Doxil<sup>®</sup> in China and the first generic drug of nanomedicine at home and abroad, was launched for sale in August 2009 and it obtained favorable market response and reputation. On 29 October 2018, the Company and Huizheng (Shanghai) Pharmaceuticals Technology Co., Ltd.\* (輝正(上海)醫藥科技有限公司) ("Shanghai Huizheng") entered into the market promotion service agreement ("Market Promotion Service Agreement") for Doxorubicin liposome (LIBOd<sup>®</sup>), to provide the market promotion services for LIBOd<sup>®</sup> of the Company in the PRC from 1 November 2018. Shanghai Huizheng is a subsidiary of Zhejiang Hisun Pharmaceutical Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600267). During the reporting period, the sales revenue contributed by LIBOd<sup>®</sup> did not meet the expectation. Pursuant to the relevant terms of the Market Promotion Services Agreement, the Group issued a formal letter to Shanghai Huizheng with a view to terminating the agreement with effect from 31 December 2023 at the end of the Reporting Period. As at the date of this announcement, the Company is still in the process of data verification and communication with Shanghai Huizheng in relation to the termination of the marketing cooperation. In the future, the Company will flexibly adjust its sales strategy in a timely manner to adapt to market changes and enhance its competitiveness, and make every endeavour to ensure that the marketing and promotion work will be carried out in an orderly manner so as to ensure that the products will continue to contribute to the Company's revenue.

FuMeiDa (复美达®), the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication. FuMeiDa has been launched in the market officially in 2017. PWS had no good treatment before. Compared with traditional laser treatment, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, even treatment of lesion, higher cure rate, lower incidence of scar formation and lower recurrence rate. During the Reporting Period, FuMeiDa continues to expand new hospital sales channels with well postoperative feedback. During the Reporting Period, the contribution of FuMeiDa to sales revenue of the Group increased by 41.09% compared with that of last year. The Group has been approved and started the phase II clinical study of Hemoporfin in the United States. After its new drug registration completed, it is expected to be listed and sold in the U.S. market in the future.

During the Reporting Period, the Group continues to regard academic promotion as its primary marketing method. The Company has used the diversified network platform channels to form a mature network service system such as academic exchanges among dermatology clinicians, sharing of clinical case and standardized practice videos, and a Q&A platform between doctors and patients, etc. In addition, the Company plans to take advantage of doctor resources on the platform to develop a new sales mode to solve some commonly seen problems in current marketing environment and some commonly seen difficulties for patients in hospital. We believe this kind of investment will have positive significance for products promotion, brand awareness and the Company's recognition as well.

Meanwhile, as at the end of the Reporting Period, the number of sales team personnel remained stable compared to the same period last year. The Company will strengthen the competitiveness of its own sales team. At the same time, it made efforts to expand the scope of access to hospitals and departments, so as to deal with the impact of the general environment on sales.

During the Reporting Period, all the product lines for existing products in sale of the Group met GMP Certification of China Food and Drug Administration. Our objective is to set up the product lines which can meet international standard so that our products could be sold worldwide.

The subsidiary of the Company, Taizhou Fudan- Zhangjiang Pharmaceutical Co., Ltd\* (泰州復旦張江藥業有限公司) ("Taizhou Fudan-Zhangjiang") which occupied approximately 144 acres, has constructed several production lines for the material and injection of Hemoporfin and advance commercialization preparation for a series of ADC projects and solid preparation such as obeticholic acid under development. During the Reporting Period, the construction of antibody drug conjugate production line was completed and began trial operation which laid a solid foundation for the steady advancement of the Group's antibody conjugated drug development strategy.

By the end of the year 2023, the commercialized main products of the Group are summarized as follows:

Technical Platform	Project Name	Registration Type	Indications	Launching Time
Photodynamic technology	ALA	Class 3.1 generic drug	Condyloma acuminata	2007
	FuMeiDa	Class 1.1 innovative chemical drug	Port wine stain	2017
Nano technology	LIBOd®	Class 6 generic drug	Tumors	2009
Other technology	Parecoxib Sodium for Injection	Class 4 generic drug	Postoperative analgesics	2021

The Group has successfully accomplished the transformation from purely R&D to equally stress on both R&D and commercialization with a complete system featuring organic combination of R&D, product manufacturing and marketing. The Group is moving toward a virtuous stage of development.

**In summary**, the Company will focus on strengthening its core technology advantages, diversifying the product catalog, promoting the industrialization of R&D achievements, and building a world-famous photodynamic brand. Based on the existing products, the Company will continue to strengthen R&D, and provide customers with more valuable and differentiated products and services. In the global market, the Company will make full use of the competitive advantages accumulated over the years, such as product quality, R&D technology, chemical synthesis experience, management and talent advantages, to implement the Company's extension expansion. We will, gradually, form a multi-dimensional main business with platforms such as photodynamic technology, nano technology, genetic engineering technology and oral solid preparation technology in which pattern. We are still undertaking our exploration and we hope our efforts can provide useful help for the treatment of the patients and bring value to the investors. Although challenges lie ahead of us, we believe our overall operation strategy and result will be beneficial to the Company's sustainable development in medium and long term.

## INTELLECTUAL PROPERTY RIGHTS

The Group has been actively protecting its intellectual property rights on its innovative medicines and research achievements. During the Reporting Period, the intellectual property rights obtained by the Group are as follows:

	New added		Accumulative total	
	Applied	Obtained	Applied	Obtained
Invention patents	16	10	127	43
Utility model patents	9	8	46	45
Industrial design patent	0	0	5	5
Software copyright	0	0	26	26
Others	0	0	0	0
Total	25	18	204	119

## **GRANTS AND AWARDS**

The Group has always been improving its ability of new drugs development in light of the industrial policies of China. During the Reporting Period, the Group obtained the grants and awards from governments at all levels for a number of R&D and commercialization projects approximately amounting to RMB23.20 million. Among them, the Company was rewarded with development support funds of about RMB18.18 million for meeting the requirement of "14th Five Years Plan" of Pudong New Area.

According to the announcement of the Shanghai Municipal Commission of Economy and Information, the Company was successfully selected into the list of Shanghai “Specialized, Refinement, Differential and Innovation” (專精特新) Enterprises from 2021 to 2023.

According to the announcement of the Taizhou Bureau of Industry and Information Technology, Taizhou Fudan-Zhangjiang was successfully selected into the list of Jiangsu “Specialized, Refinement, Differential and Innovation” (專精特新) Small and Medium-sized Enterprises from 2023 to 2025.

# Management Discussion and Analysis

## INDUSTRY LANDSCAPE AND TREND

The global pharmaceutical market has been growing steadily amid the ongoing growth in global population, the development of emerging markets, the rise in people's living standard and the ageing society, resulting in breakthrough in medical technologies and emergence of new products. The statistics of IQVIA Holdings Inc. (IQVIA) showed that global pharmaceutical expenditure has been rising in recent years and is expected to exceed USD1.1 trillion in 2024. The global pharmaceutical market is expected to grow at a compound annual growth rate of 3-6% by 2026. Ageing population saw the emergence of the over-60 age group as it accounts for an increasing portion in the population mix with surging demand and advancement in pharmaceutical technology further driving industry development. Since 2015, China's pharmaceutical industry swiftly experienced segregation, structural upgrade and elimination of outdated capacity. As the country accelerates the promotion of systems such as conditional drug listing and priority review and approval, as well as continuously expanding medical insurance support, according to Frost & Sullivan's estimation, the size of China's pharmaceutical market will reach RMB2.1 trillion by 2025, and will further increase to RMB2.7 trillion by 2030, with the among which is it expected that up to 48% of that would be contributed by the proportion of biopharmaceutical market size reaching 48%. With the improvement of drug approval standards and the continuous promotion of generic drug consistency evaluation, enterprises with independent pharmaceutical innovation capabilities and intellectual property protection have significant competitive advantages in the future market competition. In recent years, with the trend of normalization of volume procurement, the golden era of high gross profit margins for generic drugs with high gross profit margins has ended, and investment in research and development of innovative drugs is emerging. While volume procurement has also accelerated the integration of the domestic generic drug industry, excellent generic drugs are expected to rapidly expand their market share through volume procurement, and the concentration of the generic drug market is expected to rapidly increase.

The global biopharmaceutical industry is undergoing profound changes driven by new technologies, with a large number of cross era products, forms such as biotechnology, gene therapy, and cell therapy, emerging. The R&D and innovation models of global pharmaceutical companies have shifted from traditional "building cars behind closed doors" to a new model of specialized cooperation and mergers and acquisitions. Faced with the uncertainty and new challenges of the global pharmaceutical industry, capital has stepped was invested into the field of pharmaceutical innovation under the guidance of policy support. China's innovative pharmaceutical industry has gradually developed from "tracking and copying" to "imitating innovation" and "independent innovation". Based on factors such as support from national policies, increased investment in health and new drug innovation research and development, and sustained and rapid economic development, vigorously developing innovative drugs will become an inevitable trend in the development of the biomedical industry. At the same time, in the context of the acceleration of the internationalization process of China's pharmaceutical industry and the reforms of payers such as centralized drug procurement and medical insurance control fees, relying on the domestic single market business model and business expansion can no longer meet the long-term development needs of enterprises. Domestic pharmaceutical companies are also seeking various ways to forge their ability to participate in global competition, actively layout and expand overseas markets, fully utilize the resource allocation advantages of global industrial chains to promote profitability, and help Chinese pharmaceutical companies form new development momentum in the new industrial competition pattern. In the long run, driven by factors such as the aging population, the continuous improvement of people's living standards, and the enhancement of people's health awareness, the development trend of the domestic pharmaceutical industry remains positive. At the same time, the development of China's pharmaceutical industry is still in a significant period of reform and deepening of industry reform policies. It is expected that the structural adjustment of the pharmaceutical market will deepen, technological innovation will accelerate, and the industry's survival of the fittest shuffle will continue to accelerate.

## **PRODUCT REGISTRATION AND R&D ACHIEVEMENTS OBTAINED DURING THE REPORTING PERIOD**

- 1) In January 2023, the first patient has been successfully enrolled in the phase I clinical study of the Trop2-BB05 directed ADC (also known as “FDA022 ADC for injection”) for the treatment of advanced solid tumors;
- 2) In January 2023, the IND application for phase I clinical trial of Trop2-BB05 ADC (also known as “FZ-AD004 ADC for injection”) for the treatment of advanced solid tumors has been accepted; In August 2023, the first patient has been successfully enrolled in the phase I clinical study;
- 3) In October 2023, the IND application for phase I clinical trial of DLL3-BB05 ADC (also known as “FZ-AD005 ADC for injection”) for the treatment of advanced solid tumors has been accepted; and the application for Phase I clinical trial of DLL3-BB05 ADC was approved in December 2023;
- 4) In November 2023, the Consistency Evaluation application for Doxorubicin Hydrochloride Liposome Injection (LIBOd<sup>®</sup>, 里葆多<sup>®</sup>) has been passed;
- 5) In November 2023, the IND application for phase II clinical trial of Aminolevulinic acid - breast cancer project for intraoperative visualization of breast cancer in adult breast conservative surgery has been accepted;
- 6) In December 2023, the application for confirmatory clinical trial of Aminolevulinic acid - bladder cancer project for visualization of non-muscular invasive bladder cancer during transurethral resection of bladder tumor has been accepted;
- 7) In December 2023, the application for confirmatory clinical trial of Aminolevulinic acid - brain gliomas project for intraoperative visualization of glioma (WHO grade III or IV) has been accepted.

## FINANCIAL REVIEW

The following discussion and analysis of the Group's financial and operational position should be read in conjunction with and take reference to the consolidated financial statements of the Group and the related notes to the consolidated financial statements.

During the Reporting Period, there were no significant changes in the business model of the Group, its three major products, sales model and sales price, composition of major customers and suppliers, and tax policies.

## REVENUE

The revenue of the Group for the year 2023 amounted to approximately RMB850.73 million, comparing to approximately RMB1,031.16 million for the year 2022, representing a decrease of 17.50%, which is derived from the Group's main business. The major products of the Group, ALA (艾拉<sup>®</sup>, 鹽酸氨酮戊酸散, ALA) and LIBOd<sup>®</sup> (里葆多<sup>®</sup>, 鹽酸多柔比星脂質體, Doxorubicin liposome), have contributed significant operating revenue for the year of 2023 to the Group, representing 48% and 34% to main operations revenue of the Group, respectively.

The operating revenue for the year 2023 mainly came from the sale of medical and diagnostics products. The main source of total revenue for the year 2023 was nearly the same as that for the year of 2022. During the Reporting Period, the Company's operating revenue realized RMB851 million, decreased by 17.50% compared with last year, resulting a corresponding decrease in other relevant financial data.

## REVENUE FROM SALE OF MEDICAL AND DIAGNOSTICS PRODUCTS

Revenue of the Group from the sale of medical and diagnostics products for the year 2023 was RMB850.56 million (representing 99.98% of the main operations revenue), decreased by 17% from that of year 2022 which was RMB1,030.60 million. The contribution to the main operations revenue of ALA, LIBOd<sup>®</sup> and FuMeiDa, which are the major products of the Group, was 48%, 34% and 18% respectively. Due to the sales revenue contributed by LIBOd<sup>®</sup> did not meet the expectation during the Reporting Period, compared with the same period, sales of ALA decreased by 0.27%, sales of LIBOd<sup>®</sup> decreased by 44% and sales of FuMeiDa increased by 41%.

The major products of the Group are ALA and FuMeiDa (Hemoporfin) from photodynamic platform and LIBOd<sup>®</sup> from Nano drug platform. During the Reporting Period, except for the exclusive marketing services for LIBOd<sup>®</sup> provided by Shanghai Huizheng, the work of sales and distribution of the other products is taken by the sales team of the Group. During the reporting period, the sales revenue contributed by LIBOd<sup>®</sup> did not meet the expectation, leading to a decrease in the Company's annual operating income compared to that of last year. Pursuant to the relevant terms of the Market Promotion Services Agreement, the Group issued a formal letter to Shanghai Huizheng with a view to terminating the agreement with effect from 31 December 2023 at the end of the Reporting Period. As at the date of this announcement, the Company is still in the process of data verification and communication with Shanghai Huizheng in relation to the termination of the marketing cooperation.

## **COST OF OPERATION**

For the year 2023, the Group's main operations costs were RMB70.63 million (representing 100.00% of the cost of sales). For the year 2022, the Group's main operations costs were RMB84.06 million. The Group's operation costs are mainly attributable to the sale of pharmaceutical and diagnostic products. The decrease in cost of operation was mainly due to the decline in product sales during the Reporting Period.

For the year 2023, the ratio of main operations cost to main operations revenue is 8% (2022:8%), and the gross profit margin of products of the Group is basically stable. At the same time, the Group has been consistent in strict cost control. Maintaining the current product structure, we will try our best to increase the gross profit margin.

## **SELLING EXPENSES & GENERAL AND ADMINISTRATIVE EXPENSES**

For the year 2023, the selling expenses of the Group was RMB383.60 million, representing a decrease of 31% from RMB554.63 million for the year 2022. Selling expenses includes market and academic promotion fees, employment expenses, travel expenses, and depreciation and amortization expenses. The market mentioned above and academic promotion fees are mainly derived from the promotion service agreement for LIBOd<sup>®</sup> signed by the Company and Shanghai Huizheng on 29 October 2018, pursuant to which the promotion fee of LIBOd<sup>®</sup> agreed is about 50% - 65% of the actual net sales income. Based on the proportion of sales revenue contributed by LIBOd<sup>®</sup> to the Group, the market and academic promotion fees accounted for a large proportion of the sales expenses during the Reporting Period. Meanwhile, the ratio of selling expenses to revenue for sale of products in 2023 decreased from 54% of last year to 45%, which was basically stable. Details are set out in note 5(38) to the consolidated financial statements.

For the year 2023, the general and administrative expenses of the Group were RMB42.86 million, representing a decrease of 4% from RMB44.87 million for the year 2022 which caused by the decrease in share-based payment expenses recognized in the 2021 restricted incentive scheme of the Company. Details are set out in note 5(39) to the consolidated financial statements.

## **R&D EXPENSES**

The Group adopts a conservative and prudent capitalization policy for R&D projects. Only the expenses incurred on those projects which were evaluated to be feasible in technology with clear objective, controllable risks and probable future economic benefits can be capitalized. Therefore, most of R&D costs of the Group were recognized as expenses as incurred. With the development of R&D projects and the establishment of new projects, R&D expenses of the Group for the year 2023 were RMB243.76 million, representing an increase of 7% compared with RMB226.85 million for the year 2022. Details are set out in note 5(40) to the consolidated financial statements. The total investment in R&D of the Group in 2023 is RMB244.70 million, representing an increase of 5% compared with 2022. Details are set out in note 5(16) to the consolidated financial statements.

During the Reporting Period, the main R&D projects are shown as follows:

Unit: RMB

<b>Project Name</b>	<b>R&amp;D investment amount</b>	<b>Expense amount of R&amp;D investment</b>	<b>Capitalization amount of R&amp;D investment</b>	<b>% of R&amp;D investment in operating revenue</b>	<b>Change (%)</b>
Related research on ADC projects	112,698,603	112,698,603	-	13.25	1.36
Related research on Hemoporfin	18,873,272	18,873,272	-	2.22	14.97
Related research on aminolevulinic acid hydrochloride	78,037,424	78,037,424	-	9.17	50.18
Related research on doxorubicin liposome	937,381	-	937,381	0.11	-86.23
Related research on JAK1	7,504,689	7,504,689	-	0.88	-65.55
Other research	26,648,987	26,648,987	-	3.13	4.49
<b>R&amp;D investment in the Reporting Period</b>	<b>244,700,356</b>	<b>243,762,975</b>	<b>937,381</b>	<b>28.76</b>	<b>4.73</b>

## **FINANCIAL EXPENSES / FINANCIAL INCOME**

For the year 2023, financial income of the Group were approximately RMB3.70 million compared with financial income approximately RMB8.79 million for the year 2022. The decrease in the financial income was mainly due to the decrease in interest income and increase in interest expenses on bank loans of the Group during the Reporting Period. Details are set out in note 5(41) to the consolidated financial statements.

## **OTHER INCOME**

Other income of the Group for the year 2023 was RMB25.58 million, compared with RMB10.47 million for the year 2022, representing an increase of 144%. The increase in other income was mainly due to the increase in governmental grants recognized for the year. Details are set out in note 5(43) to the consolidated financial statements.

## **INCOME TAX EXPENSES**

Effective from 1 January 2008, Fernovelty (Hong Kong) Holding Co., Ltd (“Fernovelty Holding”) is required to determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the People’s Republic of China (the “CIT Law”) as approved by the National People’s Congress on 16 March 2007. The Company and its subsidiaries Taizhou Fudan- Zhangjiang and Tracing Bio-technology were both recognized as high-tech enterprises, and their applicable tax rates are 15% in 2023.

Fernovelty Holding was incorporated in Hong Kong in October 2016 as a subsidiary of the Group and is subject to Hong Kong profits tax at the rate of 16.5% (2021: 16.5%). Effective from 1 January 2018, a two-tier profits tax rates system is implemented under which the first HKD2 million of assessable profits of corporations will be taxed at 8.25% whereas the remaining amount will be taxed at the standard rate of 16.5%. Since it did not have estimated assessable profit for the years ended 31 December 2023 and 2022, Hong Kong profits tax has not been provided.

As at 31 December 2023, the applicable tax rate and tax policy of the Group remained unchanged.

## **NET PROFIT AND NET PROFIT RATE**

The net profit of the Group for the year 2023 was RMB108.45 million, representing a decrease of 21% compared with RMB137.27 million for the year 2022. The net profit rate for the year 2023 was 13% (2022:13%) which the net profit rate of the Group is basically stable.

## **PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY**

The profit attributable to shareholders of the Company of approximately RMB108.63 million was recorded in the consolidated financial statement for the year 2023, compared with approximately RMB138.00 million for the year 2022, representing a decrease of 21%.

## **SIGNIFICANT INVESTMENTS**

As at 31 December 2023, the net book value of the Group's long-term equity investments amounted to RMB287.52 million, of which its interest in Shanghai Handu amounted to approximately RMB230.98 million, representing 8% of the Group's total assets. A corresponding investment loss of approximately RMB23.54 million was recorded during the Reporting Period. Details are set out in Notes 5(11) and 7(2) to the consolidated financial statements.

In the year 2021, the Company (i) subscribed for the new registered capital of USD1,380,526 in Shanghai Handu at the consideration of RMB102.42 million; and (ii) acquired the equity interests corresponding to the registered capital of USD2,765,490 in Shanghai Handu at a consideration of USD25,243,137. Upon completion of the said subscription and acquisition, in the year 2021, the Company totally invested RMB265.96 million by the self-owned funds of the Company and directly held the registered capital of Shanghai Handu in an amount of USD4,146,016, representing 39.5663% of the equity interest of Shanghai Handu.

Shanghai Handu is an innovative drug R&D company registered in the PRC and founded by a senior entrepreneurial team in the United States. It is committed to the development of new drug products with international leading level, independent intellectual property rights and global patents that meet the clinical needs and combine with medical equipment. It adopts the rapid and synchronous application in the United States, Europe and the PRC as the basic strategy, and develops high-value and high-end generic drug commercialization platform.

## **MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

The Group had no material acquisitions or disposals of subsidiaries and associated companies during the year 2023.

## **FINANCIAL ASSETS MEASURED AT FAIR VALUE**

In 2017, Fernovelty Holding, a subsidiary of the Company, entered into the subscription agreement with Adgero to purchase ordinary shares and warrants. On 9 June 2020, Adgero Biopharmaceuticals Holdings, Inc (“Adgero”) entered into an Agreement and Plan of Merger and Reorganization with DelMar Phamarceuticals, Inc (Nasdaq Code: DPMI, “DelMar”) and its wholly owned subsidiary, and Adgero will become a wholly-owned subsidiary of DelMar after the merger. After the reorganization, the new company applied to change its name to "Kintara Therapeutics, Inc" (NASDAQ Code: KTRA, "kintara"). The equity held by the Group will be converted into the equity of Kintara in accordance with the agreed proportion. The Group holds 12,592 ordinary shares of Adgero as at 31 December 2023. Based on the Kintara closing price on the date of completion of the acquisition, the fair value of the equity instruments held by the Company in Kintara is approximately RMB15,126.

## **CONTINGENT LIABILITIES**

As at 31 December 2023 and 2022, the Directors were not aware of any material contingent liabilities.

## **CHARGE ON ASSETS**

As at 31 December 2023 and 2022, the Group had no charge on assets.

## **BANK BORROWINGS**

As at 31 December 2023, the Group had no unpaid bank borrowings.

## **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

Based on the commercialization process planning for the R&D projects of the Group, as approved and authorized by the Board on 29 October 2020, Taizhou Fudan-Zhangjiang will participate in the bidding process for the adjacent plot of the existing plant in Taizhou Park and go through the relevant procedures, so as to timely build a new production workshop to meet future production needs. The construction of phase II pharmaceutical production base project plans to occupy approximately 44 acres, has an estimated total building area of approximately 42,000 square meters, and plans to construct several lines including antibody drug conjugate production line and other auxiliary facilities. The total investment of the Project is RMB600 million (including the bidding payment for land use right at a price of RMB12.65 million). The Company will use its self-owned fund to invest in the Project. During the Reporting Period, the construction of antibody drug conjugate production line was completed and began trial operation, laid a solid foundation for the steady advancement of the Group's antibody conjugated drug development strategy.

Saved as disclosed above, the Group had no other future material capital expenditure plan for the moment.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operations and investing activities with internally generated financial resources, proceeds from the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), proceeds from H share placing and issue of A shares on STAR Market of the Shanghai Stock Exchange, grants from the municipal government authorities and commercial loans.

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB1,195.90 million (2022: RMB1,289.30 million).

Being consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including bank borrowings and loans from government authorities) less cash and cash equivalents. Total capital is calculated as "total equity", as shown in the consolidated balance sheet, plus net debt. As at 31 December 2023 and 2022, cash and cash equivalents is much more than total balance of bank loans of the Group, therefore, the gearing ratio is not applicable (the gearing ratio:0).

The Group adopts a conservative treasury policy in cash and financial management. To achieve better risk control and to minimize the finance costs, the Group's treasury activities are centralized. The Group's liquidity and financing arrangements are reviewed regularly.

## **FOREIGN EXCHANGE EXPOSURE**

The Group mainly operates in the domestic market. The operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

## **EMPLOYEES AND SALARIES**

As at 31 December 2023, the Group had a total of 948 employees, as compared to 910 employees as at 31 December 2022. Staff costs including Directors' remuneration for the year 2023 were RMB238.47 million compared with RMB210.67 million for the year 2022. The salaries and benefits of employees provided by the Group are kept at a competitive level and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed annually. A wide range of benefits, including statutory social welfare plans, are also provided to employees by the Group.

Details of the remuneration policies are set out in the "Remuneration Committee" section of the "Corporate Governance Report".

## **OTHER MATTERS**

### **ISSUE OF A SHARES**

In order to further broaden the Company's funding channels and enhance its core competitiveness, on 14 May 2020, the Company obtained the reply on approving the registration of the Company's initial public offering (regulatory permission [2020] no. 912) issued by CSRC. The A Shares of the Company have been listed and commenced trading on the STAR Market of the Shanghai Stock Exchange since 19 June 2020 (Stock code: 688505). The number of shares issued this time is 120,000,000 A shares (par value of RMB0.1 per share), and the Company's original 583,000,000 domestic shares were converted into A shares at the same time. The issue price of the Shares is RMB8.95 per share, and the A Shares were issued under the special mandate granted by Shareholders to the Board at the annual general meeting on 26 April 2019 and extended at the annual general meeting on 30 March 2020. The total share capital of the Company was 923,000,000 shares before the issue of A shares, and after the issue, the total share capital of the Company increased to 1,043,000,000 shares, among which the A shares were 703,000,000 shares and the H shares were 340,000,000 shares.

### **USE OF PROCEEDS**

The total proceeds of the issue of A share are RMB1,074,000,000 and the net proceeds are RMB974,323,900 after deducting the issue fees of RMB99,676,100 of this offering. The net proceeds raised from the issue of A Shares shall be used in accordance with the plan items described in the circular of the Company dated 4 April 2019 and the announcement of the Company dated 26 April 2019.

Particulars of the proceeds raised were used as follows:

Investment Projects	Budget RMB0'000	Amount utilized	Cumulative amount	Remaining	Expected timeline of utilization
		ended 31 December 2023 RMB0'000	that has been utilized as at 31 December 2023 RMB0'000	balance as at 31 December 2023 RMB0'000	
– The Registration Project of Hemoporfin in the United States (Note 4)	23,000.00	1,034.37	4,441.56	18,558.44	31 December 2025
– The Innovational Research and Sustainable Development Project in Relation to Biological Medicine	24,000.00	3,791.02	24,000.00	-	N/A
– The Project in Relation to Acquisition of Minor Equity Interests in Taizhou Fudan-Zhangjiang	18,000.00	-	18,000.00	-	N/A
<b>Over-raised funds (Note 5)</b>	-	9,600.00	<b>28,800.00</b>	<b>3,632.39</b>	
<b>Interest on raised funds (Note 6)</b>	-	830.75	<b>830.75</b>	<b>4,044.58</b>	
<b>Total</b>	<b>65,000.00</b>	<b>15,256.14</b>	<b>76,072.31</b>	<b>26,235.42</b>	

**Notes:**

- (1) The actual amount of proceeds raised from the issue of A Shares exceeding the needs of the investment projects listed above will be used to supplement the working capital related to the principal business of the Company in accordance with relevant requirements of the CSRC and the Shanghai Stock Exchange (“SSE”) and subject to the approval of the Board and the Shareholders’ meeting. The Company will disclose relevant updates in due course;
- (2) The amount that has been utilized included the amount which is used after the listing for replacing the self-owned fund of the Company previously invested in such projects during the Reporting Period;
- (3) The Company confirms that the use of proceeds from the issue of A share conforms to the disclosure of the supplementary circular of the Company dated 4 April 2019, and that the Company will use the proceeds from the issue of A share in strict accordance with the relevant regulations;
- (4) Due to the impact of the external environment, the progress of the Registration Project of Hemoporfin in the United States delayed. As approved by the Board and the Supervisory Committee on 27 March 2023, the implementation stage of the project was extended for two years to 31 December 2025. The budget remains unchanged and is still expected to be fully utilized as R&D expenses;
- (5) During the Reporting Period, the Board considered and approved the utilization of RMB96 million of the over subscription proceeds from its A share offering for permanent replenishment of working capital. The proposal has been deliberated and approved at 2022 annual general meeting. The Company will fulfill its internal approval and information disclosure obligations with respect to the use of over-raised funds;
- (6) the Fund-raising account corresponding to the project the Innovational Research and Sustainable Development Project in Relation to Biological Medicine consists of fund-raising and net interest income from fund-raising after deduction of handling fee. As at the end of the Reporting Period, the cumulative amount of proceeds utilized for the project was RMB248.30 million of which RMB240.00 million was raised fund and RMB8.30 million was interest income from the proceeds, with a balance of RMB0.

## **PERFORMANCE OF UNDERTAKINGS**

During the application process of A-share issuance, the undertakings of the shareholders, related parties, the Company and other related parties during the Reporting Period or up to the Reporting Period are listed in the section "Significant Events" of the interim report of the Company dated 25 August 2022, which includes the types, contents and duration of undertakings. As at 31 December 2023, in addition to the undertakings that have been fulfilled, the above undertakings have not changed, and all related parties have complied with the relevant disclosed undertakings.

## **CHANGES IN RESTRICTED SHARES DURING THE REPORTING PERIOD**

On 19 June 2023, some of restricted shares of the Company's initial public offering were listed and put into circulation. The number of restricted shares applied for listing and putting into circulation was 434,357,902 shares, and the restriction period was for a period of 36 months from the date of listing of the shares of the Company's initial public offering on the Shanghai Stock Exchange. For more details, please refer to the overseas regulatory announcement of the Company dated 8 June 2023.

On 12 May 2023, the Company completed share registration procedure and issued 7,572,100 A Shares pursuant to the first attribution of the first grant under the 2021 Restricted Share Incentive Scheme. For more details, please refer to the Company's overseas regulatory announcement dated 12 May 2023 and the next day disclosure report dated 12 May 2023 for details.

## **SUBSCRIPTION OF WEALTH MANAGEMENT PRODUCT AND STRUCTURED DEPOSIT PRODUCTS**

The subscription of wealth management products is classified as a notifiable transaction under Chapter 14 of the Listing Rules and the relevant guidance materials. The following transactions of the Company constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules and were subject to the announcement requirements but exempt from the shareholders' approval requirement under Chapter 14 of the Listing Rules.

On 5 January 2023, the Company entered into two structured deposit products agreements with Bank of China and agreed to subscribe for structured deposit products with a total amount of RMB200 million with maturity period of 26 days and 25 days respectively by using its temporary idle proceeds from the public issuance of A shares.

On 6 January 2023, The Company entered into the Ping An Bank Structured Deposit Product Agreement I with Ping An Bank and agreed to subscribe for a structured deposit product with a total amount of RMB300 million with maturity period of 84 days by using its self-owned idle funds generated from daily operation. Meanwhile the Company entered into the Ping An Bank Structured Deposit Product Agreement II with Ping An Bank and agreed to subscribe for structured deposit products with a total amount of RMB150 million with maturity period of 84 days by using its temporary idle proceeds from the public issuance of A shares.

On 3 February 2023, the Company entered into two structured deposit products agreements with Bank of China and agreed to subscribe for structured deposit products with a total amount of RMB190 million with maturity period of 147 days and 146 days respectively by using its temporary idle proceeds from the public issuance of A shares.

On 6 April 2023, The Company entered into the Ping An Bank Structured Deposit Product Agreement I with Ping An Bank and agreed to subscribe for a structured deposit product with a total amount of RMB150 million with maturity period of 85 days by using its self-owned idle funds generated from daily operation. Meanwhile the Company entered into the Ping An Bank Structured Deposit Product Agreement II with Ping An Bank and agreed to subscribe for structured deposit products with a total amount of RMB150 million with maturity period of 85 days by using its temporary idle proceeds from the public issuance of A shares.

On 2 June 2023, the Company entered into two structured deposit products agreements with the Industrial and Commercial Bank of China and agreed to subscribe for structured deposit products with a total amount of RMB150 million with maturity period of 27 days by using its self-owned idle funds generated from daily operation.

On 4 July 2023, The Company entered into the Ping An Bank Structured Deposit Product Agreement I with Ping An Bank and agreed to subscribe for a structured deposit product with a total amount of RMB300 million with maturity period of 86 days by using its self-owned idle funds generated from daily operation. Meanwhile the Company entered into the Ping An Bank Structured Deposit Product Agreement II with Ping An Bank and agreed to subscribe for structured deposit products with a total amount of RMB56 million with maturity period of 86 days by using its temporary idle proceeds from the public issuance of A shares.

On 5 July 2023, the Company entered into two structured deposit products agreements with Bank of China and agreed to subscribe for structured deposit products with a total amount of RMB180 million with maturity period of 85 days and 84 days respectively by using its temporary idle proceeds from the public issuance of A shares.

On 6 July 2023, the Company entered into two structured deposit products agreements with the China Merchants Bank and agreed to subscribe for structured deposit products with a total amount of RMB200 million with maturity period of 25 days and 84 days respectively by using its self-owned idle funds generated from daily operation.

On 11 October 2023, The Company entered into the Ping An Bank Structured Deposit Product Agreement I with Ping An Bank and agreed to subscribe for a structured deposit product with a total amount of RMB300 million with maturity period of 79 days by using its self-owned idle funds generated from daily operation. Meanwhile the Company entered into the Ping An Bank Structured Deposit Product Agreement II with Ping An Bank and agreed to subscribe for structured deposit products with a total amount of RMB57 million with maturity period of 79 days by using its temporary idle proceeds from the public issuance of A shares.

On 11 October 2023, the Company entered into two structured deposit products agreements with Bank of China and agreed to subscribe for structured deposit products with a total amount of RMB180 million with maturity period of 79 days and 78 days respectively by using its temporary idle proceeds from the public issuance of A shares.

The Company's subscription of the wealth management product and structured deposit products by reasonable and effective use of certain portion of its temporary idle funds (including proceeds from the public issuance of A shares) is beneficial for enhancing the overall capital gain of the Group, which is consistent with the core objectives of the Company to safeguard its capital and ensure liquidity. It is expected that the impact of risk factors in connection with the expected return of the above-mentioned wealth management product and structured deposit products is low, while the Group can enjoy a higher return compared with fixed term deposits in commercial banks in the PRC. The Directors (including the independent non-executive Directors) are of the view that the above-mentioned subscription of wealth management product and structured deposit products agreements with Ping An Bank and Bank of China are made on normal commercial terms, are fair and reasonable and in the interest of the Company and its shareholders as a whole. For more details, please refer to the announcements of the Company dated on 5 January 2023, 6 January 2023, 3 February 2023, 6 April 2023 and 2 June 2023.

All of the above structured deposit products have been redeemed at maturity and the actual returns are consistent with the expected range of returns disclosed in the announcements and there is no material deviation from the disclosure in the announcement.

During the Reporting Period, the total income received by the Company by maintaining all wealth management products and structured deposit products was RMB19.19 million.

## INCENTIVE SCHEME

To further perfect the Company's corporate governance structure, establish and improve the Company's long-term incentive mechanism, attract and retain the Company's management personnel, core technical personnel and other personnel, fully mobilize their enthusiasm and creativity, the Board on 6 April 2021 approved the resolutions in relation to the proposed adoption of the 2021 restricted incentive scheme of the Company (the "Incentive Scheme") and the proposed issue and grant of new A Shares under the Incentive Scheme pursuant to the specific mandate. "Restricted Share(s)" mean A Share(s) to be granted to the participants (the "Participants") by the Company on such conditions and at the grant price stipulated under the Incentive Scheme, which are subject to the attribution conditions stipulated under the Incentive Scheme and can only be attributed after satisfying with the attribution conditions. The Incentive Scheme and the proposed issue and grant of new A Shares under the Incentive Scheme pursuant to the specific mandate were approved by the Shareholders at the AGM, the Class Meeting of A Shareholders and the Class Meeting of H Shareholders held on 27 May 2021.

The source of all Restricted Shares under the Incentive Scheme will be new ordinary A Shares to be issued by the Company to the Participants. The total number of Restricted Shares granted to the Participants under the Restricted Shares Incentive Scheme were 38,000,000. On 22 July 2021, the Company made the first grant under the Incentive Scheme (the "First Grant"), whereby the Company granted 32,770,000 Restricted Shares and the number of Participants under the First Grant was 258. On 26 May 2022, the Company made the reserved grant under the Incentive Scheme (the "Reserved Grant"), whereby the Company granted 5,230,000 Restricted Shares and the number of Participants under the Reserved Grant was 125. As at 31 December 2023, all Restricted Shares under the Incentive Scheme had been granted. There has been no Restricted Shares available to be granted under the Incentive Scheme as at 1 January 2023 and 31 December 2023.

On 27 April 2023, the Board of Directors and the Board of Supervisors considered and approved resolution about "adjustment to the Grant Price of Incentive Scheme", "cancellation of part of the unvested Restricted Shares under the Incentive Scheme" and "first attribution of the Restricted Shares under the Incentive Scheme upon fulfilment of the attribution conditions" at the 21th (temporary) meeting of the seventh session of the Board of Directors and the 20th (temporary) meeting of the seventh session of the Board of Supervisors. On 12 May 2023, the Company completed share registration procedure and issued 7,572,100 A Shares pursuant to the first attribution of the First Grant under the Incentive Scheme. The number of Shares which might be issued upon the exercise of the granted Restricted Shares as at 1 January 2023 and 31 December 2023 were 38,000,000 A Shares and 15,723,000 A Shares, representing 3.69% and 1.52% of the total number of A Shares in issued on 1 January 2023 and 30 June 2023, respectively. There was no service provider sub-limit under the Incentive Scheme.

The closing price of A Shares on 21 July 2021 on Shanghai Stock Exchange, which is the trading day before the date of the First Grant, is RMB16.73 per A Share and the closing price of A Shares on 25 May 2022 on Shanghai Stock Exchange, which is the trading day before the date of the Reserved Grant, is RMB9.34 per A Share. The closing price of the A Shares on 11 May 2023, which is the date before the attribution of the Restricted Shares on 12 May 2023, was RMB9.35.

The allocation of the Restricted Shares granted under the Incentive Scheme is set out in the table below:

Name	Categories	Grant date	Grant price (RMB)	Attribution period	Number of Restricted Shares as at 1 January 2023	Number of Restricted Shares granted during the Reporting Period	Actual Attributed during the Reporting Period	Lapsed during the Reporting Period (Note 3)	Canceled during the Reporting Period	Number of Restricted Shares as at 31 December 2023 (Note 4)
<b>1. Directors and Chief Executives</b>										
Wang Hai Bo	Executive Director, General Manager (retired on 30 May 2023)	22 Jul 2021	8.83	(Note 1)	1,000,000	-	-	(600,000)	-	400,000
Su Yong	Executive Director, Deputy General Manager (retired on 30 May 2023)	22 Jul 2021	8.83	(Note 1)	1,200,000	-	360,000	(360,000)	-	480,000
Zhao Da Jun	Executive Director, General Manager	22 Jul 2021	8.83	(Note 1)	1,200,000	-	360,000	(360,000)	-	480,000
Li Jun	Deputy General Manager	22 Jul 2021	8.83	(Note 1)	1,100,000	-	330,000	(330,000)	-	440,000
Yang Xiao Lin	Deputy General Manager (retired on 30 May 2023)	22 Jul 2021	8.83	(Note 1)	1,200,000	-	360,000	(360,000)	-	480,000
Gan Yi Min	Deputy General Manager (retired on 30 May 2023)	22 Jul 2021	8.83	(Note 1)	1,200,000	-	-	(720,000)	-	480,000
Xue Yan	Executive Director, Deputy General Manager, Company Secretary	22 Jul 2021	8.83	(Note 1)	1,100,000	-	330,000	(330,000)	-	440,000
<b>Sub Total</b>					8,000,000	-	1,740,000	(3,060,000)	-	3,200,000
<b>2. Other Participants</b>										
251 Participants	Employees of the Group	22 Jul 2021	8.83	(Note 1)	24,770,000	-	5,832,100	(9,029,900)	-	9,908,000
125 Participants	Employees of the Group	26 May 2022	8.83	(Note 2)	5,230,000	-	-	(2,615,000)	-	2,615,000
<b>Sub Total</b>					30,000,000	-	5,832,100	(11,644,900)	-	12,523,000
<b>Total</b>					<b>38,000,000</b>	<b>-</b>	<b>7,572,100</b>	<b>(14,704,900)</b>	<b>-</b>	<b>15,723,000</b>

*Note 1:* The attribution arrangements of the First Grant made on 22 July 2021 are as follows:

<b>Tranche</b>	<b>Attribution Period</b>	<b>Attribution Percentage</b>
First tranche	From the first trading day 12 months after the First Grant to the last trading day within 24 months after the First Grant	30%
Second tranche	From the first trading day 24 months after the First Grant to the last trading day within 36 months after the First Grant	30%
Third tranche	From the first trading day 36 months after the First Grant to the last trading day within 48 months after the First Grant	40%

*Note 2:* The attribution arrangements of these Reserved Grant made on 26 May 2022 are as follows:

<b>Tranche</b>	<b>Attribution Period</b>	<b>Attribution Percentage</b>
First tranche	From the first trading day 12 months after the First Grant to the last trading day within 24 months after the First Grant	50%
Second tranche	From the first trading day 24 months after the First Grant to the last trading day within 36 months after the First Grant	50%

*Note 3:* 14,704,900 Restricted Shares lapsed due to performance assessment objectives not being satisfied or the Participants leaving their position or voluntary abandonment.

*Note 4:* According to the relevant provisions of the Incentive Scheme and the Performance Assessment methods, the Company's R&D target in 2021 - 2023 assessment indicators have reached performance assessment Target A. However, since the Company's cumulative revenue from 2021 to 2023 is less than RMB3.64 billion, which is lower than the company-level performance assessment Target C, the vesting conditions of the third tranche of the First Grant and the second tranche of the Reserved Grant have not been met. Therefore, on 28 March 2024, the Company held the fifth meeting of the eighth session of the Board and the fourth meeting of the eighth session of Supervisory Committee, which considered and approved the resolution of "cancellation of the partial grants of the 2021 Incentive Scheme which have not vested". As such, the above-mentioned restricted shares which have not been vested are cancelled, totaling 15,723,000 shares.

The performance assessment objectives under the Incentive Scheme in relation to the First Grant are set out below:

Tranche	Performance Assessment Target A Company attribution factor 100%	Performance Assessment Target B Company attribution factor 80%	Performance Assessment Target C Company attribution factor 60%
First tranche	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021, the revenue will not be less than RMB1.04 billion;</li> <li>2. Research and development goals: In 2021, no less than 4 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021, the revenue will not be less than RMB1 billion;</li> <li>2. Research and development goals: In 2021, no less than 4 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021, the revenue will not be less than RMB1 billion;</li> <li>2. Research and development goals: In 2021, no less than 3 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>
Second tranche	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021 and 2022, the accumulated revenue will not be less than RMB2.39 billion;</li> <li>2. Research and development goals: In 2021 and 2022, no less than 9 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021 and 2022, the accumulated revenue will not be less than RMB2.25 billion;</li> <li>2. Research and development goals: In 2021 and 2022, no less than 8 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021 and 2022, the accumulated revenue will not be less than RMB2.2 billion;</li> <li>2. Research and development goals: In 2021 and 2022, no less than 7 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>
Third tranche	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021 to 2023, the accumulated revenue will not be less than RMB4.15 billion;</li> <li>2. Research and development goals: In 2021 to 2023, no less than 14 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021 to 2023, the accumulated revenue will not be less than RMB3.81 billion;</li> <li>2. Research and development goals: In 2021 to 2023, no less than 12 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>	<p>The Company needs to meet the following conditions at the same time:</p> <ol style="list-style-type: none"> <li>1. Business objective: In 2021 to 2023, the accumulated revenue will not be less than RMB3.64 billion;</li> <li>2. Research and development goals: In 2021 to 2023, no less than 11 drug clinical trials and drug registration applications have been declared and accepted.</li> </ol>

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

	<b>Performance Assessment Target A</b>	<b>Performance Assessment Target B</b>	<b>Performance Assessment Target C</b>
<b>Tranche</b>	<b>Company attribution factor 100%</b>	<b>Company attribution factor 80%</b>	<b>Company attribution factor 60%</b>
First tranche	The Company needs to meet the following conditions at the same time: 1. Business objective: In 2021 and 2022, the accumulated revenue will not be less than RMB2.39 billion; 2. Research and development goals: In 2021 and 2022, no less than 9 drug clinical trials and drug registration applications have been declared and accepted.	The Company needs to meet the following conditions at the same time: 1. Business objective: In 2021 and 2022, the accumulated revenue will not be less than RMB2.25 billion; 2. Research and development goals: In 2021 and 2022, no less than 8 drug clinical trials and drug registration applications have been declared and accepted.	The Company needs to meet the following conditions at the same time: 1. Business objective: In 2021 and 2022, the accumulated revenue will not be less than RMB2.2 billion; 2. Research and development goals: In 2021 and 2022, no less than 7 drug clinical trials and drug registration applications have been declared and accepted.
Second tranche	The Company needs to meet the following conditions at the same time: 1. Business objective: In 2021 to 2023, the accumulated revenue will not be less than RMB4.15 billion; 2. Research and development goals: In 2021 to 2023, no less than 14 drug clinical trials and drug registration applications have been declared and accepted.	The Company needs to meet the following conditions at the same time: 1. Business objective: In 2021 to 2023, the accumulated revenue will not be less than RMB3.81 billion; 2. Research and development goals: In 2021 to 2023, no less than 12 drug clinical trials and drug registration applications have been declared and accepted.	The Company needs to meet the following conditions at the same time: 1. Business objective: In 2021 to 2023, the accumulated revenue will not be less than RMB3.64 billion; 2. Research and development goals: In 2021 to 2023, no less than 11 drug clinical trials and drug registration applications have been declared and accepted.

For more details, please refer to the Company's announcements dated 6 April 2021 and 22 July 2021, the supplementary circular dated 7 May 2021, the overseas regulatory announcement dated 26 May 2022, 27 April 2023 and 12 May 2023 and the next day disclosure report dated 12 May 2023.

# Report of the Directors

The Board is pleased to present the directors' report for the year 2023 and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

## ACTIVITIES REVIEW

The Group is mainly engaged in innovative research and development, production and marketing of biomedicine. During the Reporting Period, R&D direction, business model of main products and sales model of the Group did not change significantly.

In respect of R&D, the Group adheres to the genetic technical platform, photodynamic technical platform, nano technical platform and oral solid preparation technical platform. The Group has committed to developing new clinical indications for selected drugs and developing new medicines and innovative treatments to tackle selected diseases and has appropriately focused strategically on two technological fields, namely, opto-dynamic drugs and antibody-conjugated drugs, so as to form R&D features with competitive advantages. During the Reporting Period, the Group's innovative R&D areas mainly focused on photodynamic drugs for skin diseases, tumors and precancerous lesions, antibody-drug conjugates for tumors and slow-release and controlled-release drugs for all-round treatment of Parkinson's disease. During the Reporting Period, with an overall consideration of research resources, risks and R&D cycle, the Group has continually focused on drug development on tumors, dermatological and self-immunological diseases, expanding and strengthening the number and progress of commercialized drugs. Given that R&D on innovative drugs faces significant risks and challenges, the Group adopts more prudent and conservative capitalized policy on R&D expenses and will try to make the medium and long-term plans of R&D in view of actual financial position.

In respect of operation and commercialization, the major products of the Company are ALA and FuMeiDa on photodynamic technical platform and LIBOd<sup>®</sup> on nano technical platform. During the Reporting Period, due to the impact of external environment during the Reporting Period, the revenue during the Reporting Period was decreased by 17.50% as compared with that of the same period of last year. ALA(艾拉<sup>®</sup>), which is indicated for the treatment of dermal HPV infectious disease and proliferative disease, LIBOd<sup>®</sup>, which is indicated for the treatment of tumor, and FuMeiDa, which is indicated for PWS, are three major products of the Group, and together contributed 99.72% of the sales revenue of pharmaceutical and diagnostic products by the Group. The marketing promotion for academic of LIBOd<sup>®</sup> was exclusively entrusted to Shanghai Huizheng. During the reporting period, the sales revenue contributed by LIBOd<sup>®</sup> did not meet the expectation, leading to a decrease in the Company's annual operating income compared to that of last year, thereby affecting other relevant financial performance correspondingly. Pursuant to the relevant terms of the Market Promotion Services Agreement, the Group issued a formal letter to Shanghai Huizheng with a view to terminating the agreement with effect from 31 December 2023 at the end of the Reporting Period. As at the date of this announcement, the Company is still in the process of data verification and communication with Shanghai Huizheng in relation to the termination of the marketing cooperation. In the future, the Company will flexibly adjust its sales strategy in a timely manner to adapt to market changes and enhance its competitiveness, and make every endeavour to ensure that the marketing and promotion work will be carried out in an orderly manner so as to ensure that the products will continue to contribute to the Company's revenue.

The Group only operates a single business segment in 2022 and 2023 and hence no segment information is presented.

## THE TOTAL REVENUE FOR THE YEAR 2023 MAINLY CAME FROM THE SALE OF MEDICAL PRODUCTS

### - Dermatology Products

#### 1. *Aminolevulinic Acid Hydrochloride Topical Powder (艾拉®，ALA)*

ALA, first in class drug, the first photodynamic drug for the treatment of condyloma acuminata in the world. As the first commercialization project of the Group, it has become the preferred choice in the clinical therapy after many years of marketing. Compared with traditional therapy, the ALA photodynamic therapy has remarkably reduced the recurrence rate of condyloma acuminata, solving a clinical problem and filling in the vacancy of condyloma acuminata treatment in special parts on the body (urinary canal, anal canal and cervix) internationally. The therapy of ALA combined with photodynamic technology initiated by the Company was recorded in the text book of Dermatovenerology and relevant clinical treatment guidance from 2013. The latest ninth edition of Dermatovenerology adds the new application of the aforementioned therapy on the acne treatment.

ALA (艾拉®) was launched in the market in 2007. As the first photodynamic drug in China, ALA can selectively spread and accumulate in condyloma acuminatum cells, and kill them together with specific wavelength light and energy, which does not result in adverse effects on surrounding normal tissues at the same time. Due to the feature of this therapy, ALA also has effects on the treatment of subclinical infection and latent infection. Compared with traditional therapy, the therapy of ALA combined with photodynamic technology, filled in the blanks in the treatment of urethral orifice condyloma acuminata. In addition, our therapy has the advantages such as better tolerance of patient, higher safety, no scar formation, and much lower adverse reaction rate and recurrence rate comparing with previous average level.

#### 2. *Hemoporfin For Injection (复美达®，FuMeiDa)*

FuMeiDa, the first photodynamic drug for the treatment of PWS in the world, is a new drug with new drug target, new compound and new indication, and entered into the market in 2017. After injection into the blood, Hemoporfin spreads quickly to the surrounding tissues and tends to distribute specifically in vascular endothelial cells. It would selectively damage the photosensitizer-rich vascular endothelium by the use of laser or LEDs with certain wavelength. The dilated and abnormal capillaries in the lesions of patients will be cleared by photodynamic reaction and further effects of coagulation system. PWS had no good treatment before. As one of the second generation photosensitizer, compared with traditional therapies, Hemoporfin is featured by stable chemical structure, lower photosensitization, rapider metabolism, shorter light-avoidance period requirement, more uniform to treat, higher cure rate, lower incidence of scar formation and lower recurrence rate. The excellent efficacy of the drug in the market and the high cure rate compared to the traditional laser treatment rejoice the clinicians and researchers. The latest ninth edition of Dermatovenerology adds Hemoporfin developed by the Group as new photosensitizer for the treatment of PWS.

## - **Anti Tumor Products**

### 1. *Long Circulating Doxorubicin Hydrochloride Liposome Injection (里葆多®, LIBOd®)*

LIBOd® for the treatment of tumors, was launched to market in August 2009. The drug is a new doxorubicin formula which adopts the advanced stealth liposomal encapsulation technology and has passive targeting characteristics. It is a new generation of replacement for anthracycline drugs. In oncology, it has the advantages of enhancing efficacy and remarkably lowering the effects of cardiac toxicity, myelosuppression and hair-loss. According to the statistics from the [www.menet.com.cn](http://www.menet.com.cn), the sales of doxorubicin hydrochloride liposome injection at the terminal of urban public medical institutions in China was approximately RMB2.6 billion in 2018, and exceeded RMB4.4 billion in 2022, with cumulative sales growth of 69.23% over four years.

## **ANALYSIS OF THE OPERATION MODEL OF THE GROUP IN 2023**

### 1. *Profit model*

The Group is mainly engaged in innovative research and development, manufacturing and marketing of biological medicine. Through the commercialization of independent research and development products, the Group finally realizes sales revenue and profit. During the Reporting Period, the main business income of the Group mainly comes from the sale of pharmaceutical and diagnostic products of the Company.

### 2. *Procurement model*

The Group's procurement system is mainly divided into raw materials for production procurement, R&D related procurement and daily office supplies procurement. The Group has formulated the Management System of Material Requisition and Purchase Application, the Procedures of Material Procurement Management and Supplier Management under cGMP system to ensure the orderly progress of the Group's procurement activities.

### 3. *Production model*

The Group's production system is built in strict accordance with the relevant national laws and regulations. The Company's production system is established by the production department and the quality department. The Company implements the production strategy of "sales oriented production" and formulates the production plan according to the sales orders, the expected sales situation and the inventory volume.

### 4. *Sales and marketing model*

The Group mainly relies on distributors for product sales. The Group's photodynamic drugs ALA (艾拉®) and FuMeiDa (复美达®) use the Company relies on distributors for product sales. The Group's LIBOd® (里葆多®) appointed a professional CSO team for market promotion.

### 5. *Management model*

The Group is committed to establishing a standardized and stable enterprise management structure. The Group will maintain the interests of all the shareholders by improving standardized operation systems and scientific decision-making systems with greater transparency and the establishment of an effective accountability mechanism.

**During the Reporting Period, the Group's operation model did not change significantly.**

## **ANALYSIS OF THE GROUP'S MAJOR PRODUCT RELATED INDUSTRIES IN 2023**

### *1. Overview of the development of China's pharmaceutical industry*

The pharmaceutical industry is an important part of China's national economy, and also a strategic emerging industry that is related to the national economy and people's livelihood, economic development and national security. 2023 is the first year of fully implementing the spirit of the 20th National Congress of the Chinese Communist Party, and it is also a crucial period for the implementation of the "14th Five Years Plan". At present, China is in a crucial period of deepening medical reform. A series of reform measures, such as centralized procurement and consistency evaluation, have shortened the circulation of drugs, effectively reducing the prices of drugs and medical services. With the enhancement of China's economic strength and the significant improvement of people's living standards, the rigid demand for health among Chinese residents continues to grow, becoming an important driving force for the long-term development of the pharmaceutical industry. The "14th Five-Year Plan for the Development of the Bio economy" positions the bio-economy as an important development content of China's science, technological and economic strategy. During the "14th Five Years Plan" period, biotechnology and the bio-industry are accelerating their development, with biotechnology evolving rapidly and a rapid growth in the demand for life and health, making the bio economy an effective force for driving high-quality development. During the Reporting Period, under the guidance of national industrial policies, various provinces successively introduced policies to support the development of the biopharmaceutical industry, promoting the overall development and upgrading of China's biopharmaceutical industry. The biopharmaceutical industry is facing important development opportunities for transformation from being large to strong and achieving high-quality opportunity for development. According to IQVIA data, the global pharmaceutical market is expected to grow at a compound annual growth rate ("CAGR") of 3-6% from 2023 to 2027, with the total market size reaching approximately US\$1.9 trillion. With the steady development of China's economy in recent years, the increasing investment in national health insurance and the increasing health awareness of the population, the scale of China's pharmaceutical market is also continuing to grow. According to the Frost & Sullivan report, the overall China pharmaceutical market grew at a CAGR of 3.70% from 2016 to 2020, and the total size of the China pharmaceutical market reached US\$221.4 billion in 2020, and is expected to reach US\$349.8 billion by 2025, and may reach US\$457.4 billion by 2030.

### *2. Current situation of dermatology medicine industry in China*

At present, the incidence rate of skin diseases increases, and the factors causing such diseases are evolving. Dermatitis is a common and frequently occurring disease in medical science, which is characterized by a wide range of patients, large number of syndromes and long treatment time. In recent years, the number of patients with skin diseases continues to grow, and their age is becoming younger and younger. Due to the repeated skin diseases, delayed treatment and high treatment costs, skin diseases bring great disadvantages to the rehabilitation of patients. According to WHO data, the number of people suffering from skin diseases in the world is about 420 million, of which there are about 150 million patients with skin diseases in China. According to the data released by the National Health Commission, the total number of visits to dermatology hospitals in China in 2020 was about 8.839 million, representing an increase of 2.25 million compared with 2013. With the continuous improvement of Chinese residents' health awareness and consumption ability, the market demand for extensive skin disease treatment and care is growing. According to Frost & Sullivan data, the scale of China's extensive skin disease treatment and care market increased from RMB300.4 billion to RMB471.8 billion in 2017-2021, with an annual compound growth rate of 11.95%. It is expected that China's skin disease drug sales will still maintain a certain scale of growth in the future.

- *The treatment of condyloma acuminata*

Condyloma acuminata, also known as genital warts or venereal warts, is a sexually transmitted disease caused by human papillomavirus (HPV) infection, belonging to the category of skin and venereal diseases. Up to now, more than 200 types of HPV have been discovered, which mainly infect epithelium. Human beings are the only host of such virus. There are over 30 types of viruses that cause condyloma acuminata, Hpv-6,11,16,18 are the main viruses. The purpose of the treatment of condyloma acuminata is to remove the wart and reduce or prevent recurrence as much as possible. The treatment of Condyloma acuminata in mainly includes drug therapy, physical therapy and photodynamic therapy. Among them, the representatives of drug therapy are 0.5% podophyllotoxin tincture (ointment), 5% imiquimod cream, 80%-90% trichloroacetic acid (TCA) or dichloroacetic acid (BCA), interferon and fluorouracil; the representatives of physical therapy are surgical treatment, cryotherapy, laser therapy, electrocautery; photodynamic therapy refers to 5-aminolevulinic acid (ALA) combined with photodynamic therapy.

- *The treatment of PWS*

PWS is a common congenital vascular malformation characterized by ectatic capillaries in the papillary layer of the dermis. The visible manifestation of this disorder is usually relatively flat patches composing of expanded capillaries that rarely swell up. The lesions tend to become darker and thicker with time and rarely fade away during the patient's life. PWS may occur on any part of the body; its appearance on face and neck is reported to be about 75% to 80%, and the incidence rate among infants worldwide is about 0.3~0.4%. There was no proper treatment for this disease before. Over 65% of patients without treatment will face expanded lesion, and before age 40, they will face the situation of thicken and modular lesions causing great negative effect to the patients' appearance and severe emotional depression.

### 3. *Current situation of China's antineoplastic drug industry*

Malignant tumor is one of the most serious diseases threatening human health and social development. Among all kinds of diseases, the mortality rate of malignant tumors is the second highest, only second to cardiovascular and cerebrovascular diseases. On 22 March 2023, the National Cancer Centre (NCC) released the latest national cancer statistics. The results show that lung cancer, stomach cancer, liver cancer, colorectal cancer and breast cancer are the malignant tumours with the highest incidence rate in China, accounting for 57.27% of all new cancer cases. In China, according to the statistics from the Department of Disease Control and Prevention of the Ministry of Health, there are approximately 2.2 million new cases of cancer each year, with a death toll reaching 1.6 million. Moreover, over the past twenty years, the incidence and mortality rates of cancer have been rising annually at a rate of 20%. According to data released by the International Agency for Research on Cancer (IARC) of the World Health Organization, in 2020, there were 19.29 million new cases of cancer globally, with 4.57 million new cases reported in China, accounting for 23.7% of the global total. Although with the continuous development of medical technology, cancer treatment methods with surgery, radiotherapy and chemotherapy as the main methods have made great progress. However, due to the complexity of the pathogenesis of cancer and the great difficulty of treatment, it will remain one of the difficulties and hotspots in the field of cancer treatment today to find efficient and low-toxicity anticancer drugs. According to IQVIA data, it is estimated that by 2027, with the accelerated growth of newly marketed drugs and some biologically similar drugs, the global cancer expenditure will reach US \$370 billion.

- The current situation of anthracycline antineoplastic drug industry

Anthracyclines are anti-tumor antibiotics, which are chemical matters produced by microorganisms with antitumor activity. It is widely used. Even today, when new therapies such as targeted therapy and immunotherapy continue to appear, it is still the basic treatment for many solid tumors and malignant tumors of the hematology system. Anthracycline drugs include daunorubicin (DNR), doxorubicin (ADM), epirubicin (EPI), pirarubicin (THP), mitoxantrone (MIT) and carborubicin and liposomal doxorubicin. Doxorubicin ranks first in the market share of anthracycline anticancer drugs in China. Doxorubicin is commonly used in the treatment of malignant lymphoma, acute leukemia and breast cancer. It has a wide anti-tumor spectrum and good curative effect, but its toxicity is also serious. In addition to myelosuppression, gastrointestinal toxicity and alopecia, doxorubicin can cause serious cardiotoxicity and is a dose limiting drug. When the cumulative dose is large, it can cause myocardial damage and even heart failure, which greatly limits the clinical application of doxorubicin.

Liposomes are widely studied and have the most promising future of particle targeted drug carrier. So far, scholars have carried out a lot of basic research in this field. It is found that liposomes have a wide range of application value in the fields of anti-cancer and antimicrobial drugs, such as immunization and clinical diagnosis. Compared with traditional doxorubicin liposomes, pegylated doxorubicin liposomes have the characteristics of long action time, low cardiac toxicity and good tumor targeting. It not only has satisfactory curative effect on lymphoma, Kaposi's sarcoma, multiple myeloma, gynecological tumor, breast cancer and other tumors, but also can effectively improve the related adverse reactions, significantly reduce cardiac toxicity and improve the treatment index.

## **ANALYSIS OF THE STATUS OF, AND THE MOVEMENT IN, THE INDUSTRY WHICH THE GROUP OPERATES DURING THE REPORTING PERIOD:**

### *1. Photodynamic technology*

Modern photodynamic therapy stemmed from the findings of Raab, a German scholar, in 1900 that the combination of light and photosensitizers can generate cytotoxic effect. In the 1970s, this technology was gradually used in clinical applications. In 1993, Health Canada approved the use of photofin II, the first photosensitizing drug in the world, for bladder cancer treatment. Photodynamic therapy began to attract extensive attention from scientists around the world, with several photosensitizing drugs being approved for use successively. China commenced its research on photosensitizing drugs in the early 1980s and extended the clinical application of photodynamic therapy from malignant tumors treatment to a variety of benign diseases. Currently, China is one of the most active countries in the world in researching and developing photodynamic drugs.

In recent years, photodynamic therapy has gradually become one of the key treatments for tumors and various benign diseases due to the development of, and advancement in, photosensitive substances, light source and light guide system as well as its minor side effects and protection to organs. It has unique clinical advantages in treating proliferative lesions detected on body surface and superficial cavity.

As a pioneer in the development of photodynamic therapy in recent years, the Company is one of the outstanding enterprises in the field of photodynamic technology around the world. The proven photosensitive compounds that currently owned by the Group include Aminolevulinic acid hydrochloride, Hemoporfin and Deuteroporphyrin, of which ALA<sup>®</sup> (Aminolevulinic acid hydrochloride) and FuMeiDa<sup>®</sup> (Hemoporfin) are sold in the Chinese market with several key projects under development. With reference to publicly available information, the Company currently has the most product lines in photodynamic drugs in the world and the highest sales of photodynamic products in the world.

As at the end of the Reporting Period, there are four types of photodynamic drugs that have been launched in China, namely Hematoporphyrin, Aminolevulinic Acid Hydrochloride, Verteporfin and Hemoporfin. The Company's products cover two of these varieties. Owing to different indication and emphasis, the Group's products have not yet incurred any direct competition with other photodynamic products.

## 2. Nano drug production technology

Doxorubicin is a broad-spectrum anti-tumor drug that is used clinically to treat most of the malignant tumors, including acute leukemia, osteosarcoma, liver cancer and gastric cancer. However, Doxorubicin is relatively strong in side effects, including cardio toxicity, liver toxicity and myelosuppression. In 1995, Doxil (Doxorubicin liposome), the first anti-cancer nano-formulation, was approved by the FDA for treating HIV-related Kaposi's sarcoma, and was subsequently approved for treating ovarian cancer and multiple bone marrow tumor. When compared with common preparations, Doxorubicin liposomes that are PEG-based can allow site-specific drug delivery by evading the phagocytosis by reticuloendothelial system, boosting drug efficacy, prolonging loop retention time and enabling specific tumor targeting ability. When compared with traditional Doxorubicin, PEG-based Doxorubicin liposome contains features such as long efficacy, low cardiac toxicity and excellent tumor targeting ability. It not only has satisfactory curative effect on lymphoma, Kaposi's sarcoma, multiple myeloma, gynecological tumor, breast cancer and other tumors, but also can effectively improve the related adverse reactions, significantly reduce cardiac toxicity and improve the treatment index of Doxorubicin. Currently, the drug is recommended by the National Comprehensive Cancer Network (NCCN) Guidelines for the first-line treatment of lymphoma, multiple myeloma and ovarian cancer as well as the second-line treatment of breast cancer, bone and soft tissue sarcoma and progressive AIDS-related Kaposi's sarcoma and various other cancers. In 2009, the Company released the first generic drug of Doxorubicin liposomes in China and successfully launched it into the market for sale.

### **THE DEVELOPMENT AND FUTURE TREND OF NEW TECHNOLOGIES, NEW SEGMENTS, NEW LANDSCAPE AND NEW MODELS DURING THE REPORTING PERIOD**

Other than technological advancement, the development of China's bio-pharmaceutical industry is also driven by industrial policy and industry system reform in the long term:

#### 1) Drugs demand driven by ageing population

The development of China's pharmaceutical manufacturing industry has been thriving in light of the organic growth and ageing of China's population as well as the increasing awareness of people in sanitation and healthcare. According to the National Bureau of Statistics<sup>1</sup>, China's population is ageing further as the number of people that aged 65 and above has increased from 170 million to 220 million between 2018 and 2023, with the share of that age group in the total population increased from 12.60% to 15.37%. Elderly people will have a relatively stronger demand for drugs as they are prone to illness and subject to multiple diseases. The increasingly severe ageing population will directly lead to a substantial increase in the demand for drugs in China.

#### 2) Gradual rise in income and medical affordability

China's economy has maintained a relatively fast growth, the residents' ability to pay for health care has improved, and the per capita disposable income and health care expenditure have increased. According to the National Bureau of Statistics, the total national health expenditure reached RMB8,532.7 billion in 2022, accounting for 7.08% of GDP, and the per capita health expenditure was RMB6,044, an increase of RMB604 over the previous year. As China's residents' ability to pay for health care rises, the ability to consume drugs is also expected to improve further. In addition, as the country continues to increase investment in healthcare and expand the coverage of medical insurance catalogs, the consumption capacity of biopharmaceutical products will also continue to rise.

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<sup>1</sup> Source from official website of National Bureau of Statistics: [www.stats.gov.cn](http://www.stats.gov.cn)

### 3) Industrial policy

In March 2023, the Center for Drug Evaluation and Assessment of the State Drug Administration of the People's Republic of China ("SDA") issued the "Technical Guiding Principles on the Applicability of Single-Arm Clinical Trials in Support of Anti-tumor Drugs' Marketing Applications", with the aim of clarifying the current scientific understanding on the applicability of single-arm clinical trials in support of anti-tumor drugs' marketing applications, and providing guidance for enterprises to better assess the appropriateness of launching single-arm clinical trials as pivotal clinical studies after completing the early stage of the studies, thereby providing a channel for accelerating the marketing of anti-tumor drugs that meet the relevant conditions so as to expedite the solution of the unmet clinical needs of relevant patients. This will provide a channel for expediting the marketing of anticancer drugs that meet the relevant criteria, so as to expedite the resolution of the unmet clinical needs of the patients concerned.

In order to meet the new requirements of the new stage of high-quality development, in July 2023, the National Health Commission and other six departments jointly issued the "Key Tasks for Deepening the Reform of the Medical and Healthcare System in the Second Half of 2023" (the "Tasks"), which specifies six key tasks, including promoting the expansion of high-quality healthcare resources and the balanced distribution of regional healthcare resources, facilitating the orderly integration of multilevel healthcare protection, and promoting the reform and innovative development of the pharmaceutical sector. The six key tasks include promoting the reform and innovative development of the pharmaceutical sector, supporting the research and development and innovation of pharmaceutical products, launching the centralised and banded procurement of pharmaceutical products and medical consumables on a regular basis, and strengthening the security of supply and quality supervision of pharmaceutical products. The release of the "Tasks" clarifies the key tasks and work arrangements for deepening the healthcare reform in the second half of 2023, which will further promote the synergistic development and governance of healthcare, medical care and medicine, and push forward the high-quality development of China's pharmaceutical and healthcare industries.

During the Reporting Period, the Company did not venture into the any new industries, new formats or new models.

#### **ANALYSIS OF CORE COMPETITIVENESS FOR THE REPORTING PERIOD**

As a pharmaceutical enterprise focusing on new drug research and development, the Group has adhered to choosing the projects that can meet the unmet needs and deficiencies of clinical and patients treatment since establishment, and the evaluation system of project progress depends on whether specific accomplishment of treatment will be achieved. The Group is seeking a balanced development in the conflict between “me-too” and “first in class”. At present, the products of the Company launched or under development of the Group have shown positive prospect and characteristics of less affected by changes of policies. The effort and strategies adopted by the Company over the years have laid a solid foundation and generated a driving force for the Group’s development under the new policy environment.

##### 1. Advantages of R&D Innovation

Refer to “major drugs under R&D of the Group” section of the “Chairman’s Statement”.

##### 2. Core Technology, Advance Level and Changes during the Reporting Period

Since the establishment, the Company has always adhered to the R&D philosophy that based on the premise of clear market demand, the decisive factor in project evaluation is whether a project can reflect unique clinical treatment effect. In addition, the Company also selects products with technical barriers for commercialization. On the premise of meeting clinical needs, the Company will try to realize differentiated competition, utilize R&D resources effectively and maximize economic benefits.

Based on the above R&D philosophy, the Company has formed the genetic engineering technical platform, photodynamic technical platform, nano technical platform and oral solid preparation technical platform and has appropriately focused strategically on two technical fields, namely, photodynamic drugs and antibody-conjugated drugs, which forms R&D features with competitive advantages. The Company's core technologies are obtained by independent research and development.

#### *(1) Genetic Engineering Technical Platform*

The Company has been based on genetic engineering technology since its establishment, and has successively developed cytokines, fusion proteins, monoclonal antibodies, antibody coupled drugs products for unmet clinical needs, and established relevant technical platforms. In the early years, the Company transferred a number of genetic engineering technologies, and contributed the revenue for the development of the Company. With the continuous expansion of the Company, the commercialization of genetic engineering technical drugs has a feasible foundation. In the future, the commercialization of genetic engineering technical drugs has a feasible foundation. In the future, the Company will continue to strengthen the research and accelerate the registration of genetic engineering technical platform projects that have entered clinical practice, and strive to realize the commercialization of gene drugs as soon as possible.

#### *(2) Photodynamic Technical Platform*

The scientific exploration of photodynamic therapy began at the beginning of the 20th century. In the late 1970s, photodynamic therapy began to be used in clinical practice. The first photosensitive drug was approved for sales in 1993. Based on the unique therapeutic value of photodynamic therapy in some precancerous lesions and non-tumor diseases that cannot be treated or intervened, and the absence unified scientific standard in the world, the Company established a prospective photodynamic technical platform in year 1999. The Company's photodynamic technology is in the world's leading level. The Company has continued to expand the drug research and development based on the photodynamic technical platform for many years, and photodynamic drugs are one of the Company's important product groups.

#### *(3) Nano Technical Platform*

Nano preparation can not only improve the water solubility and bioavailability of the drug, but also use its EPR effect to target delivery of anti-tumor drugs to achieve effect enhancement and toxicity reduction. There are many technical barriers in the research and development of nano drug: 1) the structure of liposomal formulation is complex and there are few drugs launched into the market, so it is difficult to form a complete technical system; 2) lacking of high-quality excipients, the threshold and the expenses for the development of new lipids is relatively high; 3) lacking production facilities as the application technology and production process of liposomes are quite different due to the differences in design; the production facilities need to be customized; 4) the steps of liposomes preparation are complex, and there are many quality control points. It is difficult to maintain the quality consistency. The Company started the research and development of liposome drugs under the context of pure fundamental research and lack of industrial application of liposome drugs in China and gradually established a nanotechnical platform.

#### *(4) Oral Solid Preparation Technical Platform*

Although the Company has successfully realized the commercialization of several drugs after years of research and development, there are still problems such as long commercialization cycle and many window periods. In recent years, based on the strategic consideration of the long-term development, the Company has established the oral solid preparation technical platform on which various new drugs and generic drugs with specific clinical value are being developed, so as to shorten the period of commercialization projects. Small molecule targeted drugs and special oral preparations are the sought-after research fields of new drugs nowadays. The Company is developing several new drugs and generic drugs with unique clinical therapeutic value. Oral solid preparation technology will be one of the basic technology platforms for the long-term development of the Company.

### 3. Advantages of Promotion

The Group continues to regard academic promotion as its primary marketing method. The Company has used the diversified network platform channels public communication platform to form a mature network service system such as academic exchanges among dermatology clinicians, sharing of clinical case and standardized practice videos, and a Q&A platform between doctors and patients, etc. In addition, the Company plans to take advantage of doctor resources on the platform to develop a new sales mode to solve some commonly seen problems in current marketing environment and some commonly seen difficulties for patients in hospital.

### 4. Advantages of Product Quality Control

The Company has formulated complete production management and quality control rules and regulations which follow the cGMP standards of China as well as refer to cGMP requirements and guidelines of FDA and EMA in Europe. Quality control is an important part of pharmaceutical production activities. The Company's quality management system mainly includes quality control laboratory control, data analysis and quality review, corrective and preventive measures (CAPA), etc.

In order to implement the quality management system, the Company has developed a quality document management system including standard management procedures, standard operating procedures, standard technical procedures and standard operation records, and established corresponding cGMP data management procedures, which cover both paper data and electronic data to ensure data integrity. At the same time, the Company also develops a quality risk management process and systematically applies it to all aspects of quality control. In order to ensure the stability and consistency of product quality, the Company also carries out continuous verification of various production processes. In addition, the Company's production personnel should be fully trained before assuming their posts, and each employee should be trained, assessed and proven qualified according to the post requirements.

A series of management standards and operating procedures established by the Company have realized the standardization, routinization and institutionalization of all production steps under the high standard cGMP management requirements.

### 5. Advantages of Management and Technical Team

The advanced business philosophy and incentive system of the Company attracted a large number of technical person to join, forming a mature R&D technology team, which is the cornerstone of the Company's core technology platform. During the Reporting Period, some senior management members of the Company retired. In accordance with the development strategy of the Group, the Board of directors has appointed a new generation of senior management. Currently, the Company's management is in the trend of becoming younger, which contributes to enhancing the Company's vitality and innovation capabilities, further driving the formulation of the company's development strategy, brand-building , fostering company culture and promoting product innovation. The Company's excellent management team and technical talent provide comprehensive support for the stable development and successful implementation of projects.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, the percentages of the major customers and suppliers in the Group's total sales and purchases are as follows:

	Percentage in the Group's total	
	Sales	Purchases
Largest customer	29.86%	
Total of the five largest customers	54.89%	
Largest supplier		13.87%
Total of the five largest suppliers		31.71%

*Note:* The scope of the above supplier procurement statistics is material procurement suppliers of the Group, and the proportion of the total annual procurement is total material procurement of the Group.

Shanghai Pharmaceuticals Holding Co., Ltd. ("Shanghai Pharmaceuticals"), a substantial shareholder of the Company, is a key customer of the Company. The connected transactions with Shanghai Pharmaceuticals have been approved at the Board meeting and Shareholders' meeting (if applicable) of the Company. Save for this, none of the Directors, their respective associates or any shareholder of the Company who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company has any beneficial interest in any of the Group's five largest customers.

## PRINCIPAL RISKS AND UNCERTAINTIES

### 1. Risk in relation to new drug development

The long-term competitiveness of the Company depends on the successful research and development of new products and their subsequent commercialization and market promotion. According to the Relevant provisions of China's Drug Registration Measures and other laws and regulations, the drug registration shall be subject to pre-clinical research, clinical trial filing, clinical trial, production approval and other stages, which shall be approved by the drug regulatory department under the State Council, and the new drug certificate and drug production approval document shall be obtained before the production of the drug. The whole process from R&D to launch to the market can take a decade or more, with high costs and uncertainties for the result. At present, many of the Company's products are in the stage of pre-clinical research and clinical trial, which are mainly innovative drugs. If the products under research fail to be developed successfully or the new products fail to pass the registration and approval, the initial investment will be at loss, and the Company's future product planning and future growth potential will also be affected.

### 2. Risk in relation to relatively limited product types and drug price reduction

During the Reporting Period, the product types of the Group are relatively limited. Three main products of the Group, ALA, LIBOd<sup>®</sup> and FuMeiDa account for a large proportion of the total sales revenue. The decline in the revenue of the above leading products will have an adverse impact on the future operation and financial situation of the Group, if they are impacted by competitive products, suffer from significant policy impact, product quality and intellectual property issues so that the Company cannot maintain the sales volume and pricing level of the leading products, or failure of timely launch of alternative new products.

Drug pricing policy formulation and implementation and the control of the overall drug price level was implemented by the National Development and Reform Commission. On 5 May 2015, the National Development and Reform Commission, the Health and Family Planning Commission, the Ministry of Human Resources and Social Security and other departments jointly issued the Notice about the Opinions of Promoting the Reform of Drug Prices, from 1 June 2015, drugs other than the narcotic drugs and the psychotropic drugs of category I no longer adopted government-designated pricing. Such notice aimed to improve the mechanism of the drug purchase, give play to the role of health care insurance in drug fees controlling, and actual transaction prices of the drugs are mainly determined by the market competition. Although such notice terminated the role of the Pricing Section of the National Development and Reform Commission to set highest drug retail price, but drug prices still are limited by many factors, including the clinical demand, doctors familiarity with the drugs, health insurance payment standard, national or local government public bidding mechanism and third-party payment standard, including commercial insurance, etc., the future drug price forming mechanism could be further reformed, and the final pattern remain uncertain.

In recent years, with national drug price negotiations, medical insurance directory adjustment, evaluation of consistency and the relaxation of large-quantity procurement policy, some of the drug's terminal bidding procurement prices gradually decline, pharmaceutical companies are facing increasingly fierce competition. The Company may face risk of drug prices reduction, the causing a potential negative impact on the income of drugs of the Company.

### 3. Risk in relation to core technical staff resignation

The Company's core technical personnel is an important part of the Company's core competitiveness, and also the basis and key for the survival and development of the Company. Whether the Company can maintain the stability of the technical staff team and constantly attract outstanding talents to join in is related to whether the Company can continue to maintain its technological leading edge in the industry, as well as the stability and durability of research and development, production and service. If the salary level of the Company is not competitive compared with the same industry competitors, the core technical personnel incentive mechanism cannot implement, or human resources control and internal promotion system is not effectively implemented, the Company's core technical personnel will drain, and thus having an adverse impact on the Company's core competitive ability and sustainable profitability.

### 4. Foreign exchange risk

The Group mainly operates in the domestic market. Except for the Hong Kong dollar proceeds from the placing of shares, the operating results and the financial position of the Group will not be substantially affected by the movement in exchange rates.

## **RESULTS**

The results of the Group for the year ended 31 December 2023 are set out in the consolidated statement of comprehensive income and related explanatory notes to the consolidated financial statements.

An analysis on the Company's annual results of 2023 using financial key performance indicators are set out in the section headed "Management Discussion and Analysis" of the annual report.

## **DIVIDENDS**

### **Dividend Policy**

In accordance with the Company Law and other relevant laws and regulations, the Company has been implementing a continuous, stable and positive dividend distribution policy since 2015, and paying attention to reasonable return on investment to Shareholders.

The dividend distribution plan of the Company shall be drawn up and reviewed by the Board, taking full account of the actual business situation and future development needs of the Company. If current year's profit and accumulated retain earning of the Company is positive, except for special circumstances, the Company shall give priority to the cash distribution of dividends, while the ratio of cash dividend not less than 10% of the distributable profits of the year for each of three years after the initial public offering and listing of A Shares of the Company. Special circumstances refer to:

- (1) distribution of cash dividends may affect the capital needs of the Company's normal operation;
- (2) the Company may have matters including significant cash expenses in the future twelve months (excluding fund-raising projects). Significant cash expenses refer to: the accumulated expenses of the Company for external investment, assets acquisition or purchase of equipment, reach or exceed 50% of the latest audited net assets of the Company;
- (3) other circumstances as the directors deemed inappropriate for distribution of cash dividends.

The next three-year (2023-2025) shareholders' dividend return plan was considered by the Board on 27 March 2023 and was implemented upon approval by the shareholders at the 2022 annual general meeting.

After the resolution on the dividend distribution plan is approved by the Board, it will be submitted to the general meeting of shareholders for deliberation, and implementation after approval.

## **Dividend Distribution**

The resolution in relation to the distribution of a final dividend of RMB0.07 per share (tax inclusive) for the year ended 31 December 2023 has been considered and approved at the meeting of the Board held on 28 March 2024. Based on the current total issued share capital of the Company, being 1,036,572,100 Ordinary Shares, the total final dividend to be paid is RMB72,560,047 (tax inclusive) (of which, the share capital of A Shares is 710,572,100 representing dividend to be paid is about RMB49,740,047 and the share capital of H Shares is 326,000,000 representing dividend to be paid is about RMB22,820,000). If the total share capital of the Company changes from the date of shareholders' approval of the profit distribution plan to the record date for profit distribution, the Company intends to keep the amount of dividend per share unchanged, and announces the adjustment of the total amount of distribution accordingly. If the profit distribution plan is approved by the shareholders by way of an ordinary resolution at the 2023 annual general meeting to be held on Thursday, 27 June 2024, the final dividend of H shares is expected to be distributed on or before Monday, 26 August 2024 to all shareholders whose names appear on the register of the Company on Friday, 12 July 2024. To determine the identity of the shareholders entitled to receive the final dividend, the register of holders of H Shares of the Company will be closed from Sunday, 7 July 2024 to Friday, 12 July 2024 (both days inclusive) during which no transfer of H Shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of H Shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 5 July 2024. Final dividend for holders of H Shares will be declared and calculated in RMB, and be paid in Hong Kong dollars. Final dividend for holders of A Shares will be declared and calculated in RMB, and be paid in RMB. Relevant income tax will be deducted and paid by China Securities Depository and Clearing Corporation Limited on behalf of the A shareholders (if applicable). The exchange rate shall be determined by the average selling rates promulgated by People's Bank of China within one week before the date of declaration of the dividend. In case of any change to the expected payment date or the period during which the register of holders of H Shares will be closed, further announcement(s) will be published by the Company in due course in respect of such changes.

In accordance with the enterprise income tax law of the People's Republic of China and its implementation regulations, which came into effect on 1 January 2008, and the notice on issues related to dividend distribution and withholding of enterprise income tax by Chinese resident enterprises to shareholders of overseas H-share non-resident enterprises (GSH [2008] No. 897) issued by the State Administration of Taxation on 6 November 2008, when the Company distributes dividends to non-resident enterprise shareholders listed on the list of H-share shareholders, it is obliged to deduct and pay enterprise income tax on behalf of them, with a tax rate of 10%. Any shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other agents or trustees, and other organizations and bodies, are deemed to be held by non-resident enterprise shareholders.

Pursuant to the Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document (Guo Shui Han [2011] No.348) issued by the State Administration of Tax on 28 June 2011 and the Letter on the Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies issued by The Stock Exchange of Hong Kong Limited on 4 July 2011, the dividend to be distributed by the PRC non-foreign invested enterprises which has issued shares in Hong Kong to the overseas resident individual shareholders, is subject to the individual income tax with a tax rate of 10% in general, and if otherwise provided by tax regulations, relevant tax agreements or notices, it will be handled in accordance with relevant regulations and tax collection and administration requirements.

For investors of Hong Kong Stock Exchange, including enterprises and individuals, investing in the A Shares of the Company listed on the Shanghai Stock Exchange (the “Investors of Northbound Trading”), their final dividends will be distributed in RMB by the Company through CSDC Shanghai Branch to the account of the nominees holding such shares. The Company will withhold and pay income taxes of 10% on behalf of those investors and will report to the tax authorities. For Investors of Northbound Trading who are tax residents of other countries and whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of lower than 10%, those enterprises and individuals may, or may entrust a withholding agent to, apply to the competent tax authorities of the Company for the entitlement of the rate under such tax treaty. Upon approval by the tax authorities, the paid amount in excess of the tax payable based on the tax rate according to such tax treaty will be refunded.

The record date, the ex-entitlement date and the date of distribution of final dividend and other arrangements for the Investors of Northbound Trading will be the same with those for the A Shareholders of the Company.

For investors of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, including enterprises and individuals, investing in the H Shares of the Company listed on the Hong Kong Stock Exchange (the “Investors of Southbound Trading”), CSDC Shanghai Branch and CSDC Shenzhen Branch, as the nominee holders of H Shares for the Investors of Southbound Trading, will receive the final dividends distributed by the Company and distribute the final dividends to the relevant Investors of Southbound Trading through its depository and clearing system.

The cash dividends for the investors of H Shares of Southbound Trading will be paid in RMB. Pursuant to the relevant requirements under the “Notice on the Tax Policies Related to the Pilot Program of the Shanghai-Hong Kong Stock Connect” (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》) (Cai Shui [2014] No. 81), for dividends received by domestic investors from investing in H shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the company of such H shares shall withhold and pay individual income tax at the rate of 20% on behalf of the investors. For dividends received by domestic securities investment funds from investing in shares listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect, the tax payable shall be the same as that for individual investors.

The record date, the ex-entitlement date and the date of distribution of final dividend and other arrangements for the Investors of Southbound Trading will be the same with those for the H Shareholders.

The Company will have no liability in respect of any claims arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Group's common stock dividend distribution plan in recent three years:

Unit: RMB

Year	Amount of dividend per share	Amount of cash dividends	Net profit attributable to holders of ordinary shares of listed company in consolidated statements of the year of distribution	Percentage of net profit attributable to holders of ordinary shares of listed company in consolidated statements
	(tax included)	(tax included)		
2023	0.07	72,560,047 <sup>Note</sup>	108,627,368	66.80%
2022	0.07	72,560,047	137,997,098	52.20%
2021	0.07	72,030,000	213,295,758	33.77%

*Note:* The dividend distribution plan will come into effect upon approval by shareholders at the 2023 annual general meeting of the Company. If the total share capital of the Company changes from the date of shareholders' approval of the profit distribution plan to the record date for profit distribution, the Company intends to keep the amount of dividend per share unchanged, and announces the adjustment of the total amount of distribution accordingly.

## SHARE CAPITAL

On 12 May 2023, the Company completed share registration procedure and issued 7,572,100 A Shares pursuant to the first attribution of the first grant under the 2021 Restricted Share Incentive Scheme. For more details, please refer to the Company's overseas regulatory announcement dated 12 May 2023 and the next day disclosure report dated 12 May 2023 for details. As at 31 December 2023, the Company has completed the procedures for industrial and commercial registration and change of registered capital. The total share capital of the Company has changed from 1,029,000,000 shares to 1,036,572,100 shares.

Details of the changes in share capital during the Reporting Period are set out in note 5(31) to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

As at 31 December 2023, the distributable reserve of the Company amounted to RMB918.31 million (as at 31 December 2022: RMB882.24 million).

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the year are set out in note 5(12) to the consolidated financial statements.

## MAIN EMPLOYEE

Details of the main employee of the Group are set out in the "Environmental, Social and Governance Report".

## **STAFF RETIREMENT BENEFIT SCHEME**

Details of the staff retirement benefit scheme of the Group are set out in note 5(25) to the consolidated financial statements.

## **STAFF QUARTERS**

During the year, the Group has not provided staff quarters to its staff. Details of the housing provident fund provided to staff are set out in note 5(25) to the consolidated financial statements.

## **DIRECTORS AND SUPERVISORS**

Directors and Supervisors of the Company during the year and as at the date of this report are as follows:

### **Executive Directors**

Zhao Da Jun (*Chairman, appointed on 30 May 2023*)

Xue Yan (*newly appointed on 30 May 2023*)

Wang Hai Bo (*retired on 30 May 2023*)

Su Yong (*retired on 30 May 2023*)

### **Non-executive Directors**

Shen Bo (*appointed on 30 May 2023*)

Yu Xiao Yang (*appointed on 30 May 2023*)

### **Independent Non-executive Directors**

Wang Hong Guang (*newly appointed on 30 May 2023*)

Lam Siu Wing (*newly appointed on 30 May 2023*)

Xu Pei Long (*newly appointed on 30 May 2023*)

Zhou Hong Hui (*retired on 30 May 2023*)

Lam Yiu Kim (*retired on 30 May 2023*)

Xu Qing (*retired on 30 May 2023*)

Yang Chun Bao (*retired on 30 May 2023*)

### **Supervisors**

Huang Jian (*Chairman, appointed on 30 May 2023*)

Zhou Ai Guo (*appointed on 30 May 2023*)

Qu Ya Nan (*appointed on 29 May 2023*)

Wang Luo Chun (*retired on 30 May 2023*)

Liu Xiao Long (*retired on 30 May 2023*)

Yu Dai Qing (*retired on 30 May 2023*)

## **CORPORATE GOVERNANCE**

The Company has always been endeavoring in establishing a formal and appropriate corporate governance structure. The Company believes that through enhancing its transparency and establishing effective system of accountability, the Company can operate in a more systematic manner, make decisions in a more scientific way, safeguard the interests of all Shareholders, and boost the confidence of investors. Details of corporate governance of the Group are set out in the following sections of the annual report:

- 1) Corporate Governance Report;
- 2) Report of the Supervisory Committee;
- 3) Report of the Audit Committee;
- 4) Report of the Remuneration Committee;
- 5) Report of the Nomination Committee;
- 6) Report of the Strategy Committee;
- 7) Report of the Independent Non-executive Directors;
- 8) Environmental, Social and Governance Report.

## **DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

Refer to “Directors’ and Supervisors’ Service Contracts” section of the “Corporate Governance Report”.

## **PROFILES OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Refer to “Profiles of the Directors, Supervisors and Senior Management” section of the annual report.

## **EMOLUMENTS OF DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND HIGHEST PAID INDIVIDUALS**

The Remuneration Committee determines or makes recommendation to the Board (as case may be) on the remuneration and other benefits payable to the Directors and Supervisors by the Group. The committee regularly oversees the remuneration of all Directors and Supervisors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the top 5 highest paid individuals are set out in note 9(8) to the consolidated financial statements.

As at 31 December 2023, details of senior management of the Group are set out as follows:

	Number	
	Year 2023	Year 2022
Directors	2	3
Non-directors	5	4
	<u>7</u>	<u>7</u>

The emoluments fell within the following bands:

The emoluments range (HKD)	Number	
	Year 2023	Year 2022
1,000,001 - 1,500,000	4	1
1,500,001 - 2,000,000	2	5
2,000,001 - 2,500,000	1	1
2,500,001 - 3,000,000	-	1
3,000,001 - 3,500,000	-	5
3,500,001 - 4,000,000	-	1
	<u>7</u>	<u>7</u>

*Note: The above range of emoluments represents the total pre-tax emolument of the Group's senior management during their terms of office.*

The emoluments of directors, supervisors and senior management include wages, bonuses, subsidies and all other labor costs paid by the Company, including social insurance. Due to the implementation of the Incentive Scheme of the Group, the corresponding share-based payment expenses of 2022 were added to the emoluments. Details of emoluments of senior management are set out in note 9(5)(e) to the consolidated financial statements.

## **RIGHTS OF DIRECTORS AND SUPERVISORS TO ACQUIRE SHARES OR DEBENTURES**

Refer to “Rights of Directors, Chief Executive and Supervisors in Purchasing Shares or Debentures” section of the “Corporate Governance Report”.

## **DETAILS OF OPTIONS GRANTED BY THE COMPANY**

As at 31 December 2023, the Company did not have any share option scheme in force.

## **DIRECTORS’ AND SUPERVISORS’ INTERESTS IN CONTRACTS**

Refer to “Directors’ and Supervisors’ Interests” section of the “Corporate Governance Report”.

## **PERMITTED INDEMNITY PROVISIONS**

During the Reporting Period, the Company has purchased liability insurance for Directors and Supervisors and Officers. The insurance covers the liabilities related to the dual listing of H share and STAR Market of A share which provides proper protection for the Directors and Supervisors.

## **MANAGEMENT CONTRACTS**

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

## DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OF THE COMPANY

As at 31 December 2023, the interests (if any) of the Directors, Supervisors and chief executive of the Company and their respective associates in the shares or debentures (including interests in shares and/or short positions) of the Company and its associated corporations, (a) as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”); or (b) as recorded in the register maintained by the Company under Section 352 of the SFO; or (c) as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix C2 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) were as follows:

Name	Position	Class of shares	Number of shares held (share)	Capacity	Type of interest	Percentage in	Percentage in
						respective class of Shares	total number of issued shares
Zhao Da Jun <sup>Note2</sup>	Director	A Shares	15,620,710(L)	Beneficial owner	Personal	2.20%	1.51%
Xue Yan <sup>Note2</sup>	Director	A Shares	1,980,000(L)	Beneficial owner	Personal	0.28%	0.19%
		H Shares	50,000(L)	Beneficial owner	Personal	0.02%	0.00%
Qu Ya Nan <sup>Note2</sup>	Supervisor	A Shares	39,000(L)	Beneficial owner	Personal	0.01%	0.00%

### Notes:

- The letter “L” stands for long position;
- Mr. Zhao Da Jun and Ms. Xue Yan were re-elected and elected as the Directors of the eighth session of the Board at the 2022 annual general meeting on 30 May 2023. Ms. Qu Ya Nan was elected as an employee representative supervisor of the eighth session of Supervisory Committee at the third session of the employee representative meeting on 29 May 2023.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2023, the persons other than a Director, Supervisor or chief executive of the Company who have interests and/or short positions in the shares or underlying shares of the Company subject to disclosure under Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register maintained under Section 336 of the SFO, or as notified to the Company and the Stock Exchange were as follows (the interests in shares and/or short positions, if any, disclosed herein are in addition to those disclosed in respect of the Directors, Supervisors and chief executive):

<b>Name of substantial shareholders</b>	<b>Class of shares</b>	<b>Number of shares held</b>	<b>Capacity</b>	<b>Type of interest</b>	<b>Percentage in the respective class of shares</b>	<b>Percentage in total number of issued shares</b>
Shanghai Industrial Investment (Holdings) Co., Ltd.	A Shares	139,578,560 (L)	Interest of controlled corporation	Corporate	19.64%	20.27%
	H Shares	70,564,000 (L)			21.65%	
Shanghai Pharmaceuticals	A Shares	139,578,560 (L)	Beneficial owner	Corporate	19.64%	20.27%
	H Shares	70,564,000 (L)			21.65%	
China New Enterprise Investment Fund II	A Shares	156,892,912 (L)	Beneficial owner	Corporate	22.08%	15.14%
Yang Zong Meng	A Shares	80,000,000 (L)	Beneficial owner	Personal	11.26%	7.72%
Invesco Hong Kong Limited	H Shares	19,502,000 (L)	Investment manager	Corporate	5.98%	1.88%

*Note:* “L” stands for long position.

## TOP 10 SHAREHOLDERS AS AT THE END OF THE REPORTING PERIOD

Name of shareholder	Change of shareholding during the Reporting Period	Number of shares held as at the end of the period	Percentage (%)	Number of trade-restricted shares held	Shares pledged or frozen		Nature of shareholders
					Status of shares	Number of shares	
HKSCC NOMINEES LIMITED <sup>Note</sup>	6,465,000	235,291,900	22.70	-	Unknown	0	Overseas legal person
Shanghai Pharmaceuticals <sup>Note</sup>	-	210,142,560	20.27	-	Nil	0	Domestic non-state-owned legal person
China New Enterprise Investment Fund II	-	156,892,912	15.14	-	Nil	0	Other
Yang Zong Meng	-	80,000,000	7.72	-	Nil	0	Overseas natural person
Wang Hai Bo	-	57,886,430	5.58	-	Nil	0	Domestic natural person
Invesco Hong Kong Limited <sup>Note</sup>	-6,469,000	19,502,000	1.88	-	Unknown	0	Overseas legal person
Su Yong	360,000	18,677,860	1.80	-	Nil	0	Domestic natural person
Zhao Da Jun	360,000	15,620,710	1.51	-	Nil	0	Domestic natural person
Li Jun	330,000	9,018,200	0.87	-	Nil	0	Domestic natural person
Shanghai Pudong Technology Investment Co., Ltd.	-	6,562,382	0.63	-	Nil	0	Domestic non-state-owned legal person

## TOP 10 SHAREHOLDERS WITHOUT TRADE RESTRICTIONS AS AT THE END OF THE REPORTING PERIOD

Name of shareholder	Number of shares without trade restrictions	Type and number of shares	
		Type	Number
HKSCC NOMINEES LIMITED <sup>Note</sup>	235,291,900	Overseas listed foreign shares	235,291,900
Shanghai Pharmaceuticals	210,142,560	Overseas listed foreign shares	70,564,000
		RMB ordinary shares	139,578,560
China New Enterprise Investment Fund II	156,892,912	RMB ordinary shares	156,892,912
Yang Zong Meng	80,000,000	RMB ordinary shares	80,000,000
Wang Hai Bo	57,886,430	RMB ordinary shares	57,886,430
Invesco Hong Kong Limited <sup>Note</sup>	19,502,000	RMB ordinary shares	19,502,000
Su Yong	18,677,860	RMB ordinary shares	18,677,860
Zhao Da Jun	15,620,710	RMB ordinary shares	15,620,710
Li Jun	9,018,200	RMB ordinary shares	9,018,200
Shanghai Pudong Technology Investment Co., Ltd.	6,562,382	RMB ordinary shares	6,562,382

Note on the connected relations or acting in concert arrangements of the above shareholders

The Company is not aware whether the other Shareholders have related party relationship or acting-in-concert arrangement.

Note on the preference shareholders with voting rights restored and number of shares held

Not applicable.

*Note* : Shares held by HKSCC NOMINEES LIMITED are held on behalf of its clients and the number of Shares it holds as shown in the table above excludes the 70,564,000 H Shares held by Shanghai Pharmaceuticals and 19,502,000 H Shares held by Invesco Hong Kong Limited. As the relevant rules of the Hong Kong Stock Exchange do not require clients to report whether the shares that they hold are pledged or frozen, HKSCC NOMINEES LIMITED is unable to provide statistics on the number of shares that have been pledged or frozen.

## TOP 10 SHAREHOLDERS WITH TRADE RESTRICTIONS AS AT THE END OF THE REPORTING PERIOD

Not applicable.

## Changes in trade-restricted shares

Unit: share

Name of shareholders	Number of trade-restricted shares at the beginning of the Reporting Period	Number of trade-restricted shares having their restriction lifted during the Reporting Period	Number of trade-restricted shares increased during the Reporting Period	Number of trade-restricted shares at the end of the Reporting Period	Reasons for trading restrictions	Date of lifting trading restrictions
China New Enterprise Investment Fund II	156,892,912	156,892,912	0	0	/	2023-06-19
Shanghai Pharmaceuticals	139,578,560	139,578,560	0	0	/	2023-06-19
Yang Zong Meng	80,000,000	80,000,000	0	0	/	2023-06-19
Wang Hai Bo	57,886,430	57,886,430	0	0	/	2023-06-19
<b>Total</b>	<b>434,357,902</b>	<b>434,357,902</b>	<b>0</b>	<b>0</b>		

## SECURITIES TRANSACTIONS BY DIRECTORS

Please refer to “Securities Transactions of Directors, Supervisors and Senior Management, Major Shareholder” section of the “Corporate Governance Report” for more details.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year ended 31 December 2023.

## PRE-EMPTIVE RIGHTS

There is no provision for the pre-emptive rights in the Articles of Association or under the laws of the PRC, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

## TAX DEDUCTION

The Company is not aware of any tax relief enjoyed by any existing shareholders due to their holding of the Company's securities.

## CONNECTED TRANSACTIONS

For the year ended 31 December 2023, the continuing connected transactions of the Group are set out as follows:

### *Continuing Connected Transactions under Sales and Distribution Agreement with Shanghai Pharmaceuticals:*

In order to leverage the established and extensive sales and distribution network of Shanghai pharmaceuticals, a substantial shareholder of the Company, the Company entered into an agreement with Shanghai Pharmaceutical Co., Ltd.\* (上藥控股有限公司), formerly known as Shanghai Pharmaceutical Distribution Co., Ltd.\* (上海醫藥分銷控股有限公司), a wholly-owned subsidiary of Shanghai Pharmaceuticals since 10 August 2010 for the sales and distribution of the Group's pharmaceutical products. The Company has been engaging Shanghai Pharmaceuticals and its subsidiaries as its distribution agents since 17 August 2018 when the Company entered into a further sales and distribution agreement with Shanghai Pharmaceuticals. The Board approved the Company to enter into the renewal sales and distribution agreement (the "Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 29 October 2020 for the sales and distribution of the Group's pharmaceutical products by Shanghai Pharmaceuticals for the three years ending 31 December 2023. For more details, please refer to the announcement dated 29 October 2020 and the circular of the Company dated 26 November 2020. Shanghai Pharmaceuticals is a promoter and substantial shareholder of the Company and therefore, is a connected person of the Company under the Listing Rules. The transactions under the Original Sales and Distribution Agreement are carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company and therefore, constitute continuing connected transactions of the Company under the Listing Rules. The transactions under the Original Sales and Distribution Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and were approved by the independent shareholders at the extraordinary general meeting on 14 December 2020. According to the Sales and Distribution Agreement, the annual caps for the continuing connected transactions contemplated under the Sales and Distribution Agreement for the three years ending 31 December 2023 are approximately RMB144,000,000, RMB182,000,000 and RMB228,000,000 respectively.

During the year 2023, the product sales revenue to Shanghai Pharmaceuticals was RMB84.95 million, which did not exceed the annual cap approved at the extraordinary general meeting.

The above connected transactions are closely monitored by the Company's Risk Management and Internal Audit and Control Department. The Audit Committee and Independent Non-executive Directors have reviewed the above mentioned continuing connected transactions along with the report of external auditors and confirmed that the transactions have been entered into:

- (1) in accordance with the Group's pricing policies;
- (2) in the ordinary and usual course of business of the Group;
- (3) on normal commercial terms or better; and
- (4) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 (Revised) "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. The auditor confirms that nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions:

- (1) have not been approved by the Board;
- (2) were not, in all material aspects, in accordance with the Group's pricing policy for transactions involving the provision of goods or services by the Group;
- (3) were not entered into, in all material respects, in accordance with the agreements governing such transaction; and
- (4) have exceeded annual cap as set by the Company.

In addition, the Board approved the Company to enter into the renewal sales and distribution agreement (the "New Sales and Distribution Agreement") with Shanghai Pharmaceuticals on 30 March 2023 for the sales and distribution of the Group's pharmaceutical products by Shanghai Pharmaceuticals for the period from 1 January 2024 to 31 December 2026. The transactions under the New Sales and Distribution Agreement were approved by the independent shareholders at the extraordinary general meeting on 30 May 2023. For more details, please refer to the circular of the Company dated 12 May 2023.

## **AUDIT COMMITTEE**

The Audit Committee is responsible for reviewing the financial reporting, internal controls and corporate governance issues and making relevant recommendations to the Board. The Audit Committee comprises two Independent Non-executive Directors and one Non-executive Director, namely, Mr. Lam Siu Wing, Mr. Wang Hong Guang and Mr. Shen Bo. Mr. Lam Siu Wing was appointed as the chairman of the Audit Committee. The composition of the Audit Committee meets the requirements under Rule 3.21 of Listing Rules.

The Audit Committee reviews the accounting principles and practices adopted by the Group as well as the internal controls to check whether they comply with the Listing Rules, and reviews issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee reviewed the Group's annual results and financial statements for year 2023 before proposing to the Board for approval.

For more details, please refer to "Report of the Audit Committee" and "Audit Committee" sections of the "Corporate Governance Report".

## **AUDITOR**

As at 31 December 2023, there was no change in the appointment of auditors of the Company within three years. The financial statements of the Company for the year ended 31 December 2023 in accordance with the Chinese Accounting Standards for Business Enterprises have been audited by PricewaterhouseCoopers Zhong Tian LLP.

As approved by the 2022 annual general meeting of the Company held on 30 May 2023, the Company continued to appoint PricewaterhouseCoopers Zhong Tian LLP as the domestic and overseas auditor responsible for domestic and overseas audit and domestic internal control audit of the Company. For more details, please refer to the announcement of the Company dated 30 May 2023.

## **INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

Each of the Independent Non-executive Directors of the Company has confirmed with the Company their independence under Rule 3.13 of the Listing Rules. The Company has received such confirmations from the Independent Non-executive Directors and has confirmed the independence of Independent Non-executive Directors.

## **ENVIRONMENTAL POLICIES AND PERFORMANCE**

The discussion on the Company's environmental policies and performance during the Reporting Period is set out in the section headed "Social Responsibility" of the "Corporate Governance Report" and "Environmental, Social and Governance Report".

## **COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS**

During the Reporting Period, the Company has complied with the relevant laws and regulation that have a significant impact on the Company, including but not limited to Pharmaceutical Administration Law of the People's Republic of China and its implementation regulations, Measures for the Supervision over and Administration of Pharmaceutical Production, Law of China on the Protection of the Rights and Interests of Consumers of the People's Republic, Trademark Law of the People's Republic of China, Patent Law of the People's Republic of China and its rules for implementation, etc. Details of the relevant laws and regulations on environment and society with which the Company has complied during the Reporting Period are set out in the "Environmental, Social and Governance Report".

# Report of the Supervisory Committee

The supervisory committee of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (the “Supervisory Committee”) has performed its duties for the Reporting Period in accordance with the relevant provisions and requirements of the Company Law, the Securities Law, the Rules Governing the Listing of Stocks on the STAR Market of the Shanghai Stock Exchange, Hong Kong Listing Rules, the Articles of Association, and the rules of procedure of The Supervisory Committee. The Supervisory Committee abided by the principle of good faith, conscientiously performs its supervisory duties from the perspective of safeguarding the interests of the Company and the rights and interests of all shareholders, closely followed the Company's business decisions, production and operation through attending the Board meetings and the general meeting of shareholders, and put forward opinions and suggestions on relevant matters; actively analyze the financial situation of the company in accordance with the law, timely communicated and inquired with relevant departments or personnel of the Company on problems found, and put forward specific requirements and suggestions; supervised the due diligence of the Directors, general manager and other senior managers of the Company, and safeguarded the interests of the Company and the legitimate rights and interests of all shareholders.

**Legal operation of the Company:** during the Reporting Period, the Supervisors attended the general meeting of shareholders and the Board meetings of the Company as nonvoting delegates and supervised the convening, holding, voting procedures and resolutions of the general meeting of shareholders and the Board meetings of the Company, the implementation of the resolutions of the general meeting of shareholders by the board of directors, and the performance of the directors and senior managers of the Company in 2023. The Supervisory Committee believed that the Company operated in accordance with the law, the Board operated in accordance with the law, the management decisions were scientific and reasonable, and conscientiously implemented the resolutions of the general meeting of shareholders; the Directors and senior managers of the Company conscientiously performed their duties without abusing their powers, damaging the interests of the Company or infringing the rights and interests of shareholders and employees of the Company.

**Financial situation of the Company:** during the Reporting Period, the Supervisory Committee carefully inspected the current financial system, process and financial situation of the Company. The Supervisory Committee believed that the Company had sound financial system, standardized financial management, good financial condition, effective accounting supervision function, and no illegal occupation of Company assets and capital loss. The Company's financial report truly, accurately and completely reflected the Company's financial situation, operating results and cash flow.

**Related / connected transactions of the Company:** during the Reporting Period, the related / connected transactions of the Company fulfilled the decision-making procedures in accordance with relevant mechanisms, the procedures were legal and effective, the transaction price was reasonable, and there was no damage to the interests of the Company or shareholders.

**Use of proceeds:** during the Reporting Period, the Supervisory Committee supervised and reviewed the use of the Company's proceeds. The Supervisory Committee held that the deposit and use of the proceeds of the Company in the year of 2023 were in line with the relevant provisions of the CSRC and the Shanghai Stock Exchange on the deposit and use of the proceeds of listed companies, in line with the relevant provisions of the Company's management system for proceeds, and there was no violation of the deposit and use of the proceeds. During the Reporting Period, the Company used the part of the over subscription proceeds from its A share offering for permanent replenishment of working capital, and used the temporarily idle proceeds for cash management. The above matters have fulfilled the necessary deliberation procedures and information disclosure obligations in accordance with the requirements of relevant laws and regulations. The use of the Company's proceeds was consistent with the disclosed contents, and there was no violation.

**Implementation of internal control:** during the Reporting Period, the Supervisory Committee supervised the implementation of the Company's internal control. The Supervisory Committee believes that the Company has maintained effective internal control in all major aspects in accordance with the requirements of the enterprise's internal control standard system and relevant regulations, and the Company's internal control system operates effectively. During the Reporting Period, there were no significant defects in internal control over financial reporting or non-financial reporting.

**Implementation of Incentive Scheme:** during the Reporting Period, the Board of Supervisors reviewed the vesting related matters of the reserved grant under the Incentive Scheme of the Company and was of the view that: during the Reporting Period, the decision-making procedures of the Board of Directors on matters related to Incentive Scheme complied with the provisions of relevant laws and regulations, and were legal and valid.

The Supervisory Committee was of the view that the resolutions passed in all Board meetings for the year 2023 had been made with a view to protecting the Group's interests. No insider dealings, or anything which was prejudicial to the interests of the Group, or loss of Group's assets was acknowledged. The auditors' reports issued by PricewaterhouseCoopers Zhong Tian LLP were accurate and objective. The Group's financial statements have accurately reflected the Group's financial position.

The Supervisory Committee expressed satisfaction with the work and progress of the group in the year 2023. In 2024, the Supervisory Committee will continue to strictly implement the relevant regulations with the sense of responsibility for all shareholders, faithfully and diligently performs the functions of the Supervisory Committee, strengthens its own study and supervision, promotes the perfection of corporate governance structure and the standardized operation of operation and management, maintains the legitimate rights and interests of the Company and shareholders, and improves the governance level for the Company to effectively play its functions.

# Report of the Audit Committee

The members of the eighth session of the Audit Committee were re-elected and elected on the Board meeting on 30 May 2023. Mr. Lam Yiu Kim and Mr. Xu Qing, the members of the seventh session, were retired due to their expiration of terms of office. The Audit Committee of the eighth session is comprised of two Independent Non-executive Directors (Mr. Lam Siu Wing and Mr. Wang Hong Guang) and one Non-executive Director (Mr. Shen Bo), appointed by the Board of Directors. Mr. Lam Siu Wing, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Siu Wing is both a fellow member of Hong Kong Institute of Certified Public Accountants (HKICPA) and Chartered Accountants Australia and New Zealand (CAANZ, formerly the Institute of Chartered Accountants of Australia (ICAA)). He was a partner of both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in Hong Kong. Mr. Wang Hong Guang is currently an executive director and professor of Peking University's China Center for Strategic Studies, a Director General of Chinese health risk of West China Hospital in Sichuan University (also as known as Huaxi Hospital or The International Hospital of Sichuan Province), a professor of Tianjin University and China Pharmaceutical University. Mr. Shen Bo holds a master degree in professional accounting with a qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently an executive Director, the president and the chief financial officer of Shanghai Pharmaceuticals. All of them have extensive experience in accounting, industry, and financial management.

The Audit Committee assists the Directors in discharging their duties through independent reviews and supervision of financial reporting, the Group's effective internal control and appointment of external auditors. The Audit Committee reviews issues involving the accounting principles and practice principles adopted by the Group, including studying audit functions, financial reporting, risk management and internal control, participating in the formulation of the corporate governance policy of the Group, and participating in the disclosure compliance in the Corporate Governance Report of the Group, etc. If necessary, the Audit Committee will also invite external auditors, the general manager and senior management to attend meetings. The Rules of Procedure for the Audit Committee which were passed by the Board of the Company specifically laid down the terms of reference of the Audit Committee and elaborated its role and the power as conferred to the Audit Committee by the Board.

The Audit Committee has sufficient resources to carry out its duties. The Audit Committee is accountable to the Board, and the minutes of its meetings were submitted to the Board for circulation.

The Audit Committee held four meetings in 2023.

The agenda for the Audit Committee within the meetings in 2023 includes:

- 1) Review the financial statements for the year ended 31 December 2022, the three months ended 31 March 2023, the six months ended 30 June 2023, and the nine months ended 30 September 2023;
- 2) Review connected transactions of the Group during the year 2023;
- 3) Supervise the Group's financial reporting system and internal control procedures;
- 4) Review the external audit arrangements and related explanations;
- 5) Review and approve the audit fees for 2023;
- 6) Discuss the risk management and internal control systems with the management on a regular basis to ensure that the management has performed its duty to establish effective systems.

The performance of duty of the Audit Committee in 2023 is as follows:

(1) Supervise and evaluate the work of external audit institutions

During the course of the audit of the year 2023, the Audit Committee actively performed its duties. Before the external auditor conducted onsite audit, the Audit Committee communicated, analyzed and evaluated with the accountant and the Company's management, listened to the report of the Company's management on the operation, finance, internal control, etc., and fully communicated and reached an agreement on the annual audit work content, audit plan and their respective concerns. During the audit process, the Audit Committee fully discussed and communicated with the external auditors on the audit methods and problems in the audit, and found no significant matters in the audit. After the auditor finished the annual audit, the audit opinion was carefully considered. The audit institution of the Company has the relevant qualifications to engage in securities and futures business, abide by the standard of independence, objectivity and fairness, and issue relevant audit opinions realistically. The report issued truly reflected the financial situation and operating results of the Company.

(2) Review and opine on the financial reports of the Company

During the Reporting Period, the Audit Committee carefully reviewed the financial report of the Company, and believed that the financial report of the Company was true, complete and accurate, and there was no relevant fraudulent, misleading information or material misstatement, and the Company also did not have major accounting error adjustment, major accounting policies and estimates changes, matters involving important accounting judgment, and audit of non-standard unqualified opinions reported matters.

(3) Review of related / connected transactions of the Company

During the Reporting Period, members of the Audit Committee, based on the principles of independence, objectivity and professionalism, consulted the necessary information on the Company's related / connected transactions and communicated with the Company's management. After verification, the Audit Committee considers that the Company's daily related / connected transactions were necessary to the Company's normal business needs, and the pricing of related / connected transactions is objective and fair, which did not affect the independence of the company and did not harm the interests of the Company and its shareholders.

(4) Supervise and evaluate the Company's internal control system and other related work

During the Reporting Period, the Audit Committee has effectively performed its duty as a professional committee and actively promoted the risk recognition and establishment of the Group's internal control system. During the reporting period, the Audit Committee carefully reviewed the Company's internal audit work plan and the implementation of the work on a quarterly basis, and confirmed that the internal audit organization of the Company performed its work strictly in accordance with the audit plan, and that the internal audit work of the Company was carried out effectively and no significant problems were found in the internal audit work.

In 2023, the Audit Committee performed its duty diligently and faithfully, played a positive role in promoting the Company's internal control mechanism and improving the Company's audit work by taking an active part in the company's governance and ensuring that the audit work was operated in a standardized and rule-based manner. In 2024, the Audit Committee will continue to fulfill its function of review and supervision, strengthen communication with the Company's management, internal and external audit institutions and the Company's legal advisers, earnestly fulfill its responsibilities within its terms of reference, ensure effective supervision over the business management, and safeguard the legitimate rights and interests of the Company and investors.

The meeting of the Audit Committee held on 28 March 2024 reviewed the Company's 2023 consolidated financial statements together with the Company's external auditors, including a review of the accounting principles and practice principles adopted by the Group. Based on the results of the review and after discussion with the management and the auditors, the Audit Committee agreed with the accounting treatments adopted by the Group, and has made efforts to ensure that the financial information disclosed in the consolidated financial statements complies with relevant requirements of the applicable accounting principles and the Listing Rules. Accordingly, the Audit Committee proposed that the Board approved the annual results announcement and the consolidated financial statements for the year ended 31 December 2023.

# Report of the Remuneration Committee

The members of the eighth session of the Remuneration Committee were elected on the Board meeting on 30 May 2023. Mr. Zhou Zhong Hui, Mr. Lam Yiu Kim and Mr. Yang Chun Bao, the members of the seventh session, were retired due to their expiration of terms of office. The Remuneration Committee of the eighth session is comprised of 3 members, namely Mr. Wang Hong Guang, Mr. Lam Siu Wing and Mr. Xu Pei Long. Mr. Wang Hong Guang is the Chairman of the Committee.

The Rules of Procedure for of the Remuneration Committee which were passed by the Board specifically laid down the terms of reference of the Remuneration Committee and elaborated its role and the power as conferred to the Remuneration Committee by the Board. The Remuneration Committee has sufficient resources to carry out its duties. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board. The Remuneration Committee is accountable to the Board, and the minutes of its meetings should be submitted to the Board for circulation.

The terms of reference for the Remuneration Committee is: to make recommendations to the Board on the Company's remuneration policy and structure for all Directors, supervisors and senior management and on the establishment of a formal and transparent procedure for developing such a remuneration policy; to formulate the remuneration management policy and remuneration packages of individual Executive Directors and senior management and make recommendations to the Board; such remuneration packages include benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and make recommendations to the Board of the remuneration of Independent Non-executive Directors and supervisors; in formulating the remuneration policies and standards, the Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, supervisors and senior management, employment conditions of other positions in the Group and desirability of performance-based remuneration; to review and approve the remuneration packages of the management with reference to corporate goals and objectives resolved by the Board from time to time; to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms or that such compensation is otherwise fair and not excessive for the Company; to review and approve compensation arrangements relating to dismissal or removal of directors and supervisors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms or that any compensation payment is otherwise reasonable and appropriate; to ensure that no Director or supervisor or any of their associates is involved in deciding his/her own remuneration; to research the share incentive plan of the Company and put forward proposals; and other relevant requirements of the scope of work of the Committee as set out in other domestic and overseas listing rules as amended from time to time.

The Remuneration Committee held two meetings in 2023.

A summary of the work performed by the Remuneration Committee in 2023 is as follows:

- 1) Reviewed the remuneration scheme for the Directors and Supervisors for the year 2022;
- 2) Formulated the remuneration scheme for the Directors and Supervisors for 2023;
- 3) Review proposals related to the implementation process of the Incentive Scheme of the Company.

In 2023, the Remuneration Committee examined the remuneration of directors and senior managers in 2022, as well as the remuneration plan for directors and senior managers in 2023. The salaries of directors and senior managers in 2023 were consistent with the actual circumstances of the current economic environment, the areas, industries and scales of the Company. In the year of 2023, the Remuneration Committee has effectively fulfilled its duties. In 2024, the Remuneration Committee will continue to perform its duties, set up a transparent remuneration policy on the overall remuneration policy and structure of the Company's directors and senior management, study the performance appraisal standards of directors and senior management, and make recommendations to the board of directors.

# Report of the Nomination Committee

The members of the eighth session of the Nomination Committee were elected on the Board meeting on 30 May 2023. Mr. Wang Hai Bo, Mr. Lam Yiu Kim and Mr. Yang Chun Bao, the members of the seventh session, were retired due to their expiration of terms of office. The Nomination Committee of the eighth session is comprised of 3 members, namely, Mr. Xu Pei Long (Chairman, Independent Non-executive Director), Mr. Zhao Da Jun (Chairman of Board of Directors) and Mr. Lam Siu Wing (Independent Non-executive Director).

The Rules of Procedure for the Nomination Committee adopted of the Company specifies in detail the scope of powers and responsibilities of the Nomination Committee, its role and the powers delegated to it by the board of directors. The Nomination Committee has sufficient resources to perform its duties. The Nomination Committee shall be responsible to the Board, and its minutes shall be circulated to the directors.

The terms of reference for the Nomination Committee is: with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of diversity factors, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and service term; review the structure, size and composition of the board at least annually and make recommendations on any proposed changes to the Board (including Board diversity) to complement the issuer's corporate strategy; to report to the Board the composition of the Board members and monitor the implementation of the policy on Board diversity; to make disclosure of a summary of the policy on board diversity in the Corporate Governance Report annually, including any measurable objectives that it has set for implementing the policy, and progress on achieving those objectives; to examine the candidates of directors, chief executive, deputy chief executive, finance officer, general counsel, chief economist, assistant to chief executive and secretary of Board and put forward examination opinions and appointment recommendations; to assess the independence of independent non-executive directors; to make recommendations to the Board on the appointment or re-appointment of directors of the Company and the succession planning for directors of the Company, in particular the chairman of the Board and the chief executive, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, as appropriate; to research the standard, procedure and method of selection of directors, chief executive and other members of the senior management of the Company and to put forward proposals to the Board; other authority delegated to the Nomination Committee by the Board and matters assigned by the Board; and other relevant requirements of the scope of work of the Committee as set out in other domestic and overseas listing rules as amended from time to time.

The Nomination Committee held two meetings in 2023.

A summary of the work performed by the Nomination Committee in 2023 is as follows:

- 1) Propose the candidates of the eighth session of the Board;
- 2) Assessed the independence of Independent Non-executive Directors;
- 3) Reported to the Board the composition of the Board members and monitored the implementation of Board diversity policy;
- 4) To consider a proposal on the appointment of senior management of the Company.

In 2023, the nomination committee reviewed the independence of board members, independent non-executive directors, and the selection and appointment of directors and senior managers, and effectively fulfilled the responsibilities of the nomination committee. In 2024, the nomination committee will continue to perform its duties, fully taking into account the benefits of diversity of board members; report the composition of board members to the board of directors and supervise the implementation of diversity policy of board members, and other matters.

# Report of the Strategy Committee

The members of the eighth session of the Strategy Committee were re-elected and elected on the Board meeting on 30 May 2023. Mr. Wang Hai Bo and Mr. Yang Chun Bao, the members of the seventh session, were retired due to their expiration of terms of office. The Strategy Committee of the eighth session is comprised of 3 members, namely, Mr. Zhao Da Jun (Chairman, Chairman of Board of Directors), Mr. Wang Hong Guang (Independent Non-executive Director), and Mr. Xu Pei Long (Independent Non-executive Director).

The Rules of Procedure for the Strategy Committee clearly defined the scope of the Strategy Committee, giving detailed account of its role and the power of the board to delegate it to the Committee. The Strategy Committee has sufficient resources to carry out its duties. The Strategy Committee shall be responsible to the board of directors, and its minutes shall be circulated to the directors.

The terms of reference for the Strategy Committee is: to study corporate development strategies and mid-to long-term development plans of the Company, make recommendations and submit to the board of directors for consideration and approval, and to conduct assessment and monitor the implementation thereof; to study the proposal for increases or reductions of the Company's registered capital, issuance of corporate bonds, merger, division and dissolution, make recommendations and submit to the board of directors for consideration and approval; to study material business restructuring, external acquisition, merger and disposal of assets of the Company and make recommendations and submit to the board of directors for consideration and approval; to study the expansion into new markets and businesses of the Company, make recommendations and submit to the board of directors for consideration and approval; to study the plans on investments, financing and capital operations and other programs of the Company that are subject to the approval of the board of directors, make recommendations and submit to the board of directors for consideration and approval; to study the material organizational restructuring and adjustment proposals of the Company, make recommendations and submit to the board of directors for consideration and approval; to instruct and oversee the implementation of relevant resolutions of the board of directors; other powers as authorized by the board of directors.

The Strategy Committee held two meetings in 2023.

A summary of the work performed by the Strategy Committee in 2023 is as follows:

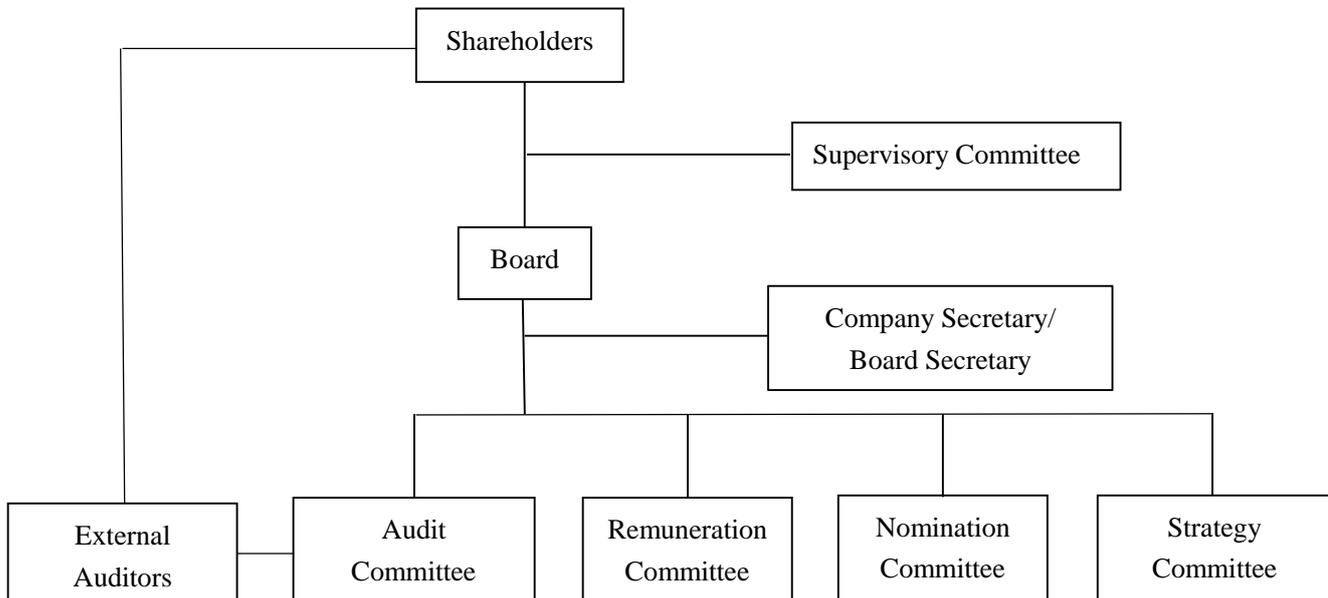
- 1) Reviewed proposals related to the extension of certain fund-raising projects;
- 2) Reviewed proposals related to the increase of capital to a controlling subsidiary.

In 2023, the Strategy Committee performs its duties, track and evaluate the Company's development strategy and put forward suggestions for revision; study the Company's investment and financing, asset management and other matters, put forward relevant suggestions and report to the board of directors in a timely manner. In 2024, the Strategy Committee will continue to perform its duties to provide the basis for the board of directors to formulate the company's development strategy and business strategy, and study and make recommendations on the company's medium and long-term development strategy and major investment and financing decisions.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICE

The Company's corporate governance structure is as follows:



The Company's Corporate Governance Code includes but is not limited to the following documents:

- a) Articles of Association;
- b) Rules of Procedure for the general meeting;
- c) Rules of Procedure for the Board of Directors;
- d) Rules of Procedure for the Audit Committee;
- e) Rules of Procedure for the Remuneration Committee;
- f) Rules of Procedure for the Nomination Committee;
- g) Rules of Procedure for the Strategy Committee;
- h) Rules of Procedure for the Supervisory Committee;
- i) Regulations for Directors, Supervisors and Senior Managers in relation to Holding and Transacting the Shares of the Company
- j) Regulations for Information Disclosure;
- k) Regulations for Inside Information;
- l) Regulations for Internal Control Management;
- m) Rules and Regulations for Related / Connected Transaction;
- n) Other daily management documents of the Company.

The Audit Committee and the Board have reviewed the documents relating to corporate governance policies adopted by the Company and considered that it had complied with most of the principles and codes set out in the Corporate Governance Code (the "Code") contained in Appendix C1 of the Listing Rules.

During the Reporting Period, the Company has complied with all application Code provisions under the Code, except for Code provision C.2.1. Major aspects which deviate from the provisions as set out in the Code are as follows:

Code provision C.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Zhao Da Jun holds the positions of the chairman and the general manager (chief executive). Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider to segregate duties of the chairman and the chief executive.

## BOARD

The Company is governed by the Board which is responsible for leadership and control of the Company. The Directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

### Directors

Currently, the Board comprises two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors, of which a chairman has been elected and appointed. Particulars of the Directors are set out in the section headed "Profiles of Directors, Supervisors and Senior management" of the annual report. No Director has any personal relationship (including financial, business, family or other significant / related relationships) with any other Directors, Supervisors or Chief Executive, except as disclosed in the Director's resume contained in the section "Profiles of Directors, Supervisors and Senior management" of the annual report. Members of the Board and details of their appointments are as follows:

Directors	Date of first appointment	Date of recent re-appointment/ appointment	Term
<b><i>Executive Directors</i></b>			
Zhao Da Jun (Chairman) <sup>Note3</sup>	20 January 2002	30 May 2023	Three years
Xue Yan <sup>Note1</sup>	30 May 2023	30 May 2023	Three years
Wang Hai Bo <sup>Note2</sup>	11 November 1996	30 March 2020	-
Su Yong <sup>Note2</sup>	20 January 2002	30 March 2020	-
<b><i>Non-executive Directors</i></b>			
Shen Bo	29 June 2012	30 May 2023	Three years
Yu Xiao Yang	30 May 2013	30 May 2023	Three years
<b><i>Independent Non-executive Directors</i></b>			
Wang Hong Guang <sup>Note1</sup>	30 May 2023	30 May 2023	Three years
Lam Siu Wing <sup>Note1</sup>	30 May 2023	30 May 2023	Three years
Xu Pei Long <sup>Note1</sup>	30 May 2023	30 May 2023	Three years
Zhou Zhong Hui <sup>Note2</sup>	30 May 2013	30 March 2020	-
Lam Yiu Kim <sup>Note2</sup>	9 October 2013	30 March 2020	-
Xu Qing <sup>Note2</sup>	29 May 2015	30 March 2020	-
Yang Chun Bao <sup>Note2</sup>	9 June 2017	30 March 2020	-

#### Notes:

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023;
3. At the first (temporary) meeting of the eighth session of the Board of Directors held on 30 May 2023, Mr. Zhao Da Jun was elected as the chairman of the Board of Directors.

The Company's Independent Non-executive Directors have a wide range of skills and experience. They are able to provide adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole. The Board considers that they can make independent judgments effectively in compliance with the guidelines for assessment of independence under Rule 3.13 of the Listing Rules. All the Directors have the terms of office for no more than three years, and can be nominated for re-election at the annual general meeting.

## **Powers of the Board**

The Board reviews the performance of the operating divisions against their proposed budgets and business targets on a regular basis, and also exercises a number of reserved powers pursuant to the Articles of Association, including:

- 1) Responsible for convening shareholders general meetings, and presenting reports at the meetings;
- 2) Implementing the resolutions of the general meetings;
- 3) Determining the operation plans and investment plans of the Company;
- 4) Formulating annual financial budget plans and final accounting plans of the Company;
- 5) Formulating profit distribution plans and loss compensation plans of the Company;
- 6) to formulate the Company's debt and financial policies and proposals for the increase or reduction of registered capital, issue of corporate bonds or other securities and listing proposals of the Company;
- 7) to formulate plans for material acquisitions or disposals, purchase of shares of the Company, plans of merger, division, dissolution or transformation of the Company;
- 8) to decide on external investment, acquisition and disposal of assets, asset mortgage, external guarantees, consigned financial management, related-party transactions, external donations etc. of the Company within the authority granted by the general meeting;
- 9) to resolve on the establishment of internal management organizations of the Company;
- 10) to appoint or dismiss the general manager; to decide to appoint or dismiss the Company's deputy general manager, chief financial officer and senior management such as the Board Secretary as nominated by the general manager, and to determine their remunerations and disciplinary matters;
- 11) to set up the basic management system of the Company;
- 12) to formulate the proposals for any amendment to the Articles;
- 13) to manage the disclosure of the Company's information;
- 14) to propose the appointment or replacement of an accounting firm that performs audits for the Company at the general meeting;
- 15) to listen to the work report of the general manager of the Company and examine on his/her work;
- 16) to decide on other material matters and executive matters and sign other principal agreements save and except those requiring resolutions of general meetings as specified by the Company Law and the Articles;
- 17) to exercise other functions and powers as stipulated by laws, administrative regulations, department rules or the Articles or other functions as granted by the general meetings.

The Board is responsible for leadership of the Group as well as promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, approving the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to the management. The Board is responsible for the completeness of financial information and the effectiveness of the Group's internal controls system and risk management processes. The Board is also responsible for review and approve financial accounts of the Company. Achievement of the Company's business objectives and the daily management of business are delegated to the general manager (chief executive). The Board regularly reviews the duties of the general manager and the powers delegated to the general manager, so as to ensure the appropriateness of such arrangements.

## **Powers of the Management**

Pursuant to the Articles of Association, the management (i.e.: one general manager, with a certain number of deputy general managers, one financial controller who will assist the general manager in his work) shall be accountable to the Board of directors and exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the Board of directors;
- (2) to organize the implementation of the Company's annual business plan and investment plan;
- (3) to draft plans for the establishment of the Company's internal management structure;
- (4) to draft the Company's basic management system;
- (5) to formulate basic rules and regulations of the Company;
- (6) to propose the appointment or dismissal of the Company's deputy general managers and the financial controller;
- (7) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the Board of directors;
- (8) other functions and powers conferred by the Articles of Association and the Board of directors.

## **Chairman and the General Manager**

Although the Articles of Association contains specific requirements on the responsibilities of the chairman and the general manager (chief executive), such being the responsibilities of managing the operation of the Board and managing the daily operation of the Company, respectively, the two positions are still taken by one person. Considering that the scale of the Company is relatively small, with its businesses mainly focused in the areas of research, production and sales of innovative drugs, and for the sake of management efficiency, the Board takes the view that the positions of chairman and chief executive being taken by one person is beneficial for the Company's development at the present stage. Along with the development of the Company, the Board will consider segregating duties of the Chairman and the chief executive.

## **Board Diversity**

The Board has adopted a Board diversity policy which became effective on 9 October 2013. The Company seeks to achieve Board diversity through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard to the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board comprises 7 directors. Two of them are female and two of them are residing in Hong Kong. Three of them are Independent Non-executive Directors and are able to promote a critical review and control of the management process. One of the independent non-executive Directors, namely Mr. Lam Siu Wing, has appropriate professional qualifications and accounting or related financial management expertise. The Company is conscious of maintaining Board diversity with an appropriate level of female members on the Board. During the Reporting Period and as at the date of Annual Report, the Board comprised two female Board member, in which case the Board considered gender diversity requirement has been archived. While conscious efforts are being taken by the Company to fulfil its Board diversity policy, all appointments are ultimately made on a merit basis taking into account available and suitable candidates. To sum up, the composition of the Board is diversified in terms of gender, nationality, professional background and skills.

As at 31 December 2023, the gender ratio in the workforce (including senior management) of the Group is around 3:5. The Group recognizes the important of gender diversity and endeavors to take steps to promote gender diversity at all levels of the Group (including the Board). In order to further promote gender diversity within the Group, the Company took into account gender diversity during the recruitment of staff members at mid to senior level and provide training as well as long-term career development opportunities to its female staff members, hence it is expected that there will be a pipeline of female senior management and potential successors to our Board.

The Nomination Committee reviews the Board's composition under the Board diversity policy and monitor its implementation annually. During the Reporting Period, the Nomination Committee had reviewed the board diversity policy and assessed the effective implementation of the policy by the Board.

For recruiting potential successors to the Board to achieve Board diversity including gender diversity, the Board will consider various factors including desirable skills, experience, qualifications, gender or perspectives which the candidate should have. If the Board determines that an additional or replacement Director is required, it will deploy multiple channels for identifying suitable director candidates, including referral from Directors, shareholders, management, advisors of the Company and external executive search firms.

### **Board Meetings**

The Chairman is responsible for the leadership of the Board and ensuring the Board to perform its duties effectively. The Chairman is also responsible for setting agenda for the Board meetings and considering matters which are proposed by other directors for inclusion in the agenda. The agenda and accompanying Board documents of regular Board meetings are circulated where possible at least 14 days prior to the Board or committee meeting. The Chairman is also responsible for making sure that all Directors are properly briefed on issues which will be discussed at Board meetings. The Chairman ensures that the Directors can receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their ongoing participation at Board and committee meetings, and through meeting key employees in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to all Committees.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting Board documents, are available to all Board members. Board meetings are structured to encourage open discussion and frank debate among the Directors, such that the Non-executive Directors can put forward effective queries to each Executive Director effectively. The Independent Non-executive Directors meet privately to discuss matters which are associated with their specific responsibilities when necessary.

All Directors (including independent non-executive Directors) shall not vote or be counted in the quorum on any board resolution approving any contract or arrangement in which such Director or any of his close associates has a material interest.

The Board had made an annual review on the implementation of the abovementioned mechanisms to ensure independent views and input are available to the Board and was of the view that the abovementioned mechanisms had been satisfactorily implemented.

In furtherance of good corporate governance, the Board has established four Board committees: the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee. All of them have terms of reference which accord with the principles set out in the Code. The Company Secretary takes minutes of the meetings of these committees and the work of these committees is reported to the Board.

The Board held nine meetings during 2023, nine meetings were held with on-site and online communication. The attendance of individual directors at the Board meetings in 2023 is set out in the table below:

Members of the Board	Required number of attendance for the year	Attendance in person	Attendance by teleconference	Attendance by proxy	Absence	Attendance rate <sup>Note3</sup>
<b>Executive Directors</b>						
Zhao Da Jun (Chairman)	9	9	3	0	0	100%
Xue Yan <sup>Note1</sup>	4	4	1	0	0	100%
Wang Hai Bo <sup>Note2</sup>	5	5	2	0	0	100%
Su Yong <sup>Note2</sup>	5	5	4	0	0	100%
<b>Non-executive Directors</b>						
Shen Bo	9	9	9	0	0	100%
Yu Xiao Yang	9	9	6	0	0	100%
<b>Independent Non-executive Directors</b>						
Wang Hong Guang <sup>Note1</sup>	4	4	1	0	0	100%
Lam Siu Wing <sup>Note1</sup>	4	4	1	0	0	100%
Xu Pei Long <sup>Note1</sup>	4	4	2	0	0	100%
Zhou Zhong Hui <sup>Note2</sup>	5	5	2	0	0	100%
Lam Yiu Kin <sup>Note2</sup>	5	5	2	0	0	100%
Xu Qing <sup>Note2</sup>	5	5	4	0	0	100%
Yang Chun Bao <sup>Note2</sup>	5	5	2	0	0	100%

Notes:

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023;
3. Attendance by proxy is not be counted as attendance rate

The table below sets out the date and major agenda of Board meetings in 2023:

<b>Date of Board meetings</b>	<b>Major agenda</b>
<b>Regular Board meetings</b>	
27 March 2023	<p>Reviewed the report of the Manager of 2022;</p> <p>Reviewed financial analysis report of 2022;</p> <p>Reviewed the annual report of 2022;</p> <p>Reviewed the 2022 audited financial statements and the results announcement prepared in accordance with the China Accounting Standards for Business Enterprises according to the Hong Kong Listing Rules;</p> <p>Reviewed the (work) report of the Directors of 2022;</p> <p>Reviewed the distribution plan of dividend of 2022;</p> <p>Considered the re-appointment of auditors of 2023;</p> <p>Reviewed the remuneration for directors, supervisors and senior management in the year of 2022 and the relevant proposal for 2023;</p> <p>Review the Internal Control Review Report of 2022;</p> <p>Reviewed the connected transactions of 2022;</p> <p>Reviewed the corporate governance report;</p> <p>Reviewed the environmental, social and governance report for the year 2022;</p> <p>Reviewed the report on the deposit and use of raised funds in 2022;</p> <p>Reviewed the utilization of part of the over subscription proceeds from the Issue of A Shares for permanent replenishment of working capital;</p> <p>Reviewed the amendments to some rules of procedure;</p> <p>Reviewed the extension of certain fund-raising projects;</p> <p>Reviewed the election of executive directors, non-executive directors and independent non-executive directors of the Eighth Session of the Board;</p> <p>Reviewed the shareholders' dividend return plan for the next three years (2023-2025);</p> <p>Reviewed the liability insurance of directors, supervisors and senior management;</p> <p>Reviewed the proposals for convening the general meeting of the Company of 2022.</p>
25 April 2023	<p>Reviewed the first quarterly results of 2023;</p> <p>Reviewed the plan for the first quarter of 2023;</p> <p>Reviewed the proposal for the general meeting of shareholders to authorise the Board of Directors to deal with matters relating to the issue of shares to specific parties under a simplified procedure;</p> <p>Reviewed the amendments to the Articles of Association and relative rules.</p>
25 August 2022	<p>Reviewed the interim report and interim results of 2023;</p> <p>Reviewed of the report on the actual use of proceeds for the half year of 2023;</p> <p>Reviewed the plan for the interim of 2023;</p> <p>Reviewed proposals related to the increase of capital to a controlling subsidiary.</p>
30 October 2023	<p>Reviewed the third quarterly results of 2023;</p> <p>Reviewed the plan for the third quarter of 2023.</p>

**Date of Board meetings****Major agenda**

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**Interim meetings**

15 March 2023	Reviewed the proposal on the proposed participation in the open recruitment for pre-structuring investors of Suzhou First Pharmaceutical Co.
27 April 2023	Reviewed the proposal on adjusting the grant price of the 2021 Restricted Share Incentive Scheme; Reviewed the proposal in relation to the cancellation of the unvested restricted shares granted under the 2021 Restricted Share Incentive Scheme; Reviewed the proposal regarding the fulfilment of the vesting conditions during the first vesting period of the first grant portion of the 2021 Restricted Share Incentive Scheme.
12 May 2023	Reviewed the proposal to cancel part of the proposals for the 2022 Annual General Meeting; Reviewed the proposal to propose the convening of the 2023 First Extraordinary General Meeting, 2023 First Class Meeting of Holders of H Shares and 2023 First Class Meeting of Holders of A Shares.
30 May 2023	Reviewed the proposal on the election of the Chairman of the Eighth Session of the Board; Reviewed the proposal regarding the appointment of members and chairmen of the specialised committees of the Eighth Session of the Board; Reviewed the proposal on the appointment of senior management of the Company; Reviewed the proposal in relation to using temporarily idle raised funds for cash management.
6 July 2023	Reviewed the proposal to change the registered capital of the Company and to amend the Articles of Association.

## Directors' Training

The Company provides introduction and information to newly appointed Directors on their legal and other responsibilities as directors and their functions. In addition, the Company invites legal adviser to answer in detail the questions about the above documents and the questions raised by the newly appointed directors.

During the Reporting Period, all directors participated in the continuing education program to develop and update their knowledge and skills in accordance with code provision C.1.4 of the Code. The Company secretary arranged several online trainings and had from time to time provided materials such as industry latest information, Director's responsibilities to the Directors for reference by e-mail during the Reporting Period. The attendance of the training during the term of office was as follows:

<b>Members of the Board</b>	<b>Attendance / Times of trainings</b>	<b>Attendance rate</b>
<b>Executive Directors</b>		
Zhao Da Jun (Chairman)	3/3	100%
Xue Yan <sup>Note1</sup>	6/6	100%
Wang Hai Bo <sup>Note2</sup>	1/1	100%
Su Yong <sup>Note2</sup>	1/1	100%
<b>Non-executive Directors</b>		
Shen Bo	2/2	100%
Yu Xiao Yang	2/2	100%
<b>Independent Non-executive Directors</b>		
Wang Hong Guang <sup>Note1</sup>	2/2	100%
Lam Siu Wing <sup>Note1</sup>	2/2	100%
Xu Pei Long <sup>Note1</sup>	2/2	100%
Zhou Zhong Hui <sup>Note2</sup>	1/1	100%
Lam Yiu Kin <sup>Note2</sup>	1/1	100%
Xu Qing <sup>Note2</sup>	1/1	100%
Yang Chun Bao <sup>Note2</sup>	1/1	100%

Notes:

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023.

The Company has kept training record to assist the Directors to record the training sessions they participated in.

The attendance record above does not include any external professional or industry training which the Directors participated in by themselves on their own basis.

### **Directors' and Supervisors' Interests**

All Directors must disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organizations and such declarations of interests are updated annually (if any). When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director needs to declare his interest, abstain from voting, and withdraw from the meetings as appropriate. The Company will seek confirmation from Directors in every financial report period in respect of any transactions of the Company or its subsidiaries which are related to Directors or their associates (if any). This practice is also applicable to the Supervisors.

The Group has not entered into any transaction agreement or contract of significance in which the Group's Directors or Supervisors have direct or indirect material interests during any time in 2023.

### **Directors' and Supervisors' Service Contracts**

All the Directors and Supervisors have entered into service contracts with the Company, which are renewable upon expiry, subject to re-election at the general meeting. The terms of the service contracts are approved by the Remuneration Committee. The Company did not enter into any relevant service contract which is not terminable within a year without payment of any compensation (Other than statutory compensation).

### **Interests of Directors, Chief Executive and Supervisors in the Shares of the Company**

Please refer to the section headed "Directors, Chief Executive and Supervisors" in the "Report of the Directors".

## SUPERVISORY COMMITTEE

Currently, the Supervisory Committee comprises one external Supervisor, one Shareholder Representative Supervisor, and one Employee Representative Supervisor, of which a chairman has been elected and appointed. Particulars of the Supervisors are set out in the section headed “Profiles of Directors, Supervisors and Senior management” of the annual report. Members of the Supervisory Committee and their appointments are as follows:

Supervisors	Date of initial appointment	Date of latest re-appointment/ appointment	Term
<b>External Supervisor</b>			
Huang Jian (Chairman)	9 June 2017	30 May 2023	3 years
Liu Xiao Long <sup>Note3</sup>	13 May 2016	30 March 2020	-
<b>Shareholder Representative Supervisor</b>			
Zhou Ai Guo <sup>Note1</sup>	30 May 2023	30 May 2023	3 years
<b>Employee Representative Supervisor</b>			
Qu Ya Nan <sup>Note2</sup>	29 May 2023	29 May 2023	3 years
Wang Luo Chun <sup>Note3</sup>	22 February 2016	30 March 2020	-
Yu Dai Qing <sup>Note3</sup>	9 June 2017	30 March 2020	-

The Supervisory Committee held six meetings during 2023, the attendance of each of the Supervisors was as follows:

Members of the Supervisory Committee	Attendance in person/ Times of meetings	Attendance rate
Huang Jian (Chairman)	6/6	100%
Zhou Ai Guo <sup>Note1</sup>	3/3	100%
Qu Ya Nan <sup>Note2</sup>	3/3	100%
Liu Xiao Long <sup>Note3</sup>	3/3	100%
Wang Luo Chun <sup>Note3</sup>	3/3	100%
Yu Dai Qing <sup>Note3</sup>	3/3	100%

*Notes:*

1. Appointed on 30 May 2023;
2. Appointed on 29 May 2023;
3. Retired on 30 May 2023.

The Supervisory Committee takes the view that the financial statements presented by the Company give a true and fair view of the state of affairs, operation performance and cash flows of the Group.

## **SECURITIES TRANSACTIONS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT, MAJOR SHAREHOLDER**

On 26 April 2019, the Board approved the institution of "Regulations for Directors, Supervisors and Senior Managers in relation to Holding and Transacting the Shares of the Company" (which was later revised on 25 March 2021), which came into effect when the A shares of the Company were listed and traded on the STAR Market of the Shanghai Stock Exchange. The above-mentioned regulation has terms not less than the required standard of dealings set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix C3 to the Listing Rules. The Directors and relevant employees shall comply with this code. A copy of the code is sent to each Director upon his appointment and thereafter, a notification not to deal in the securities of the Company have been sent to the Directors 60 days immediately preceding the date of the Board meeting in which the annual results will be approved or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and 30 days immediately preceding the date of the Board meeting in which the quarterly and half-year results will be approved half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

Under such codes, the Directors are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the delegated directors and receive a dated written acknowledgement before any dealing.

Securities transactions of Supervisors, senior management and major shareholder of the Company should comply with the codes mentioned above. All the relevant employees, if any, having any price-sensitive information of the Group which is not yet disclosed should also comply with the code for the Directors.

Having made specific enquiry of the Directors, Supervisors, senior management, major shareholder and relevant employees, they confirmed that they have complied with the required standard set out in Appendix 10 of the Listing Rules or other applicable requirements in 2023. There is no evidence showing that the Directors, the Supervisors, senior management or the relevant employees violating the above regulations

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The responsibilities of the Board of the Company include the establishment of complete risk management and internal control and its effective implementation. During the Reporting Period, the Board was responsible for evaluating and determining the nature and extent of the risks the Group wants to take for achieving its strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. Meanwhile, the Board oversees the management in the design, implementation and monitoring of the risk management and internal control systems, and the management has provided a confirmation to the Board on the effectiveness of these systems. The Audit Committee of the Board oversaw the Group's risk management and internal control systems on an ongoing basis and conducted a review of the effectiveness of the Group's risk management and internal control systems during the Reporting Period. The review covered all material controls, including financial, operational and compliance controls and ensured the adequacy of resources, staff qualifications and experience, training programs and budget of the Group's accounting, internal audit and financial reporting functions. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and the Company can only provide reasonable and not absolute assurance against material misstatement or loss.

In February 2011, the Company established the Internal Audit and Control Department of the Company, which is now currently the Risk Management and Internal Audit and Control Department (the "RMIACD") to enhance its internal control system and guarantee the effectiveness of the Group in respect of financial, operational, compliance and risk management. The RMIACD reports important points in risk identification to the Audit Committee on a quarterly basis and elaborates on corresponding measures and subsequent improvements. During the Reporting Period, the RMIACD made four reviews in the Audit Committee meetings focusing on risk management, risk identification and the effectiveness of internal control and the Audit Committee summarized and reported the results to the Board. Furthermore, the RMIACD discussed risk management and internal control systems with the Audit Committee and reviewed the effectiveness of the risk management and internal control systems. In addition, the RMIACD was continually working on risk management and internal control, organizing and coordinating with each department on risks identification, analysis, assessment, alert and treatment as well as renewing the risks list in order to help the RMIACD perform more effective risk identification and internal control for forming a risk management culture of active and steady operation.

The RMIACD has conducted a review of the Group's risk management and internal control efforts for the year 2023, and the RMIACD has concluded that there were no significant deficiencies and material weaknesses in financial reporting related internal control, and no significant deficiencies and material weaknesses in non-financial reporting related internal control have been identified. The auditor also issued an internal control audit report that concluded that the Company maintained, in all material respects, effective financial reporting related internal control as of 31 December 2023, in accordance with the "Basic Standard for Enterprise Internal Control" and related regulations. In addition, the Audit Committee and the Board have reviewed the effectiveness of the risk management and internal control systems of the Group during the year 2023 and the Board considers the current risk management and internal control systems of the Group are effective and adequate. The Company will further enhance the Group's risk management and internal control systems pursuant to the requirements of the Listing Rules on internal control, to ensure that the Group's financial, operational, compliance and risk management are under effective control during the process of its continuing development, and to protect the interests of shareholders.

## **DAILY SUPERVISION FOR INFORMATION DISCLOSURE**

In strict accordance with relevant laws and regulations according to listing rules, Articles of Association, and regulations for information disclosure, the Company truly, accurately, completely and timely disclosed relevant information which ensure all shareholders and other stakeholders have equal access to Company's information.

## **REGULATIONS FOR INSIDE INFORMANTS**

The Company has formulated the "regulations for inside information" and other relevant systems to minimize the insiders of inside information, strengthen the confidentiality of inside information, and improve the registration and management of insiders of inside information. The Directors, Supervisors, senior management and other relevant personnel of the Company can strictly abide by the obligation of confidentiality in the preparation of regular reports, temporary announcement and the planning of major events.

## **CORPORATE GOVERNANCE MEASURES TO MANAGE POTENTIAL CONFLICTS OF INTERESTS**

There are no controlling shareholders or actual controllers in the Company, and there are no shareholders or individuals who have made decisions independently on the Company's business issues and caused substantial impact. Therefore, there is no potential conflict of interest between the Company and shareholders or individuals.

The largest shareholder of the Company is Shanghai Pharmaceutical, with a shareholding ratio of 20.27%. Since becoming a shareholder of the Company in October 1999, the shareholding ratio of Shanghai Pharmaceutical has not exceeded 30%; Shanghai Pharmaceutical only nominated one director to participate in the daily supervision and decision-making of the Board; In addition, Shanghai Pharmaceutical has never used its status as the largest shareholder or the nominated Director to seek terms or conditions from the Group or offer conditions or terms to the Group that are superior to the terms offered to or provided by an independent third party. All connected transactions of Shanghai Pharmaceutical shall be considered in accordance with the procedures stipulated in the Listing Rules.

Meanwhile, Shanghai Pharmaceutical issued a letter to avoid competition in 2019:

- a) Shanghai Pharmaceutical will not actively increase its shareholding in the Company or sign a concerted action agreement with other shareholders of the Company on the exercise of shareholders' rights;
- b) Shanghai Pharmaceutical will strictly and actively cooperate with the Company in complying with the review procedures under the Listing Rules for connected transactions entered by the Company and Shanghai Pharmaceutical;
- c) Shanghai Pharmaceutical will not engage in unfair competition or benefit transfer with the Company.

During the Reporting Period, the Company has adopted a number of corporate governance measures and regularly communicated with Shanghai Pharmaceutical and checked its public information to confirm its compliance with its commitment to avoid horizontal competition.

## **DIRECTORS' INTERESTS IN COMPETING BUSINESSES**

During the Reporting Period, none of the directors or their contacts had any interest in any business which directly or indirectly competes with or may compete with the business of the Group.

## AUDIT COMMITTEE

The Audit Committee is responsible for reviewing the financial report, internal control and corporate governance issues and making relevant recommendations to the Board. The Audit Committee is comprised of two Independent Non-executive Directors (Mr. Lam Siu Wing and Mr. Wang Hong Guang) and one Non-executive Director (Mr. Shen Bo), appointed by the Board of Directors. Mr. Lam Siu Wing, Independent Non-executive Director, was appointed as the chairman of the Audit Committee. Mr. Lam Siu Wing is both a fellow member of Hong Kong Institute of Certified Public Accountants (HKICPA) and Chartered Accountants Australia and New Zealand (CAANZ, formerly the Institute of Chartered Accountants of Australia (ICAA)). He was a partner of both PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers in Hong Kong. Mr. Wang Hong Guang is currently an executive director and professor of Peking University's China Center for Strategic Studies, a Director General of Chinese health risk of West China Hospital in Sichuan University (also as known as Huaxi Hospital or The International Hospital of Sichuan Province), a professor of Tianjin University and China Pharmaceutical University. Mr. Shen Bo holds a master degree in professional accounting with a qualification of Chinese Institute of Certified Public Accountants (CICPA). He is currently an executive Director, the president and the chief financial officer of Shanghai Pharmaceuticals. All of them have extensive experience in accounting, industry, and financial management.

The Company has formulated specific “Rules of Procedure for the Audit Committee” as a guideline for the Audit Committee in dealing with various matters.

The Audit Committee held four meetings in 2023. Senior management and external auditors were invited to attend each meeting. In 2023, the Audit Committee has reviewed reports of external auditors, the accounting principles and practices adopted by the Group, internal controls to check whether they comply with the Listing Rules and reviewed issues regarding auditing, internal controls, risk management and financial reporting. The Audit Committee made discussions on the Group’s 2023 interim results and 2022 annual results before proposing to the Board for approval. The Audit Committee has discussed the appointment of external auditors and the audit fees, and has made proposals to the Board in respect of such matters.

Attendance of meetings of the Audit Committee in 2023:

<b>Members of the Audit Committee</b>	<b>Attendance in person/ Times of meetings</b>	<b>Attendance rate</b>
Lam Siu Wing (chairman) <sup>Note1</sup>	2/2	100%
Shen Bo	4/4	100%
Wang Hong Guang <sup>Note1</sup>	2/2	100%
Lam Yiu Kin <sup>Note2</sup>	2/2	100%
Xu Qing <sup>Note2</sup>	2/2	100%

*Notes:*

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023.

### Connected transactions

The Audit Committee has reviewed the connected transactions during the Reporting Period. For the year ended 31 December 2023, the connected transactions comply with relevant rules and regulations and have been approved by the Board or shareholders’ general meetings (if applicable).

### External auditors

As approved by the annual general meeting of the Company held on 30 June 2023, the Company continued to appoint PricewaterhouseCoopers Zhong Tian LLP as the domestic and overseas auditors of the Group for the year 2023.

The consolidated financial statements for the year ended 31 December 2023 according to China Accounting Standards for Business Enterprises has been audited by PricewaterhouseCoopers Zhong Tian LLP.

The fees on the audit services, non-audit services and related expenses of the Group for the year and the previous year are set out as follows:

<b>Auditors</b>	<b>Audit fees and non-audit fees in 2023</b>	Audit fees and non-audit fees in 2022
PricewaterhouseCoopers Zhong Tian LLP	<b>RMB4,518,000</b>	RMB4,493,000
PricewaterhouseCoopers Business Consulting (Shanghai) Co. Limited	<b>RMB67,925</b>	RMB203,774
Other auditors	<b>RMB206,389</b>	RMB179,098

Details of the audit fees and non-audit fees are set out as follows:

	<b>Fees in 2023</b>	<b>Fees in 2022</b>
<b><i>Audit fees</i></b>		
Annual statutory audit	<b>RMB4,500,000</b>	RMB4,485,000
Other audit	<b>RMB206,389</b>	RMB179,098
<b><i>Non-audit fees</i></b>		
Environmental, Social and Governance (“ESG”) Report	<b>RMB135,849</b>	RMB135,849
Counting services at annual general meeting and extraordinary general meeting	<b>RMB8,000</b>	RMB8,000

The Group has formulated the policy of appointment of auditors to provide non-audit services which stipulates the principle in appointing auditors to provide non-audit services. The policy included the rules to ensure the independence of external auditors.

## REMUNERATION COMMITTEE

The Board established the Remuneration Committee, and stipulated the “Rules of Procedure for the Remuneration Committee” with specific terms of reference of the Remuneration Committee. The updated rules of procedure for the Remuneration Committee were passed by the Board on 27 March 2023. The Remuneration Committee is responsible for formulating the Group’s remuneration policy, recommending and approving the remuneration of all the Directors and senior executives, including the annual allocation of share options under the share option scheme (if feasible). The Remuneration Committee reviews the existing remuneration policy annually, and makes proposals to the Board for changes to the remuneration policy and system. If necessary, it also makes references to the opinions of external human resources advisers in respect of human resources management and remuneration policies. After each meeting, the Remuneration Committee reports to the Board.

The staff salaries of various level of the Group have been determined by reference to those of the comparable companies, especially companies located in Shanghai and Zhangjiang Hi-tech Park which have direct comparability. In order to retain the expertise for the Company’s successful operation, salary level of the Company has to be competitive, which normally comprises three parts, namely fixed portion, unfixed portion and statutory benefits. The fixed portion is the basic salary, which is mainly determined by reference to the level of salaries of similar type of works in comparable companies. Individual salaries may be different due to the difference in position, performance, skills and experience. Certain adjustments may be made each year to the basic salaries based on the performance of the Company’s business, market competition and inflation. In addition to the fixed portion, bonus may also be released to the relevant people as an incentive to their performance and to enhance their loyalty to the Company. The Company also provides other benefits such as free lunch and transportation allowances. Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds for the staff.

The Remuneration Committee comprised of 3 Independent Non-executive Directors, namely Mr. Wang Hong Guang (Chairman), Mr. Lam Siu Wing and Mr. Xu Pei Long.

The Remuneration Committee held two meetings during 2023 (held on 27 March 2023 and 27 April 2023), the attendance of which was as follows:

<b>Members of the Remuneration Committee</b>	<b>Attendance in person/ Times of meetings</b>	<b>Attendance rate</b>
Wang Hong Guang (Chairman) <sup>Note1</sup>	-	-
Lam Siu Wing <sup>Note1</sup>	-	-
Xu Pei Long <sup>Note1</sup>	-	-
Zhou Zhong Hui <sup>Note2</sup>	2/2	100%
Lam Yiu Kin <sup>Note2</sup>	2/2	100%
Yang Chun Bao <sup>Note2</sup>	2/2	100%

*Notes:*

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023.

## **Remuneration Policy for Executive Directors**

The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to motivate and retain Executive Directors by linking their compensation with performance as measured against corporate objectives. Under the policy, a director is not allowed to approve his own remuneration.

The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, share option (if appropriate), and statutory benefits. In determining guidelines for each element, the Remuneration Committee refers to remuneration surveys conducted by independent external consultants on companies operating in similar businesses.

### *Basic salaries*

Basic salaries are determined mainly by reference to the salary levels of comparable companies or industry median. There are some adjustments to the basic salaries for each year based on the Company's business performance, market competition, and inflation. The Remuneration Committee reviews the remunerations for Directors annually, under which circumstance that the Directors concerned should abstain.

### *Discretionary bonus*

The computation of discretionary bonus is based on measurable performance contributions of business units headed by the respective Executive Directors.

### *Statutory benefits*

Under the relevant laws and regulations of China, the Company is required to pay statutory benefits such as retirement insurance funds, common reserve funds, medical insurance and unemployment insurance funds. The ratios of such benefits to the salaries are also subject to adjustments pursuant to relevant regulations.

During the Reporting Period, none of the Executive Directors of the Company charged any Director's fee.

## **Remuneration for Non-executive Directors**

The remuneration of Non-executive Directors is subject to annual assessment and recommendation by the Remuneration Committee for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at the Company meetings.

The Company has only paid remuneration to the Independent Non-executive Directors and has not paid any statutory benefit to the Non-executive Directors.

## NOMINATION COMMITTEE

The Board of the Company established the Nomination Committee and approved the “Rules of Procedure for the Nomination Committee” which stipulated the terms of reference for the Nomination Committee. The updated rules of procedure for the Remuneration Committee were passed by the Board on 27 March 2023. The Nomination Committee is responsible for that with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of diversity factors, including but not limited to, gender, age, cultural and educational background, professional experience, skills, knowledge and service term; review the structure, size and composition (including the skills, knowledge, experience and diversity) of the board at least annually and make recommendations on any proposed changes to the Board (including Board diversity) to complement the issuer’s corporate strategy; to report to the Board the composition of the Board members and monitor the implementation of the policy on Board diversity; to make disclosure of a summary of the policy on board diversity in the Corporate Governance Report annually, including any measurable objectives that it has set for implementing the policy, and progress on achieving those objectives; to examine the candidates of directors and chief executive and the candidates of deputy chief executive, finance officer and secretary of Board and put forward examination opinions and appointment recommendations; to assess the independence of independent non-executive directors; to make recommendations to the Board on the appointment or re-appointment of directors of the Company and the succession planning for directors of the Company, in particular the chairman of the Board and the chief executive, taking into account the Company’s corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, as appropriate; to research the standard, procedure and method of selection of directors, chief executive and other members of the senior management of the Company and to put forward proposals to the Board; other authority delegated to the Nomination Committee by the Board and matters assigned by the Board; to comply with the requirements for the scope of work of the Nomination Committee as in the listing rules of the stock exchanges at the place where the shares of the Company are listed (as amended from time to time).

The Nomination Committee is composed of three members, who are Mr. Pei Long (Chairman, Independent Non-executive Director), Mr. Zhao Da Jun (Executive Directors) and Mr. Lam Siu Wing (Independent Non-executive Director).

The Nomination Committee held two meetings during 2023 (held on 27 March 2023 and 30 May 2023), the attendance of which was as follows:

<b>Members of the Nomination Committee</b>	<b>Attendance in person/ Times of meetings</b>	<b>Attendance Rate</b>
Xu Pei Long (Chairman) <sup>Note1</sup>	1/1	100%
Zhao Da Jun <sup>Note1</sup>	1/1	100%
Lam Siu Wing <sup>Note1</sup>	1/1	100%
Xu Qing <sup>Note2</sup>	1/1	100%
Wang Hai Bo <sup>Note2</sup>	1/1	100%
Zhou Zhong Hui <sup>Note2</sup>	1/1	100%

*Notes:*

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023.

Pursuant to the Code Provision B.3.1 under Appendix C1 to the Listing Rules, the Nomination Committee should be with due regard for the benefits of diversity in Board members, to identify individuals who are suitably qualified to become Board members and to select or to make recommendations to the Board on the selection of individuals nominated for directorships; the candidates for directorship will be selected taken into account a wide range of factors, including but not limited to, gender, age, cultural and educational background, races, professional experience, skills, knowledge and service term.

## STRATEGY COMMITTEE

The Board of the Company established the Strategy Committee and approved the “Rules of Procedure for the Strategy Committee” which stipulated the terms of reference for the Nomination Committee. The updated rules of procedure for the Strategy Committee were passed by the Board on 27 March 2023. The Strategy Committee is responsible for that to study corporate development strategies and mid-to long-term development plans of the Company, make recommendations and submit to the board of directors for consideration and approval, and to conduct assessment and monitor the implementation thereof; to study the proposal for increases or reductions of the Company’s registered capital, issuance of corporate bonds, merger, division and dissolution, make recommendations and submit to the board of directors for consideration and approval; to study material business restructuring, external acquisition, merger and disposal of assets of the Company and make recommendations and submit to the board of directors for consideration and approval; to study the expansion into new markets and businesses of the Company, make recommendations and submit to the board of directors for consideration and approval; to study the plans on investments, financing and capital operations and other programs of the Company that are subject to the approval of the board of directors, make recommendations and submit to the board of directors for consideration and approval; to study the material organizational restructuring and adjustment proposals of the Company, make recommendations and submit to the board of directors for consideration and approval; to instruct and oversee the implementation of relevant resolutions of the board of directors; other powers as authorized by the board of directors.

The Strategy Committee is comprised of 3 members, namely, Mr. Zhao Da Jun (Chairman, Executive Director), Mr. Wang Hong Guang (Independent Non-executive Director), and Mr. Xu Pei Long (Independent Non-executive Director).

The Strategy Committee held two meetings during 2023 (held on 27 March 2023 and 10 August 2023), the attendance of which was as follows:

<b>Members of the Strategy Committee</b>	<b>Attendance in person/ Times of meetings</b>	<b>Attendance Rate</b>
Zhao Da Jun (Chairman) <sup>Note1</sup>	2/2	100%
Wang Hong Guang <sup>Note1</sup>	1/1	100%
Xu Pei Long <sup>Note1</sup>	1/1	100%
Wang Hai Bo <sup>Note2</sup>	1/1	100%
Yang Chun Bao <sup>Note2</sup>	1/1	100%

*Notes:*

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023.

## **COMPANY SECRETARY**

The primary responsibility of the company secretary of the Company is to ensure good information exchange between Board members, and investors with the Company as well. In addition, the company secretary should be responsible for the compliance with the policies and procedures of the Board of directors as well as all applicable regulations. During the year 2023, the company secretary has complied with Rule 3.29 of the Listing Rules by completing no less than 15 hours training provide by the professional agents.

## **ARTICLES OF ASSOCIATION**

At the annual general meeting of the Company held on 27 May 2021 and the Board meeting held on 6 July 2023, the amendments to the Articles of Association in respect of the total share capital, share capital structure and registered capital of the Company was approved. Other than the above, there was no other change in the Articles of Association during the Reporting Period. The Articles of Association can be accessed on the website of the Company and the website of the Stock Exchange.

## **RIGHTS OF INVESTORS**

Shareholders requisitioning the convening of extraordinary general meetings of shareholders or class meetings shall abide by the following procedures:

- (1) The shareholders singly or jointly holding more than 10% of the shares of the Company with voting rights at the extraordinary general meeting or class meetings to be held shall have the right to propose in writing to the board of directors the convening of the extraordinary shareholders' general meeting or the class meeting. The board of directors shall, in accordance with the provisions in laws, administrative rules and these Articles, provide feedback in writing on the approval or disapproval within 10 days from the receipt of such proposal;
- (2) Where the board of directors disapproves the convening of the extraordinary shareholders' general meeting or the class meeting or fails to provide feedback within 10 days from the receipt of the said proposal, the shareholders which singly or jointly hold more than 10% of the shares of the Company shall have the right to propose in writing the convening of the extraordinary shareholders' general or the class meeting to the board of supervisors and shall raise their request in writing to the board of supervisors;
- (3) Where the board of supervisors fails to send the said notice within the prescribed time limit, it shall be deemed that they failed to preside over the shareholders' general meeting and shareholders which singly or jointly hold more than 10% of the Company's shares for more than 90 consecutive days may convene and preside the meeting independently.

All reasonable expenses incurred in connection with a meeting convened by any shareholders themselves by reason of the failure of the Board of directors to convene a meeting pursuant to a requisition shall be borne by the Company and shall be set off against sums owed by the Company to the directors in default.

The Company is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with shareholders is through the Company Secretary at [ir@fd-zj.com](mailto:ir@fd-zj.com). In addition, the Company Secretary may respond to the various enquiries of shareholders, and provide relevant information.

When the Company convenes a shareholders' general meeting, shareholders severally or jointly holding 3% or more of the shares of the Company, may raise the interim proposals and submit them in writing to the Board prior to the date of the shareholders' general meeting; the Board shall, within two days after receipt of such proposals, notify other shareholders, and ensure to announce the content of the interim proposals ten (10) business days prior to the date of shareholders' general meeting. The contents of the interim proposals shall be within the scope of the functions and powers of the shareholders' general meeting, and contain clear issues and specific matters for resolutions.

## **PUBLIC FLOAT OF THE COMPANY**

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this annual report, the Directors believe that the Company has at all times during the year ended 31 December 2023 and up to the date of this report, maintained the relevant applicable minimum percentage of listed securities as prescribed by Rule 8.08(1)(a) of the Listing Rules.

## **RELATIONSHIP WITH INVESTORS**

The Company maintains active communication with investors through investor relations dedicated mailboxes, investor enquiry telephone numbers, reception of institutional research and through WeChat public number and other diversified ways to answer investors' questions and listen to their opinions and suggestions.

## **THE SHAREHOLDERS' COMMUNICATION POLICY**

The Company has adopted a proactive shareholders' communication policy, details of which is summarized below:

### Shareholders' Meetings

- The annual general meetings and extraordinary general meetings of the Company are the primary communication channels between the Company and the Shareholders. Shareholders are encouraged to participate in general meetings physically or to appoint proxies to attend and vote at such meetings for and on their behalf if they are unable to attend;
- Notices of the general meetings, related circulars and forms of proxy are provided within a prescribed time prior to the general meetings on Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.fd-zj.com](http://www.fd-zj.com)) and by post to the Shareholders;
- The Directors, in particular, the chairman of the Board committees and independent non-executive directors or their delegates, appropriate Senior management of the Company and external auditor will attend the general meetings to answer the Shareholders' questions;
- The chairman of the general meetings will propose to vote the resolutions (except resolutions which relate purely to procedural or administrative matters) by poll in accordance with the Articles. Scrutineer will be appointed for the vote-taking at the general meetings and the voting results will be published on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.fd-zj.com](http://www.fd-zj.com)) subsequent to the close of the general meetings.

#### Results Presentation Meetings & Investor Survey

- Conducting results briefing sessions through online publication to fully communicate with investors on the financial results of the Company and the operation in relation to periodical reports;
- We use a variety of investor communication channels and platforms (SSE e-Interaction platform, investor hotline and online and offline surveys, etc.) to communicate with investors on a daily basis, and to answer investors' recent concerns or questions in a timely manner, so as to help investors gain a deeper understanding of the Company and to demonstrate the Company's investment value.

#### Corporate Communications

- The Company will send (by post or by electronic means as permitted by the Articles or the Listing Rules) corporate communications of the Company, which include annual reports, interim reports, notices of shareholders' meeting, listing documents, circulars, and proxy forms, to the Shareholders;
- Shareholders are encouraged to provide their up-to-date contact details to the Hong Kong branch share registrar of the Company in order to facilitate timely and effective communications.

#### Company's Website And Official WeChat Account Of The Company

- The Company's website (www.fd-zj.com) provides the Shareholders with relative information on the Group. It also provides information on corporate governance of the Group and the compositions and functions of the Board and the committees of the Board;
- In addition to the "Investor Relations" section and official wechat account of the Company in which corporate communications of the Company are posted as soon as practicable following their release on the Stock Exchange's website (www.hkexnews.hk) and Shanghai Stock Exchange's website (www.sse.com.cn), press releases and newsletters issued by the Company from time to time are also available to facilitate communication between the Company, Shareholders and investment community;
- Information on the Company's website is updated on a regular basis.

### **COMMUNICATION WITH THE COMPANY**

Shareholders may raise questions, request for publicly available information and provide comments and suggestions to the Directors and management of the Company. Such questions, requests, comments and suggestions can be addressed to the Company by post to No.308 Cailun Rd., Z.J.Hi-tech Park, Shanghai, People's Republic of China (Zip Code: 201210), or by the following means:

Telephone number: (8621) 58553583

Email address: ir@fd-zj.com

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company highly values the view and comment by the Shareholders' and relevant stakeholders to the Company and would invite the Shareholders' and relevant stakeholders to communicate with the Company by employing the abovementioned means. In view of the above shareholders' communication means and measures adopted by the Company, the Board is of the view that the shareholders' communication policy implemented during the Year was sufficient and effective.

All the issues should be individually raised by resolutions and voted by poll at the annual general meeting. The Company's PRC counsels are required to attend the meeting and witness the results of voting, and issue their legal opinion.

In 2023, the Company has held an annual general meeting, details of which is as follow:

Time	10:00 a.m., 30 May 2023
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong New Area, Shanghai, the PRC
Nature	Shareholders annual general meeting
Way of voting	Poll
Major issues	<p>To consider and approve the (work) report of the Board for 2022;</p> <p>To consider and approve the (work) report of the Supervisory Committee for 2022;</p> <p>To consider and approve the annual reports for 2022;</p> <p>To consider and approve financial analysis report for 2022;</p> <p>To consider and approve the proposed profits distribution plan and the final dividend distribution plan for 2022, and to authorise the Board to distribute such final dividend to the Shareholders;</p> <p>To consider and approve the appointment of auditors (domestic and overseas) and domestic internal control auditor, and authorise the Board to fix their remunerations for 2023;</p> <p>To consider and approve the remuneration of the Directors and Supervisors for 2022 and the relevant proposal for 2023;</p> <p>To consider and approve the utilisation of part of the over subscription proceeds from the Issue of A Shares for permanent replenishment of working capital;</p> <p>To consider and approve the next three-year (2023-2025) shareholders' dividend return plan;</p> <p>To consider and approve the liability insurance for directors, supervisors and senior management;</p> <p>To consider and approve the re-election and election of the following candidates as the executive Directors of the eighth session of the Board:</p> <p>To consider and approve the re-election of Mr. Zhao Da Jun as an executive Director; and</p> <p>To consider and approve the election of Ms. Xue Yan as an executive Director.</p> <p>To consider and approve the re-election of the following candidates as the non-executive Directors of the eighth session of the Board:</p> <p>To consider and approve the re-election of Mr. Shen Bo as a non-executive Director; and</p> <p>To consider and approve the re-election of Ms. Yu Xiao Yang as a non-executive Director.</p> <p>To consider and approve the election of the following candidates as the independent non-executive Directors of the eighth session of the Board:</p> <p>To consider and approve the election of Mr. Wang Hong Guang as an independent non-executive Director;</p> <p>To consider and approve the election of Mr. Lam Siu Wing as an independent non-executive Director;</p> <p>and</p> <p>To consider and approve the election of Mr. Xu Pei Long as an independent non-executive Director.</p> <p>To consider and approve the re-election and election of the following candidates as the Supervisors of the eighth session of the Supervisory Committee:</p> <p>To consider and approve the re-election of Mr. Huang Jian as an external Supervisor; and</p> <p>To consider and approve the election of Mr. Zhou Ai Guo as a shareholder representative Supervisor.</p> <p>To consider and approve the granting to the Board a general mandate to issue A Shares.</p>

In 2023, the Company has held one extraordinary general meeting, details of which are as follows:

Time	9:00 a.m., 30 May 2023
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong New Area, Shanghai, the PRC
Nature	Shareholders extraordinary general meeting
Way of voting	Poll
Major issues	To consider and approve the entering into of the Sales and Distribution Agreement dated 30 March 2023 between the Company and Shanghai Pharmaceuticals, the transactions contemplated thereunder and the proposed annual caps for the three years ending 31 December 2026 be and are hereby approved, confirmed and ratified; and any one of the directors of the Company be and is hereby authorized to do, approve and transact all such acts and things as the director may in his/her absolute discretion consider necessary or desirable in connection therewith; To consider and approve the amendments to the Articles of Association; To consider and approve the amendments to the rules of procedure for the general meeting; To consider and approve the amendments to the rules of procedure for the board of directors; To consider and approve the amendments to the rules of procedure for the supervisory committee.

In 2023, the Company has held one class meeting of holders of H Shares, details of which are as follows:

Time	9:00 a.m., 30 May 2023
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong New Area, Shanghai, the PRC
Nature	Class meeting of holders of H Shares
Way of voting	Poll
Major issues	To consider and approve the amendments to the Articles of Association; To consider and approve the amendments to the rules of procedure for the general meeting; To consider and approve the amendments to the rules of procedure for the board of directors; To consider and approve the amendments to the rules of procedure for the supervisory committee.

In 2023, the Company has held one class meeting of holders of A Shares, details of which are as follows:

Time	9:00 a.m., 30 May 2023
Location	No. 308 Cailun Road, Zhangjiang Hi-tech Park, Pudong New Area, Shanghai, the PRC
Nature	Class meeting of holders of A Shares
Way of voting	Poll
Major issues	To consider and approve the amendments to the Articles of Association; To consider and approve the amendments to the rules of procedure for the general meeting; To consider and approve the amendments to the rules of procedure for the board of directors; To consider and approve the amendments to the rules of procedure for the supervisory committee.

The attendance of individual directors at the general meeting during the year 2023 is set out in the table below:

<b>Members of the Board</b>	<b>Attendance in person/ Times of meetings</b>	<b>Attendance rate</b>
<b>Executive Director</b>		
Zhao Da Jun (Chairman) <sup>Note1</sup>	4/4	100%
Xue Yan <sup>Note1</sup>	-	-
Wang Hai Bo <sup>Note2</sup>	4/4	100%
Su Yong <sup>Note2</sup>	4/4	100%
<b>Non-executive Director</b>		
Shen Bo	4/4	100%
Yu Xiao Yang	4/4	100%
<b>Independent Non-executive Director</b>		
Wang Hong Guang <sup>Note1</sup>	-	-
Lam Siu Wing <sup>Note1</sup>	-	-
Xu Pei Long <sup>Note1</sup>	-	-
Zhou Zhong Hui <sup>Note2</sup>	4/4	100%
Lam Yiu Kin <sup>Note2</sup>	4/4	100%
Xu Qing <sup>Note2</sup>	4/4	100%
Yang Chun Bao <sup>Note2</sup>	4/4	100%

*Notes:*

1. Appointed on 30 May 2023;
2. Retired on 30 May 2023.

Arrangements for the dates of the annual results in 2023, the interim results in 2024 and the 2023 annual general meeting are as follows:

<b>Items</b>	<b>Proposed time</b>
Announcement of 2023 results	28 March 2024
Annual general meeting	27 June 2024
Announcement of 2024 interim results	Around 15 August 2024

## **SOCIAL RESPONSIBILITY**

### **Environment and Society**

As a listed company, the Company has been active to fulfill its social responsibilities, focusing on environmental protection for many years. We take into account this responsibility as an important factor in all aspect. This means that we not only focus on daily production, but also focus on all the other aspect ranging from procurement to administration. The Group will adopt the best practice measures as far as possible and reasonable. The relevant functional departments will consider the environmental management by assessing the policy, strategies, objectives, implementation and measurement method in terms of the pollution of water, air, noise and the other wastes.

During the Reporting Period, the Group has always followed the environment policy, strictly complied with national laws and regulations and emission standards. Meanwhile, the Group has also actively implemented the environmental indicators set by the Board at the beginning of the year. During the Reporting Period, the Group has been inspected many times by relevant government institutions on sewage discharge during the year and no violation of laws, regulations has been found. In addition, the Company also appointed a third party professional institution to assess the environmental indicators including noise, air and water regularly. Our objective is to control environment risks effectively and ensure the pollutant can reach the standard of discharge.

Details please refer to the “Environmental, Social and Governance Report”.

## **Social public welfare**

Since its establishment, the Company has always adhered to the sustainable development concept of "practicing social responsibility, responding to social needs", and has actively fulfilled the social responsibilities and obligations of listed companies in various fields, starting from drug donation, rural revitalization, and caring for children. The Company has incorporated social responsibility into its daily operation and management, comprehensively contributing to the progress and development of society.

**Charitable Activities:** The Group has cooperated with Beijing Public Health Foundation to launch a charity programme named "For Their Tomorrow" since April 2020 to help the low-income patients or those living on subsistence allowance obtain longer and effective medical treatment, alleviate the economic burden of these patients and improve their quality of life. During the Reporting Period, we donated medicines worth more than RMB33 million.

**Improving Rural Environment:** During the Reporting Period, the Group actively correspond to the work of rural revitalization. In March 2023, the Group donated RMB 80,000 to the People's Government of Puladi Township, Gongshan County, Nujiang Prefecture, Yunnan Province, in order to support the renovation of the old houses in Puladi Township and comprehensively promote the improvement of the rural environment.

**Promoting Medical Industry:** In order to further promote the development of China's medical industry, the field of dermatologic surgery and oncology treatment, in June 2023, the Group donated RMB 100,000 to the Dermatologic Surgery and Oncology Specialized Committee of China Primary Health Care Foundation.

During the Reporting Period, the Company prepared Environmental, Social and Governance Report pursuant to Appendix C2 "Environmental, Social and Governance Reporting Guide" of the Listing Rules.

## **PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT**

This annual results announcement is published on the websites of the Hong Kong Stock Exchange (<http://www.hkexnews.hk>), Shanghai Stock Exchange (<http://www.sse.com.cn>) and the Company (<http://www.fd-zj.com>). The annual report of the Company for the year ended 31 December 2023 containing all the information required by the Hong Kong Listing Rules will be despatched to the shareholders and made available for review on the aforesaid websites in due course.

By order of the Board

**Zhao Da Jun**

*Chairman*

As at the date on the publication of this announcement, the Board comprises:

Mr. Zhao Da Jun (Executive Director)

Ms. Xue Yan (Executive Director)

Mr. Shen Bo (Non-executive Director)

Ms. Yu Xiao Yang (Non-executive Director)

Mr. Wang Hong Guang (Independent Non-executive Director)

Mr. Lam Siu Wing (Independent Non-executive Director)

Mr. Xu Pei Long (Independent Non-executive Director)

Shanghai, the PRC

28 March 2024

*\* For identification purpose only*