先声药业
Simcere

先聲藥業集團有限公司
Simcere Pharmaceutical Group Limited

(Incorporated in Hong Kong with limited liability)
Stock Code: 2096

ANNUAL REPORT 2023

Providing Today's Patients with
MEDICINES of the Future

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. REN Jinsheng
(Chairman and Chief Executive Officer)
Mr. TANG Renhong
Mr. WAN Yushan
Ms. WANG Xi[1]

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SONG Ruilin
Mr. WANG Jianguo
Mr. WANG Xinhua
Mr. SUNG Ka Woon[2]

AUDIT COMMITTEE

Mr. WANG Xinhua *(Chairman)*
Mr. SONG Ruilin
Mr. WANG Jianguo

REMUNERATION AND APPRAISAL COMMITTEE

Mr. WANG Jianguo *(Chairman)*
Mr. REN Jinsheng
Mr. WAN Yushan[3]
Mr. WANG Xinhua
Mr. SUNG Ka Woon[2]

NOMINATION COMMITTEE

Mr. SONG Ruilin *(Chairman)*
Mr. REN Jinsheng
Ms. WANG Xi[1]
Mr. WANG Jianguo
Mr. SUNG Ka Woon[2]

STRATEGY COMMITTEE

Mr. REN Jinsheng *(Chairman)*
Mr. TANG Renhong
Mr. WANG Jianguo

JOINT COMPANY SECRETARIES

Mr. WAN Yushan
Ms. MAK Po Man Cherie

AUTHORIZED REPRESENTATIVES

Mr. WAN Yushan
Mr. TANG Renhong

Notes:

(1) Ms. WANG Xi has been appointed as an executive Director of the Company with effect from January 18, 2023, and has been appointed as a member of the Nomination Committee with effect from March 31, 2023.

(2) Mr. SUNG Ka Woon has been appointed as an independent non-executive Director of the Company with effect from January 18, 2023, and has been appointed as a member of each of the Remuneration and Appraisal Committee and the Nomination Committee with effect from March 31, 2023.

(3) Mr. WAN Yushan has been appointed as a member of the Remuneration and Appraisal Committee with effect from March 31, 2023.

PRINCIPAL BANKS

Bank of China Limited
Nanjing Jiangbei New District Branch
No. 30, Wende Road
Pukou District, Nanjing
Jiangsu, PRC

China Merchants Bank Co., Ltd.
Nanjing Jiefang Road Sub-Branch
No. 53, Jiefang Road
Qinhuai District, Nanjing
Jiangsu, PRC

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance
8/F Prince's Building
10 Chater Road
Central, Hong Kong

LEGAL ADVISER

Tian Yuan Law Firm LLP
Suites 3304-3309
33/F, Jardine House
One Connaught Place
Central, Hong Kong

HONG KONG SHARE REGISTRAR

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

REGISTERED OFFICE

Unit 703, 7/F, Building 20E
Phase Three, Hong Kong Science Park
Shatin, New Territories
Hong Kong

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 699-18, Xuanwu Road
Xuanwu District, Nanjing
Jiangsu
PRC

COMPANY'S WEBSITE

http://www.simcere.com

PLACE OF LISTING AND STOCK CODE

The Stock Exchange of Hong Kong Limited
2096

FINANCIAL HIGHLIGHTS

For the year ended December 31, 2023 (the "**Reporting Period**"):

- Revenue of the Group was approximately RMB6,608 million, representing an increase of approximately 4.5% as compared to RMB6,324 million for 2022. Of which, revenue from the sales and promotion service of drugs amounted to RMB6,567 million, license income amounted to RMB28 million and research service income amounted to RMB13 million.
- Revenue from the innovative pharmaceutical business was approximately RMB4,756 million, accounting for 72.0% of the total revenue and representing an increase of approximately 15.2% as compared to RMB4,128 million for 2022.
- Revenue of the Group was mainly derived from the therapeutic areas where its businesses are focused. Of which, revenue from the field of nervous system was approximately RMB1,969 million, accounting for 29.8% of the total revenue and representing a decrease of approximately 13.1% as compared to 2022. Revenue from the field of oncology was approximately RMB1,576 million, accounting for 23.9% of the total revenue and representing an increase of approximately 10.2% as compared to 2022. Revenue from the field of autoimmune was approximately RMB1,415 million, accounting for 21.4% of the total revenue and representing an increase of approximately 10.5% as compared to 2022. Revenue from other fields was approximately RMB1,648 million, accounting for 24.9% of the total revenue and representing an increase of approximately 22.3% as compared to 2022.
- Research and development costs amounted to approximately RMB1,563 million, representing a decrease of approximately RMB165 million or approximately 9.6% as compared to RMB1,728 million for 2022. The research and development costs to revenue ratio[2] was approximately 23.7% (approximately 27.3% for 2022).
- Profit for the year attributable to equity shareholders of the Company was approximately RMB715 million, representing a decrease of approximately RMB216 million or approximately 23.2% as compared to RMB931 million for 2022.
- Basic earnings per share was approximately RMB0.27, representing a decrease of approximately 25.0% as compared to RMB0.36 for 2022.

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[1] All comparative information in this report has been adjusted according to the restated comprehensive financial information as of December 31, 2022. In November 2023, the Group completed the acquisition of Nanjing Jiayuantang Biological Technology Co., Ltd., and such acquisition was regarded as a business combination under common control by the Group in accordance with the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants. The financial information of the Group for the year ended December 31, 2022 was restated accordingly to comply with the relevant accounting standards.

[2] Research and development costs divided by revenue

Simcere Pharmaceutical Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") is an innovation and R&D-driven pharmaceutical company with capabilities in research and development (the "**R&D**"), production and professional marketing. The Group primarily focuses on the therapeutic areas of oncology, nervous system, autoimmune and anti-infection, with forward-looking layout of disease areas that have significant clinical needs in the future, aiming to achieve the corporate mission of "providing today's patients with medicines of the future".

In the focused areas, the Group has six innovative drugs approved for marketing and sale. As of December 31, 2023, the Group has 14 products recommended in guidelines and pathways issued by over 100 government authorities or prestigious professional associations, and has over 40 products included in the National Reimbursement Drug List (the "**NRDL**").

The Group pays high attention to the establishment of innovative drug R&D capacity, and has established R&D innovation centers in Shanghai, Nanjing, Beijing, Boston and Hong Kong respectively, as well as a State Key Laboratory of Neurology and Oncology Drug Development. The Group's R&D system has achieved functions covering the whole process of drug discovery, preclinical development, clinical trial and registration, and owns leading platforms of protein engineering, PAb/TCE, PAb/NKCE, AI-aided drug discovery, protein degradation and ADC. As of December 31, 2023, the Group had a R&D team of approximately 1,000 employees in total with approximately 170 doctors and 490 masters.

The Group has a nationwide marketing network and leading commercialization capacity, and will continuously strengthen its professional marketing capacity, so as to enhance coverage and access to medicines. As of December 31, 2023, the Group's sales team had a total of approximately 4,200 employees divided into four business units (neuroscience, oncology, autoimmune & comprehensive and retail grossroots) and other support departments across 32 provinces, municipalities and autonomous regions, covering over 2,800 Class III hospitals, approximately 17,000 other hospitals and medical institutions as well as more than 200 large-scale national or regional chain pharmacies in China.

The Group has established manufacturing infrastructures and quality management systems in line with international standards and has continuously improved its manufacturing capabilities of pharmaceuticals. The five production facilities that have been put into use all meet the requirements of Chinese GMP, and part of the production lines have received EU GMP certification or passed the inspection of the U.S. Food and Drug Administration (the "**FDA**").

Driven by its in-house R&D efforts and synergistic innovation, the Group has established strategic cooperation partnerships with many innovative companies and research institutes, exploring multiple collaborative modes such as cooperative R&D and achievement transfer and continuously developing products that patients urgently need and have significant market potential. The Group established the Scientific Advisory Board (SAB) comprising over 10 world-renowned scientists in the areas of oncology, nervous system and autoimmune etc., so as to bring their professional capabilities and experiences to provide scientific advice for early drug discovery and clinical development of the Group, and aim to attract global leaders of life science to explore and create unprecedented treatments.

CHAIRMAN'S STATEMENT

Dear Shareholders,

After four years since the listing of the Company on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), we successfully launched four innovative drugs and achieved rapid commercialization. In the past five years, our accumulated expenditure on research and development activities exceeded RMB7,000 million and the proportion of revenue from the innovative pharmaceutical business increased from 35% to 72%, which can be said that preliminary results were achieved in innovation and transformation.

In 2023, despite the complex and ever-changing external environment as well as the poor performance of investment and financing of the industry, we managed to maintain strong investment in research and development activities by leveraging on our business foundation and organizational capacity accumulated over the years, resulting in the successful launch of XIANNUOXIN®, the first domestic 3CL anti-SARS-CoV-2 drug. A number of BD cooperation projects with significant market potential were added, our pipelines under research were advancing rapidly and our phase II/III clinical projects have been enriching.

Looking forward to 2024, Sanbexin® sublingual tablets, ENZESHU and ENLITUO were under new drug application (the "**NDA**") approval while the application of XIANNUOXIN® to change from conditional approval to complete approval was also under approval. It is expected that we will continue to promote the launch of five to six innovative drugs in the next three years, so as to consolidate the R&D capacity in the fields of oncology, nervous system, autoimmune and anti-infection as well as the innovative product portfolio continuously. At the same time, we will also insist to be customer-oriented, promote management upgrades and improve operation efficiency while deploying the "Innovation 2.0" strategy proactively, aiming to achieve breakthroughs from "new in China" to "new in the world".

I would like to thank our customers, partners and Shareholders for your continuous support to Simcere. The management and I will persist on long-term development and lead Simcere people to work together and make collaborative efforts, striving to achieve the corporate mission of "providing today's patients with medicines of the future".

INDUSTRY REVIEW

2023 was a year when medical policies were introduced intensively, and it was also a year when the Group's innovative achievements continued to emerge. On one hand, a number of policies encouraging medical innovation were introduced, thus the success rate of medical insurance negotiation reached a record high and the time of new drugs being included into the list was shortened. A series of policies, such as the Regulations of the Drug Review Centre on Accelerating the Application and Evaluation of Innovative Drugs for Marketing Approval (《藥審中心加快創新藥上市許可申請審評工作規範》), further facilitated the acceleration of time-to-market of new drugs with real clinical value. On the other hand, the centralized rectification of corruption in the pharmaceutical field of China was launched and the National Catalog of the Second Batch of Drugs under Close Monitoring of Rational Drug Use (《第二批國家重點監控合理用藥藥品目錄》) was promulgated, which purified the industry environment continuously and improved the compliance level of the industry. At the same time, more than 80 new drugs were approved for marketing, coupled with numerous overseas licensing and licensing-out, which indicated that local innovative drugs will experience an explosive period. Looking forward, pharmaceutical corporations are required to incessantly driving for innovative transformation, improving its efficiency of research and development as well as marketing, and adapting to the development strategy of upgrading the innovative drug industry with proactive actions.

KEY MILESTONES

As of the date of this report, the Group has achieved following key milestones and achievements:

Commercialization

The Group devotes to establishing its product portfolios and brand value with a focus on nervous system, autoimmune, oncology and anti-infection, and its innovative drugs that has entered the commercialization stage increased to six. The innovative pharmaceutical business experienced continuous growth and its revenue hit a record high. For the year ended December 31, 2023, the proportion of revenue from innovative pharmaceuticals of the Group increased to 72.0%.

- The product portfolio of nervous system products has been enriching continuously and the penetration rate of Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection) among patients has been increasing. During the Reporting Period, Sanbexin® has benefited approximately 1.07 million patients and covered approximately 5,000 medical institutions. The NDA of Sanbexin® sublingual tablets was accepted on June 28, 2023. Based on the positive results of a number of clinical trials, such as TASTE, TASTE II and TASTE-SL, products of Sanbexin® series are consolidating the evidences for the management of the whole course of stroke continuously and exploring new indications and overseas markets proactively.
- The product portfolio of oncology products is clinical value-oriented, and it continues to accelerate the layout of lung cancer, gastrointestinal tumors and gynecological tumors constantly. During the Reporting Period, COSELA® (Trilaciclib Hydrochloride for Injection) was made commercially available in China, and was approved to change from conditional approval to regular approval on October 27, 2023. Endostar® (Recombinant Human Endostatin Injection), an anti-angiogenesis drug with low bleeding risk, and ENWEIDA® (Envafolimab Injection), the first PD-(L)1 antibody drug to be administered by subcutaneous injection in the world, further verified commercialization capacity of the Group leveraging on differentiated advantages, which resulted in the continuous increase in the Group's market share.

- In the field of autoimmune, Iremod® (Iguratimod Tablets) continued to benefit the patients with rheumatoid arthritis in China and recorded a year-on-year increase of approximately 21%, which further consolidated its leading position in the traditional DMARDs sector.
- On January 28, 2023, XIANNUOXIN® (Simnotrelvir Tablets/Ritonavir Tablets (co-packaged)), the first domestic 3CL anti-SARS-CoV-2 innovative drug, was conditionally approved for marketing. In December 2023, XIANNUOXIN® was officially included in the NRDL. In February 2024, the supplemental application of transiting to regular approval of XIANNUOXIN® was accepted by the National Medical Products Administration (the "**NMPA**"). As of the date of this report, XIANNUOXIN® has covered 31 provinces, 306 cities and over 3,800 hospitals nationwide, and has benefited 670,000 patients.

Research and Development

The Group pays high attention and commits to the research and development of innovative pharmaceuticals, focusing on higher efficiency and adhering to differentiation. In the focused therapeutic areas, the Group has established a pipeline of innovative products with over 60 types of new drugs and is initiating registrational clinical studies for 15 innovative drugs. The efficient clinical operation and registration teams continuously facilitated the global research and development of product pipelines under research, which expedited the achievement of innovation value.

- The Group's research and development pipelines gradually entered the critical harvest period, which provided growth momentum for the sustainable development of the Company. As of the date of this report, three new drug molecules were under the NDA or phase III clinical study stage[1]: Sanbexin® sublingual tablets, ENZESHU (Suvemcitug for injection) and Daridorecant hydrochloride tablets. Two new indications of marketed products were developed: COSELA®'s triple-negative breast cancer and Endostar®'s malignant thoracoabdominal effusions.
- The Group expedited the promotion of its in-house pipelines to enter the clinical stage and various types of products entered the critical period of POC data. For the year ended December 31, 2023, the Group has added seven PCC molecules[2], three INDs of new molecules[3], six new indications/combinations entered the clinical stage[4] and completed six FIHs[5].

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1 Excluding products with commercial rights, namely ENLITUO, ADC189 and LNK01001.

2 A total of seven new pre-clinical candidate compounds ("**PCC**"), namely SIM0500, SIM0501, SIM0505, SIM0508, SIM0810, SIM0391 and SIM0682.

3 A total of three INDs of additional new molecules were approved, namely Daridorexant (insomnia, July 20), SIM0278 (moderate-to-severe atopic dermatitis, July 27) and SIM0501 (solid tumors, December 2, the United States).

4 Six additional new indications/combinations entered the clinical stage, namely SIM0270 (in combination with SERD, January 28), SIM0235 (in combination with TNFR2, April 10), Sanbexin® (ICH, April 27), SIM0348 (in combination with TIGIT/PVRIG, October 12), SIM0237 (NMIBC, October 15) and Sanbexin® sublingual tablets (PSCI, November 28).

5 Six studies completed First-in-Human ("**FIH**") (including first populations and new indications), namely SIM0237 (solid tumors, March 8), SIM0348 (solid tumors, March 30), Sanbexin® (ICH, July 3), SIM0278 (healthy population, August 26), Sanbexin® sublingual tablets (healthy population in the United States, September 6) and Daridorexant (healthy population in China, November 30).

- The research and development of six innovative drugs is being simultaneously conducted in the U.S. and China, namely COSELA®, Sanbexin® sublingual tablets, SIM0235 (humanized anti-TNFR2 monoclonal antibody), SIM0237 (anti-PD-L1/IL-15 bispecific antibody), SIM0501 (USP1 small-molecule inhibitor) and SIM0500 (humanized GPRC5D-BCMA-CD3 tri-specific antibody).

The Group has been expediting the development schedules of multiple innovative drugs under pivotal clinical trials. As of the date of this report, one phase III study achieved key data readout and has met the primary endpoints and two phase III data have been published in well-known academic journals.

- On January 3, 2024, the phase III clinical trial of ENZESHU (Suvemcitug for injection) combined with chemotherapy in patients with recurrent, platinum-resistant epithelial ovarian, fallopian tube or primary peritoneal cancer (the "**SCORES Study**") has met the primary endpoint. Based on the positive results of the study, the Group submitted the new drug application of ENZESHU to the NMPA on March 11, 2024 and it was accepted on March 15, 2024. ENZESHU is expected to become the first anti-VEGF monoclonal antibody applicable to PROC in China, which add another blockbuster drug to the portfolio of oncology drugs.
- On January 18, 2024, the New England Journal of Medicine published the complete data of XIANNUOXIN® for phase II/III clinical trials. The results showed that, for adult patients with mild-to-moderate new coronavirus infection ("**COVID-19**") in China, XIANNUOXIN® could accelerate recovery from symptoms, shorten the duration of the disease cause, reduce viral load rapidly and significantly and demonstrate good safety and tolerance.
- On February 19, 2024, the Journal of American Medical Association • Neurology (JAMA NEUROLOGY) published the key results of the phase III clinical study of Sanbexin® sublingual tablets used for the treatment of acute ischemic stroke ("**AIS**") (the TASTE-SL Study). The results showed that the Sanbexin® sublingual tablets group showed a significantly higher proportion of patients experiencing good functional outcomes (mRS score 0~1) on day 90 after randomization, compared with the placebo group (64.4% vs. 54.7%).

Manufacturing

The Group improves its production capacity and efficiency continuously, so as to adapt to the development strategy of "Innovation 2.0" and provide solid security for global supply chains.

- COSELA® achieved localization successfully: On December 20, 2023, Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) was approved to produce COSELA® by the NMPA, and it is now capable of commercial supply.
- Jiangsu Xiansheng Biology Medical Co., Ltd. (江蘇先盛生物醫藥有限公司) (a pharmaceutical ingredient base) only spent 12 months from initiation to completion, which is far exceeding the industry average. It is now capable of production, and the production transfer and process validation of key products are progressing at an accelerated pace.

Business Development

The Group had reached a number of strategic cooperation to expand its product pipelines and covered therapeutic areas. For the year ended December 31, 2023, the Group had entered into cooperation agreements in respect of three new drug molecules.

- On August 18, 2023, the Group entered into a cooperation agreement with Taizhou Mabtech Pharmaceutical Limited* (泰州邁博太科藥業有限公司) ("**Mabpharm**") in respect of ENLITUO (CMAB009), pursuant to which, the Group obtained the exclusive commercial rights in respect of the product in the Chinese mainland. In March 2023, the marketing application of ENLITUO was accepted by the NMPA.
- On October 10, 2023, the Group entered into a cooperation agreement with Jiaxing AnDiCon Biotech Co., Ltd.* (嘉興安諦康生物科技有限公司) ("**AnDiCon**") in relation to ADC189, an innovative drug. The Group obtained the exclusive commercialization rights of the product in China for indications related to influenza, which further strengthened the product layout of the Group in the field of anti-infection.
- On November 21, 2023, the Group entered into an exclusive license and collaboration agreement with Connect Biopharma HongKong Limited (香港康乃德生物醫藥有限公司) ("**Connect Biopharma**") in relation to Rademikibart (IL-4Rα), an innovative drug. The Group obtained the exclusive rights in relation to the development, manufacturing and commercialization of all indications of the product in Greater China.
- As of the date of this report, the Group has reached cooperation with leading universities and institutions, such as Mass General Brigham in the United States and Stanford University in the United States, so as to jointly promote the exploratory projects in the focused areas with an aim to develop more innovative therapies for patients.

The Expenditure on Research and Development Activities

The expenditure on research and development activities of the Group includes research and development costs and the addition of in-licensed rights of intangible assets.

- During the Reporting Period, the total expenditure on research and development activities of the Group amounted to approximately RMB1,960 million, representing an increase of approximately 1.2% as compared to approximately RMB1,938 million for 2022. During the Reporting Period, the expenditure on research and development activities to revenue ratio was approximately 29.7%, representing a decrease of 0.9 percentage points as compared to approximately 30.6% for 2022.
- During the Reporting Period, the research and development costs of the Group amounted to approximately RMB1,563 million, representing a decrease of approximately 9.6% as compared to approximately RMB1,728 million for 2022. During the Reporting Period, the research and development costs to revenue ratio was approximately 23.7%, representing a decrease of 3.6 percentage points as compared to approximately 27.3% for 2022.
- During the Reporting Period, the addition of in-licensed rights of intangible assets amounted to approximately RMB397 million, representing an increase of approximately 89.4% as compared to the approximately RMB210 million for 2022. During the Reporting Period, the addition of in-licensed rights of intangible assets to revenue ratio was approximately 6.0%, representing an increase of 2.7 percentage points as compared to approximately 3.3% for 2022.

BUSINESS PROSPECTS

In 2024, the Group will carry out comprehensive deployments and accelerate the implementation of the "Innovation 2.0" strategy, maximize the innovation value of China, expand global innovation capacity, address the market changes of innovative drugs proactively, strengthen its product innovation and enhance its team capabilities, so as to strive to achieve the following management objectives:

Based on the existing six innovative drugs, the Group will promote the marketing of new products continuously, so as to reserve for the sustainable development of business. The Group will actively increase the scale of its innovative pharmaceutical business and enhance product coverage, while integrating resources and streamlining operations to achieve a high degree of focus and synergy, thereby providing more affordable solutions for a broader and more complex patient population.

The Group will continue to strive for innovative transformation, adhere to the two-wheel drive and relentlessly improve the project level and organizational capacity in respect of research and development as well as business development (BD). The Group will seek for differentiated mechanisms, targets and drug forms, so as to further expand the clinical value and synergistic advantages of its product pipelines and continue to improve the effectiveness of research and development investments and the efficiency of project propulsion and expediting the products under pivotal clinical stage to benefit patients as soon as possible, while broadening its innovation boundaries and paying attention to its late-stage products as well as exploring licensing-out opportunities, aiming to achieve synergies, innovation and win-win cooperation with industry partners.

The Group will continue to improve its production quality management and meet the international advanced standards, so as to produce safe and effective drugs for patients. The newly-established pharmaceutical ingredient base and antibody factory will further improve the production efficiency and cost advantages of the Group, so as to better support the expansion of the Group's product pipelines and enhance its market competitiveness.

The Group will continue to promote management upgrades to enhance the efficiency of R&D and marketing operations, so as to explore sustainable innovative development pathway unceasingly.

SUMMARY OF PRODUCT PIPELINES

As of the date of this report, the Group has six commercialized innovative drugs, nearly 60 product pipelines of innovative drugs and is currently initiating registrational clinical studies for 15 new drug molecules, of which, there are three new drug molecules under NDA or phase III clinical study stage[1], 12 new drug molecules under phase I/II and approximately 40 pre-clinical drug candidates. The forms of innovative drugs under development contain monoclonal antibodies, bispecific antibodies, multi-specific antibodies, fusion proteins, ADC and small-molecule drugs. The extensive pipeline reserves have huge clinical and commercialization potential, which are expected to help more patients.

The table below summarizes the therapeutic targets, therapeutic areas, rights and development of the principal innovative drugs of the Group as of the date of this report.

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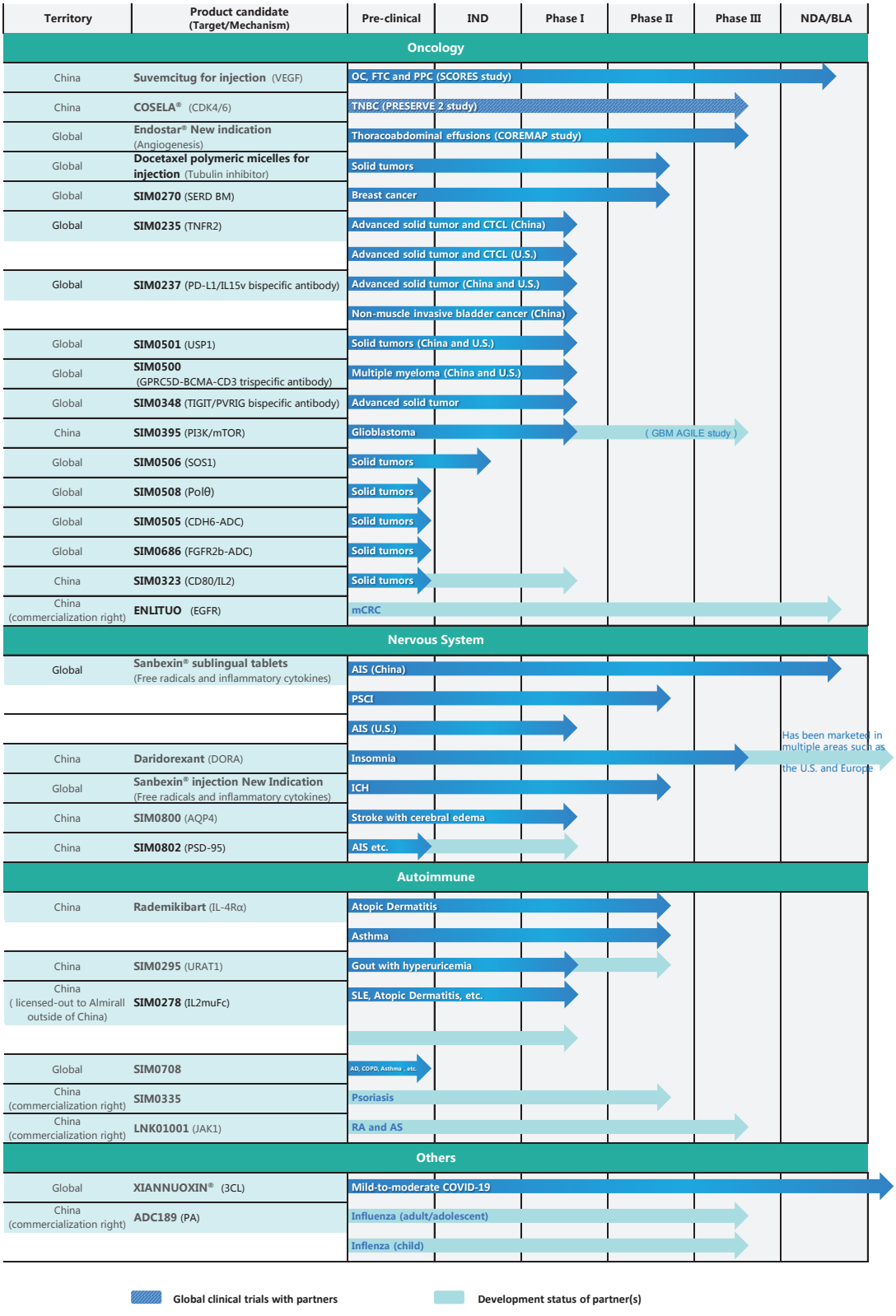
[1] Excluding products with commercial rights, namely ENLITUO, ADC189 and LNK01001


Territory
Product candidate (Target/Mechanism)
Pre-clinical
IND
Phase I
Phase II
Phase III
NDA/BLA
Oncology
China
Suvemcitug for injection (VEGF)
OC, FTC and PPC (SCORES study)
China
COSELA® (CDK4/6)
TNBC (PRESERVE 2 study)
Global
Endostar® New indication (Angiogenesis)
Thoracoabdominal effusions (COREMAP study)
Global
Docetaxel polymeric micelles for injection (Tubulin inhibitor)
Solid tumors
Global
SIM0270 (SERD BM)
Breast cancer
Global
SIM0235 (TNFR2)
Advanced solid tumor and CTCL (China)
Advanced solid tumor and CTCL (U.S.)
Global
SIM0237 (PD-L1/IL15v bispecific antibody)
Advanced solid tumor (China and U.S.)
Non-muscle invasive bladder cancer (China)
Global
SIM0501 (USP1)
Solid tumors (China and U.S.)
Global
SIM0500 (GPRC5D-BCMA-CD3 trispecific antibody)
Multiple myeloma (China and U.S.)
Global
SIM0348 (TIGIT/PVRIG bispecific antibody)
Advanced solid tumor
China
SIM0395 (PI3K/mTOR)
Glioblastoma
(GBM AGILE study)
Global
SIM0506 (SOS1)
Solid tumors
Global
SIM0508 (Polθ)
Solid tumors
Global
SIM0505 (CDH6-ADC)
Solid tumors
Global
SIM0686 (FGFR2b-ADC)
Solid tumors
China
SIM0323 (CD80/IL2)
Solid tumors
China (commercialization right)
ENLITUO (EGFR)
mCRC
Nervous System
Global
Sanbexin® sublingual tablets (Free radicals and inflammatory cytokines)
AIS (China)
PSCI
AIS (U.S.)
Has been marketed in multiple areas such as the U.S. and Europe
China
Daridorexant (DORA)
Insomnia
Global
Sanbexin® injection New Indication (Free radicals and inflammatory cytokines)
ICH
China
SIM0800 (AQP4)
Stroke with cerebral edema
China
SIM0802 (PSD-95)
AIS etc.
Autoimmune
China
Rademikibart (IL-4Rα)
Atopic Dermatitis
Asthma
China
SIM0295 (URAT1)
Gout with hyperuricemia
China (licensed-out to Almirall outside of China)
SIM0278 (IL2muFc)
SLE, Atopic Dermatitis, etc.
Global
SIM0708
AD, COPD, Asthma , etc.
China (commercialization right)
SIM0335
Psoriasis
China (commercialization right)
LNK01001 (JAK1)
RA and AS
Others
Global
XIANNUOXIN® (3CL)
Mild-to-moderate COVID-19
China (commercialization right)
ADC189 (PA)
Influenza (adult/adolescent)
Inflenza (child)
Global clinical trials with partners
Development status of partner(s)

COMMERCIALIZATION STAGE INNOVATIVE PRODUCTS

As of the date of this report, the Group has successfully expanded its commercialized portfolio into six innovative products spanning over multiple therapeutic areas, including nervous system, oncology, autoimmune and anti-infection, which have significant market potentials and synergistic effects. For the year ended December 31, 2023, revenue from the innovative pharmaceutical business was approximately RMB4,756 million, accounting for 72.0% of the total revenue.

Nervous System Products

Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection)

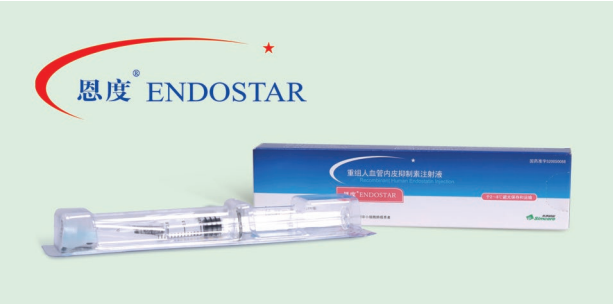
Sanbexin® is a category I innovative drug developed by the Group with proprietary intellectual property right used to treat Acute Ischemic Stroke. Sanbexin® was approved for marketing in China in July 2020 and has been included in the NRDL since December 2020. The results of phase III pivotal clinical TASTE study of Sanbexin®, which are published in STROKE, an international authoritative medicine journal, showed that, Sanbexin® can significantly increase the proportion of patients with a mRS score of 0-1 after 90 days of treatment of patients, i.e. reduce the proportion of patients disabled by AIS. Sanbexin® was recommended by the Guidelines for the Clinical Management of Cerebrovascular Diseases in China (《中國腦血管病臨床管理指南》), the Specialists' Consensus on the Clinical Assessment and Treatment of Acute Cerebral Infarction Ischemic Penumbra in China (《急性腦梗死缺血半暗帶臨床評估和治療中國專家共識》) and the Guidelines on Establishment of Stroke Prevention and Treatment System (《腦卒中防治體系建設指導規範》) and other guidelines and consensuses, and multiple relevant studies were presented at the European Stroke Organization Conference (ESOC), the scientific meeting of the American Heart Association (AHA) Hypertension Council and the World Congress of Neurology (WCN).

- On April 27, 2023, the new indication of intracerebral hemorrhage ("**ICH**") of Sanbexin® obtained the clinical trial approval issued by the NMPA, which is intended for the multi-center, randomized, double-blind and placebo-controlled phase II clinical trial to evaluate the efficacy and safety of Edaravone and Dexborneol Concentrated Solution for Injection with different dosages in combination of conventional medical therapies to treat ICH patients.
- On July 3, 2023, the above phase II clinical trial completed the FPI in the First Affiliated Hospital of Sun Yat-sen University (中山大學附屬第一醫院). As of the date of this report, over 80 subjects were enrolled.

- On May 19, 2023, the TASTE II study, led by Beijing Tiantan Hospital of the Capital Medical University (首都醫科大學附屬北京天壇醫院) with the participation of approximately 100 research centers in China conducted after the launch of Sanbexin®, has completed the follow-up of the last subject. Such study aimed at evaluating the efficacy and safety of Sanbexin® combined with reperfusion in the treatment of AIS patients and enrolled more than 1,300 AIS patients within 24 hours of onset and undergone early endovascular recanalization therapy. In February 2024, the protocol of the TASTE II study was published in the "Stroke and Vascular Neurology" magazine. The detailed data of the TASTE II study results are expected to be published in academic journals or conferences in the future.
- On June 24, 2023, the Guidelines for Clinical Management of Cerebrovascular Diseases in China (second edition) (《中國腦血管病臨床管理指南(第2版)》) prepared and issued by the Chinese Stroke Association (中國卒中學會) upgraded the concept of "neurological protection" in the 2019 edition by the treatment of "brain cell protection" and recommended the use of Edaravone and Dexborneol. Based on the positive result of the TASTE study, i.e. "the Edaravone and Dexborneol Concentrated Solution for Injection can further improve the clinical outcomes of patients with AIS", Sanbexin® becomes the only brain cell protection drug that received Level IIa recommendation in such guidelines currently.
- On July 4, 2023, the EXPAND study, a post-market real-world study ("**RWS**") led by Xuanwu Hospital of the Capital Medical University (首都醫科大學宣武醫院), has completed the enrollment of all 4,750 subjects. The primary objective of such a study is to observe the clinical effectiveness of AIS patients using Edaravone and Dexborneol in the real world environment, while its secondary objective is to monitor the safety of the clinical application of Edaravone and Dexborneol. The initial results of the study were included in the 2024 European Stroke Organization Conference (ESOC) for oral presentation.
- For the year ended December 31, 2023, Sanbexin® injection covered approximately 1.07 million patients and covers over 5,000 medical institutions currently.

Oncology Products

Endostar® (Recombinant Human Endostatin Injection)



Endostar® is the first anti-angiogenic targeted drug in China and the only endostatin approved for sale worldwide. Endostar® has been included in the NRDL since 2017 and is recommended as a first-line treatment for patients with advanced non-small-cell lung cancer ("**NSCLC**") by a number of oncology clinical practice guidelines issued by the National Health Commission of the PRC ("**NHC**"), Chinese Medical Association (中華醫學會) and Chinese Society of Clinical Oncology ("**CSCO**"). Also, it is recommended by various guidelines in relation to nasopharyngeal carcinoma, melanoma, esophageal carcinoma and osteosarcoma. At present, the Group is actively exploring the expansion of new indications of this product in thoracoabdominal effusions.

- In June 2023, the American Society of Clinical Oncology ("**ASCO**") published two studies relating to the combination of Endostar® with immunotherapy, and one of the real-world data in relation to Endostar® in combination with PD-1 for the first-line treatment of NSCLC is encouraging, while another real-world data in relation to Endostar® in combination with autoimmune treatment for the second-line treatment of advanced NSCLC show a clinical result which is better than autoimmune in combination with chemotherapy.
- On July 4, 2023, Guangdong Pharmaceutical Association (廣東省藥學會) published the Catalog for the Off-label Use of Drugs (2023) (《超藥品説明書用藥目錄(2023版)》), which included continuous intravenous infusion of Recombinant Human Endostatin Injection for NSCLC. The reference basis includes the "Guidelines for the Clinical Application of New Anti-tumor Drugs (2022)" (《新型抗腫瘤藥物臨床應用指導原則(2022年版)》) issued by the National Health Commission of the PRC, etc.
- On July 18, 2023, the Chinese Medical Association (中華醫學會) published the Guideline for Clinical Diagnosis and Treatment of Lung Cancer (2023) (《肺癌臨床診療指南(2023版)》), which recommended that during the treatment of negative patients with driver genes of non-squamous cell cancer, for those patients with a PS score of 0-1, patients with no contraindication can choose between Bevacizumab or Recombinant Human Endostatin in combination with chemotherapy and receive maintenance treatment (Class I or IIa).
- In September 2023, two clinical studies in relation to Endostar® were released at the 23rd World Conference on Lung Cancer (WCLC), of which, the ENPOWER study showed that, the use of Endostar® in combination with PD-1 inhibitor and chemotherapy as the first-line treatment of EGFR/ALK negative, advanced or metastatic non-squamous NSCLC can achieve good clinical efficacy and tolerable toxicity, which brings new hope of treatment for such group. Another study indicates that chemotherapy in combination with immunotherapy and Endostar® achieves good efficacy and safety in the treatment of advanced NSCLC patients, which may be a feasible treatment clinically.

- In December 2023, the Chinese Medical Association (中華醫學會) published the Specialists' Consensus on the Treatment of Malignant Pleural Effusions in China 2023 (《惡性胸腔積液治療的中國專家共識(2023年版)》) and various therapies, such as Endostar®, are recommended by the consensus, which bring new treatment options for the patients with malignant pleural effusions.
- In January 2024, China Association of Health Promotion and Education (中國健康促進與教育協會) and China Anti-Cancer Association published the Expert Consensus on Diagnosis and Treatment for Lung Cancer and Malignant Pleural Effusions (《肺癌合併惡性胸腔積液診療專家共識》) and Endostar® was included in the consensus for the first time, which was recommended by experts to be used in the treatment of lung cancer and malignant pleural effusions.

ENWEIDA® (Envafolimab Injection)

ENWEIDA® is the world's first PD-(L)1 antibody to be administered by subcutaneous injection approved for marketing. Its unique method of injection differentiates itself from other PD-(L)1 products currently on the market, with the differentiation advantages of short administration time and good safety. On March 30, 2020, the Group entered into a tripartite cooperation agreement in relation to Envafolimab with 3D (Beijing) Medicines Inc. and Jiangsu Alphamab Biopharmaceuticals Co., Ltd.. The above-mentioned agreement provides the Group with the exclusive right to promote Envafolimab for all oncology indications and the right of first refusal of external licensing or assignment in the Chinese mainland.

- In January 2023, two studies of ENWEIDA® relating to liver cancer and colorectal cancer were selected to exchange by way of posters in the ASCO Gastrointestinal Cancers Symposium and the title of the study was: (1) the treatment of MSS locally advanced rectal cancer by Envafolimab in combination with CAPEOX before neoadjuvant therapies and after radiotherapy in short regimens: an open-label and forward-looking single-arm study; and (2) the efficacy and safety of treating unresectable hepatocellular cancer by Envafolimab in combination with Lenvatinib and TACE: an open-label, single-arm and phase II CISLD-12 study.
- In April 2023, ENWEIDA® continued to be included in six CSCO important guidelines: CSCO Diagnosis and Treatment Guidelines for Gastric Cancer 2023 (《CSCO胃癌診療指南2023版》) (Level I, Class 2A); CSCO Diagnosis and Treatment Guidelines for Colorectal Cancer 2023 (《CSCO結直腸癌診療指南2023版》) (Level II, Class 2A); CSCO Immune Checkpoints Guidelines for Clinical Use of Inhibitors 2023 (《CSCO免疫檢查點抑制劑臨床應用指南2023版》) (Level I, Class 2A); CSCO Diagnosis and Treatment Guidelines for Endometrial Carcinoma 2023 (《CSCO子宮內膜癌診療指南2023版》) (Level II); CSCO Diagnosis and Treatment Guidelines for Cervical Cancer 2023 (《CSCO宮頸癌診療指南2023版》) (Level II); and CSCO Diagnosis and Treatment Guidelines for Ovarian Cancer 2023 (《CSCO卵巢癌應用指南2023版》) (Level III, Class 2B).

- On April 13, 2023, the Gynecological Tumors Immune Checkpoints Guidelines for Clinical Use of Inhibitors 2023 (《婦科腫瘤免疫檢查點抑制劑臨床應用指南(2023版)》) was published. In the article, based on the CN006 study, it recommended patients with gynecological tumors with advanced/recurrent MSI-H/dMMR who failed the previous treatments to use Envafolimab (Level 2B).
- In June 2023, two relevant studies of ENWEIDA® were published in the annual meeting of the ASCO, which were related to gastric cancer and soft tissue sarcoma. In the study related to gastric cancer, the efficacy of using Envafolimab in combination with SOX (Oxaliplatin and TGOP) for the first-line treatment of PD-L1 positive advanced gastric adenocarcinoma emerges, which has a promising future.
- On July 31, 2023, the Gynecological Oncology of Chinese Medical Association (中華醫學會婦科腫瘤學分會) published the 7th Edition of the Clinical Guidelines for Gynecological Oncology of Chinese Medical Association (2023) (《中華醫學會婦科腫瘤臨床指南7版(2023)》). ENWEIDA® is recommended as a therapy drug for MSI-H/dMMR patients with advanced/recurrent endometrial cancer (Level 2B).
- In September 2023, three clinical studies in relation to ENWEIDA® were released at the 23rd World Conference on Lung Cancer (WCLC), of which, the Endouble study showed that ENWEIDA® in combination with Endostar® shows good efficacy and tolerability of patients with advanced NSCLC (PD-L1≥1%). This combination therapy provides new choice to the patients with advanced NSCLC with positive PD-L1 expression, which is worthy of further studies and exploration in the future. The second study indicates that the treatment of patients with advanced NSCLC who had failed prior immunotherapy by ENWEIDA® in combination with Endostar® and β-glucans is safe and controllable, and encouraging anti-tumor activity is shown, thus it is expected to become the new therapy for patients with advanced NSCLC who had failed prior immunotherapy. The third study indicates that the use of ENWEIDA® in combination with carboplatin and etoposide as the first-line treatment of patients with extensive-stage small cell lung cancer ("**ES-SCLC**") has shown significant efficacy and controllable toxicity, which provides a new treatment strategy for ES-SCLC patients.
- In October 2023, five studies in relation to ENWEIDA® were released at the congress of European Society for Medical Oncology (ESMO), of which, the open-label, multi-cohort and multi-center phase II clinical study of ENWEIDA® in combination of Suvemcitug has achieved anti-tumor efficacy and good safety in the hepatocellular carcinoma cohort, NSCLC cohort and colorectal cancer cohort. ENWEIDA® in combination of Lenvatinib has shown preliminary efficacy and controllable safety among NSCLC patients who are PD-1 resistant. ENWEIDA® in combination of standard chemoradiotherapy has achieved good safety and tolerability among patients with locally advanced nasopharyngeal carcinoma.

COSELA® (Trilaciclib Hydrochloride for Injection)

COSELA® is an effective, selective and reversiblecycl in-dependent kinases 4 and 6 (CDK4/6) inhibitor. COSELA® is the world's first-in-class comprehensive myeloprotection innovative drug that can de-administered prior to a chemotherapy and transiently retard hematopoietic stem cells and progenitor cells in G1 phase of cell cycle, thereby protect bone marrow cells from damage caused by cytotoxic chemotherapy. In August 2020, the Group entered into the exclusive license agreement with G1 Therapeutics, Inc. ("**G1 Therapeutics**") to develop and commercialize COSELA® in the Greater China region. On February 13, 2021, the product was approved for sale by the FDA. Currently, the product has been recommended by the related key guidelines of National Comprehensive Cancer Network Guidelines (NCCN), CSCO and other organizations.

- On May 10, 2023, a phase II clinical trial led by G1 Therapeutics showed that, COSELA®, for the use of patients with unresectable and locally advanced or metastatic triple-negative breast cancer ("**TNBC**"), decreased the incidence of various adverse events related to ADC by over 50%, including neutropenia, anemia and diarrhea. Trilaciclib generates targeted effects with clinical value, which provides important and long-term benefits to patients.
- In May 2023, a study analyzing the population pharmacokinetics of Trilaciclib in ES-SCLC and the relationship between the exposure and myeloprotection, anti-tumor and safety of Trilaciclib was published in the British Journal of Clinical Pharmacology. Such analysis of the pharmacokinetics of Trilaciclib showed that, under current clinical application scenarios, it is not necessary to adjust the dose pursuant to the difference in age, gender as well as liver and renal function. Under the recommended dose (240mg/m^2), Trilaciclib can bring about stable myeloprotection.
- On May 11, 2023, the European Society for Medical Oncology Breast Cancer Symposium (ESMO BC) published the initial results of a phase II study in relation to the use of Trilaciclib in combination with sacituzumab govitecan-hziy ("**SG**") in the treatment of metastatic triple-negative breast cancer ("**mTNBC**"). The study results indicate that, the combination of Trilaciclib before applying SG in the treatment of mTNBC may decrease the incidence of adverse events (AEs), such as neutropenia, anemia, nausea and diarrhea.
- On May 25, 2023, the "Frontiers of Pharmacology" published a Systematic Assessment and Meta analysis. The result showed that Trilaciclib was able to effectively reduce the incidence of CIMs like severe neutropenia (SN) and febrile neutropenia (FN), decrease the usage of supportive caring measures like red blood cell transfusions and transfusions of granulocyte colony-stimulating factors (G-CSF) and performed well in terms of safety.

- In June, 2023, the ASCO published two study results about Trilaciclib at its 59th annual meeting, namely the studies in the field of early TNBC and ES-SCLC, respectively.
- On July 18, 2023, the Chinese Medical Journal published the Guideline for Clinical Diagnosis and Treatment of Lung Cancer of Chinese Medical Association (2023) (《中華醫學會肺癌臨床診療指南（2023版）》), pursuant to which, COSELA® was recommended by the guideline for the first time and it was recommended to be administered prior to chemotherapy in order to decrease the incidence of chemotherapy-induced myelosuppression (Class 1).
- On August 14, 2023, the marketing application for the new indication of COSELA® was accepted by the NMPA, which is intended for decreasing the incidence of chemotherapy-induced myelosuppression in adult patients when administered prior to a platinum/topotecan-containing regimen for patients with ES-SCLC. Such new indication will expand the application of COSELA® in ES-SCLC patients receiving two or more lines of chemotherapies.
- In September 2023, the proposal of Trilaciclib in combination with chemotherapy and immunity as the first-line treatment of advanced non-small-cell lung cancer was published in the World Conference on Lung Cancer.
- In October, 2023, the TRACES study of COSELA® for ES-SCLC patients in China receiving chemotherapy was updated in the European Society for Medical Oncology (ESMO) Congress, which pointed out that receiving Trilaciclib before chemotherapy can improve the tolerability of chemotherapy among patients with extensive-stage small cell lung cancer and improve the survival benefits of patients potentially, which is expected to reshape the chemotherapy trend of patients with small cell lung cancer.
- On October 27, 2023, COSELA® has fulfilled the supplemental application conditions and has been approved by the NMPA to change from conditional approval to regular approval.
- On December 20, 2023, the localization application of COSELA® has been approved by the NMPA. In the future, COSELA® can be produced by the production enterprises of the Group in Haikou, Hainan Province, which will further improve its accessibility to patients with cancer in China.

Autoimmune Products

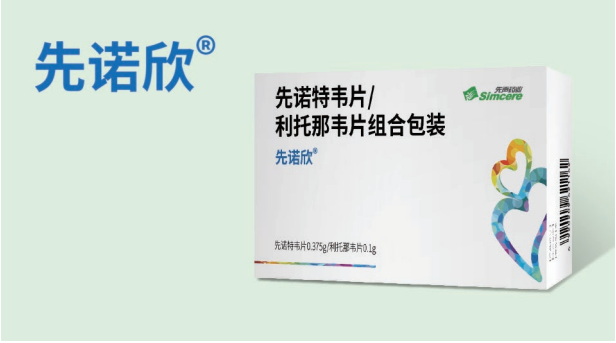
Iremod® (Iguratimod Tablets)

Iremod® is the category 1.1 new drug independently developed by the Group, and also the first Iguratimod pharmaceutical product approved for marketing in the world. Iremod® has been included in the National Medical Insurance Catalogue since 2017. The indication is the active rheumatoid arthritis. Iremod® is recommended as the primary therapy drug for the treatment of active rheumatoid arthritis by a number of clinicalpractice guidelines and pathways issued by the NHC, Chinese Medical Association, Asia Pacific League of Associations for Rheumatology and Labor and Welfare of Japan.

- On May 31, 2023, the 2023 EULAR meeting published seven study results relating to Iguratimod, which involved indications like rheumatoid arthritis ("**RA**") and secondary osteoporosis, osteoarthritis (OA), common interstitial pneumonia (ILD) relating to RA, axial spinal arthritis and systemic sclerosis.
- In August 2023, a study for the first-time investigation of the efficacy and safety of tofacitinib in combination of Iremod® for the treatment of common interstitial pneumonia (UIP) in relation to rheumatoid arthritis was published in the "Frontiers in Immunology". The study results showed that the use of tofacitinib in combination of Iremod® can relieve RA and RA-UIP and it is better than Methotrexate/Leflunomide in combination of other traditional conventional synthetic disease modifying antirheumatic drugs (csDMARDs) in respect of treatment responses of RA-UIP, which may be a potential option for achieving "double target-hit treatments".
- In September 2023, Iremod® was included in the new edition of the "Primary Sjögren's Syndrome Diagnosis and Treatment Standards" (《原發性乾燥綜合征診療規範》). In November 2023, Iremod® was included in the "China's Clinical Practice Guideline on the Off-label Use of Drugs for Sjögren's Syndrome (2023 Edition) (《乾燥綜合征超藥品説明書用藥中國臨床實踐指南(2023版)》) and the "Expert Consensus on the Use of Drugs in Super-drug Labels in Shandong Province (2023 Edition) (《山東省超藥品説明書用藥專家共識(2023年版)》), which provided more options for the patients with Sjögren's Syndrome in China.

Anti-infection Products

XIANNUOXIN® (Simnotrelvir Tablets/Ritonavir Tablets (co-packaged))



XIANNUOXIN® (Simnotrelvir Tablets/Ritonavir Tablets (co-packaged)) is an oral small molecule anti-SARS-CoV-2 innovative drug. Of which, Simnotrelvir targets 3CL protease which is essential for SARS-CoV-2 virus replication, and its combination with low-dose Ritonavir helps to slow down the metabolism and clearance of Simnotrelvir in body in order to improve the antiviral effect. On November 17, 2021, the Group entered into a technology transfer contract with Shanghai Institute of Materia Medica and Wuhan Institute of Virology, Chinese Academy of Sciences, pursuant to which, the Group obtained the development, production and commercialization rights on an exclusive basis of Simnotrelvir worldwide.

- On January 28, 2023, XIANNUOXIN® was conditionally approved for marketing in China by NMPA (Approval No. H20230001) with urgent review and approval under Special Examination and Approval of Drugs (藥品特別審批程序) for the treatment of adult patients infected with mild-to-moderate COVID-19.
- On February 8, 2023, the National Healthcare Security Administration issued a notice that the XIANNUOXIN® was included into the scope of medical insurance reimbursement temporarily.
- On March 2, 2023, the NHC and the National Administration of Traditional Chinese Medicine issued a notice that the XIANNUOXIN® was included in the Diagnosis and Treatment Protocol for Novel Coronavirus Pneumonia (Trial Version 10) (《新型冠狀病毒感染診療方案(試行第十版)》).
- On March 21, 2023, XIANNUOXIN®'s 105 study completed the FPI and completed the enrollment of all 37 subjects on May 16, 2023. Such study is a multi-center, non-randomized, open, parallel and controlled phase I clinical study for evaluating the safety, tolerability and pharmacokinetic characteristics after single-dose administration of SIM0417 in combination with Ritonavir to subjects with mildto-moderate renal insufficiency, moderate hepatic insufficiency, normal renal function and normal hepatic function.
- On April 11, 2023, XIANNUOXIN®'s 108 study completed the FPI and completed the enrollment of all 14 subjects on June 15, 2023. Such study is a single-center, non-randomized and open phase I clinical study aiming at evaluating the safety and pharmacokinetic characteristics after single-dose administration of SIM0417 in combination with Ritonavir to healthy elderly subjects.

- Since April 2023, two real-world studies of XIANNUOXIN® were commenced, namely "the study on the therapeutic effects of anti-COVID-19 drugs in Chinese medical and health institutions on COVID-19" and "the standard treatment in combination with immunomodulation strategy for mild-to-moderate COVID-19 elderly patients (≥65 years old) - A multi-center, randomized, controlled and adaptive platform study". As of the date of this report, the exposure of XIANNUOXIN® in the above study was approximately 2,200 subjects.
- On June 15, 2023, institutions like Guangzhou Institute of Respiratory Health of the First Affiliated Hospital of Guangzhou Medical University (廣州醫科大學附屬第一醫院廣州呼吸健康研究院), the National Center for Respiratory Medicine (國家呼吸醫學中心) and the National Clinical Research Center for Respiratory Disease (國家呼吸疾病臨床研究中心) jointly published the "Chinese Expert Consensus on Diagnosis and Treatment Strategies for SARS-CoV-2 Infection in Immunocompromised Populations (2023 edition)" (《免疫缺陷人群新型冠狀病毒感染診治策略中國專家共識(2023版)》), which indicated that XIANNUOXIN® was one of the priorities of small-molecule drugs to treat COVID-19 for those immunocompromised population.
- On July 11, 2023, the Lancet Regional Health - Western Pacific Magazine digitally published the results of the phase Ib clinical study for the evaluation of effectiveness and safety of XIANNUOXIN® for the treatment of COVID-19 (NCT05369676) (DOI: 10.1016/j.lanwpc.2023.100835).
- On August 24, 2023, as approved by the CDE, the storage conditions of XIANNUOXIN® was changed from "sealed and kept under 25°C" to "sealed and kept under 30°C", and its effective period was extended from 12 months to 18 months.
- On September 19, 2023, Guangdong Pharmaceutical Association (廣東省藥學會) published the Evaluation of and Selected Specialists'Consensus on COVID-19 Small-molecule Antiviral Drugs (《COVID-19小分子抗病毒藥物評價與遴選專家共識》). Through a multi-dimensional scoring, XIANNUOXIN® ranked among the first in the domestic COVID-19 small-molecule antiviral drugs with a total score of 70.1.
- On September 30, 2023, the European Journal of Pharmaceutical Sciences digitally published the results of the phase I clinical study to investigate the safety, tolerability and pharmacokinetics of Simnotrelvir among healthy adult subjects (NCT05339646) (DOI: 10.1016/j.ejps.2023.106598).
- On October 13, 2023, the Nature Communications digitally published the discovery process of Simnotrelvir, an active ingredient of XIANNUOXIN®, and its pre-clinical study results (DOI: 10.1038/s41467-023-42102-y).
- On December 13, 2023, the National Healthcare Security Administration and the Ministry of Human Resources and Social Security published the "Drugs Catalogue for the National Basic Medical Insurance, Work-related Injury Insurance and Maternity Insurance (2023)" (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2023年)》), pursuant to which, XIANNUOXIN® was officially included in the NRDL. The price of XIANNUOXIN® per box/therapy was reduce to RMB479. The New NRDL officially came into effect from January 1, 2024.

- On January 18, 2024, the New England Journal of Medicine digitally published the complete data of the Group's phase II/III, double-blind, randomized, placebo-controlled clinical trial (NCT05506176) of XIANNUOXIN® for the treatment of adult patients with mild-to-moderate COVID-19 (DOI: 10.1056/NEJMoa2301425).

  From August 19, 2022 to December 16, 2022, a total of 1,208 patients were enrolled at 35 research sites in China, with 603 patients in the XIANNUOXIN® group (received 750mg of Simnotrelvir plus 100mg of Ritonavir, twice daily for 5 days) and 605 patients in the placebo group. The results showed that, for adult patients with mild to moderate COVID-19 in China, XIANNUOXIN® could accelerate recovery from symptoms, and shorten the duration of the disease cause, reduce viral load rapidly and significantly, and demonstrate good safety and tolerance:

  (1) Significantly shortened the median time to sustained resolution of 11 targeted COVID-19 symptoms (the "**Duration**"), with greater effectiveness in patients with high risk factors: In the modified intention-to-treat 1 (the "**mITT1**") population who received the first dose within 72 hours after COVID-19 symptom onset, XIANNUOXIN® could significantly shorten the Duration by 35.8 hours; In the subgroup of patients with risk factors for severe COVID-19, XIANNUOXIN® could shorten the Duration by 60.4 hours.

  (2) Demonstration of rapid and significant decrease in viral load: in the mITT1 population, the additional change in viral load from baseline in the XIANNUOXIN® group was 96.9% (-1.51 $\log_{10}$ copies/mL) compared with placebo group on day 5.

  (3) Good safety profile: the safety data showed the XIANNUOXIN® group reported a slightly higher occurrences of adverse events than placebo group, most of these events were of mild or moderate severity and could be recovered without any medical intervention, which suggested that XIANNUOXIN® was safe and tolerable.

  The median age of the patients included in the Study was 35 years, and 1,092 patients (95.9%) had completed primary vaccination, with 874 patients (76.7%) had received a booster dose. Meanwhile, various Omicron variants were covered in the Study, which demonstrated the application value of XIANNUOXIN® in clinical practice. The publication of the Study with great success signifies that XIANNUOXIN® has become the first domestically-made 3CL target anti-SARS-CoV-2 drug with a complete evidence chain.

- On February 2, 2024, the registration application for the change from conditional approval to regular approval of XIANNUOXIN® was accepted by the NMPA.

NDA TRIAL STAGE DRUG CANDIDATES

Nervous system products

Sanbexin® sublingual tablets

Sanbexin® sublingual tablets is an innovative drug jointly developed by the Group and Neurodawn Pharmaceutical Co., Ltd. (南京寧丹新藥技術有限公司). It contains edaravone and dexborneol as two active ingredients, which can disintegrate quickly under the tongue and can be absorbed into the blood through the sublingual venous plexus. Its key pharmacologic activities are anti-inflammations and free radicals scavenging, thus minimizing the cascading injury caused by AIS and protecting brain cells. Such unique sublingual formulation is expected to increase the flexibility of stroke treatment and improve medication compliance. The Sanbexin® sublingual tablets is expected to form a sequential therapy with the Company's marketed Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection) and enable patients to receive a complete course of treatment in and outside of the hospital.

- On June 28, 2023, the NDA of the Sanbexin® sublingual tablets was accepted by the NMPA. The first indication is for the improvement of the neurological symptoms, activities of the daily living and dysfunction caused by AIS.
- On November 28, 2023, the IND of the new indication of Sanbexin® sublingual tablets was approved by the NMPA, which was intended for the clinical trials of the preventive treatment of post stroke cognitive impairment ("**PSCI**") among AIS patients.
- On February 19, 2024, the Journal of American Medical Association • Neurology (JAMA NEUROLOGY, IF: 29.0) published online the key results of the multi-center, randomized, double-blind and placebo-controlled phase III clinical study (the TASTE-SL Study) of Sanbexin® sublingual tablets used for the treatment of acute ischemic stroke. The results showed that, compared with placebo, Sanbexin® sublingual tablets have significantly improved the recovery of neurological function and ability to live independently in AIS patients after treatment. The Sanbexin® sublingual tablets group showed a significantly higher proportion of patients experiencing good functional outcomes (mRS score 0~1) on day 90 after randomization, compared with the placebo group (64.4% vs. 54.7%; OR=1.50; 95% CI 1.15~1.95; P=0.003). For the subgroups in different ages (≤65 or >65), genders, times from onset to treatment (≤24h or >24h), history of hypertension, history of hyperlipemia, history of diabetes, history of heart disease, and renal functions, the benefits of Sanbexin® sublingual tablets group in improving neurological function are consistent. Sanbexin® sublingual tablets have shown good safety profile in AIS patients, with similar rates of adverse events (AE) within 90 days and treatment related adverse events between the two groups.

Oncology products

ENZESHU (Suvemcitug for Injection)

Suvemcitug for injection is a new-generation recombinant humanized anti-VEGF rabbit monoclonal antibody developed by the Group and Apexigen, Inc. (now part of Pyxis Oncology, Inc.) Pre-clinical studies have shown that Suvemcitug has higher affinity and anti-tumor efficacy than Bevacizumab at the same dose in multiple tumor models. The phase Ib clinical studies of Suvemcitug conducted in China for the treatment of ovarian cancer preliminary demonstrated its favorable safety profile and efficacy signals.

- On June 27, 2023, the LPI for the phase III clinical trial (the SCORES Study) of Suvemcitug for injection combined with chemotherapy versus placebo combined with chemotherapy in patients with recurrent and platinum-resistant epithelial ovarian, fallopian tube cancer, or primary peritoneal cancer was achieved. This study was led by the Cancer Hospital Chinese Academy of Medical Sciences, and has enrolled 421 patients at 55 research centers in China.
- On January 3, 2024, the SCORES Study has met the primary study endpoint. The results include the final analysis of progression-free survival (the "**PFS**") as the primary endpoint, the first analysis of overall survival (the "**OS**") as the key secondary endpoint, and the safety analysis. The results showed: (1) the SCORES study has met the primary endpoint PFS which is assessed by the Blinded Independent Review Committee (BIRC) according to the RECIST 1.1 criteria. Compared with the Placebo Group, the improvement of PFS in the Experimental Group is both statistically and clinically significant, and Suvemcitug has shown consistent PFS benefits among all pre-defined sub-groups. The PFS benefit of the Experimental Group evaluated by the researchers is consistent with those evaluated by BIRC; (2) the OS data are immature, but there is a trend of OS benefit in the Experimental Group; and (3) the safety is manageable, no new safety signals are identified. The study results are expected to be released in academic journals or conferences in the future.
- On March 15, 2024, the new drug application of ENZESHU has been accepted by the NMPA. The indication is Suvemcitug combined with chemotherapy for the treatment of recurrent platinum-resistant ovarian, fallopian tube or primary peritoneal cancer.

ENLITUO (EGFR)[1]

ENLITUO is a recombinant anti-epidermal growth factor receptor ("**EGFR**") chimeric monoclonal antibody for first-line treatment of metastatic colorectal cancer ("**mCRC**") in combination with FOLFIRI. It is prepared using a specific expression process, effectively avoiding glycosylation modification that may lead to hypersensitivity. Its safety and efficacy has been confirmed from the results of two completed clinical trials. In March 2023, the drug marketing application of ENLITUO was accepted by the National Medical Products Administration of China. After the launch of the product, it is expected to be the first home-made anti-EGFR monoclonal antibody drug for treatment of mCRC launched in the Chinese market, and provides affordable biological targeted drug with better efficacy for hundreds of thousands of Chinese patients with tumors.

- On August 18, 2023, the Group entered into a cooperation agreement with Mabpharm in respect of the product, pursuant to which, the Group obtained the exclusive commercial rights in respect of ENLITUO in the Chinese mainland.

PHASE III TRIAL STAGE DRUG CANDIDATES

Nervous system products

Daridorexant hydrochloride tablets (DORA)

Daridorexant hydrochloride tablets is an insomnia drug jointly developed by the Group and Idorsia Pharmaceuticals Ltd. ("**Idorsia**"), and is a dual orexin receptor antagonist ("**DORA**") that blocks orexin neuropeptides that promote wakefulness (orexin A and orexin B) from binding to their receptors. Unlike generally promoting sleep by calming the brain, Daridorexant only blocks orexin neuropeptide activation of orexin receptors. Thus, Daridorexant reduces the arousal drive and induces sleep development without altering sleep architecture. The phase III oversea clinical data has been published in The Lancet Neurology: the main studies demonstrated that Daridorexant significantly improved sleep onset, sleep maintenance and self-reported total sleep time compared with placebo during the first and third months of treatment without changing sleep architecture. In addition, Daridorexant was shown to be safe and well-tolerated with no evidence of dependence, rebound insomnia, withdrawal symptoms or drug abuse, distinguishing significantly from what has been reported with benzodiazepine receptor agonists. Daridorexant has clinical data available for up to 12 months of continuous treatment, supporting the long-term use of Deradoorian. In addition to improving nighttime sleep in the adult population with chronic insomnia disorder, Daridorexant also improves daytime functioning, which is the only DORA class insomnia drug approved by the European Medicines Agency (EMA). Daridorexant is currently approved in the United States, Great Britain, Italy, Germany, Switzerland and Canada.

[1] The original code is CMAB009, and is a product with commercial right

- On July 20, 2023, Daridorexant hydrochloride tablets received a notice of approval for Drug Clinical Trials issued by the National Medical Products Administration, which is intended for the treatment of adult insomnia patients who have persistent symptoms for at least three months and have an impact on daytime function.
- On November 30, 2023, the phase I clinical study of Daridorexant in China completed the FPI.
- On December 17, 2023, the randomized, double-blind, placebo-controlled and multi-center phase III clinical study of Daridorexant for the treatment of adult insomnia patients who have persistent symptoms for at least three months and have an impact on daytime function completed the FPI. This study was led by Xuanwu Hospital of the Capital Medical University which was conducted in 33 centers in China.
- On March 15, 2024, the above phase III clinical trial of Daridorexant hydrochloride tablets completed the enrollment of all 205 patients (LPI).

Autoimmune products

LNK01001 (JAK1)[1]

LNK01001 is a highly selective JAK1 inhibitor which has completed 3 phase II clinical studies for patients with rheumatoid arthritis (RA), ankylosing spondylitis (AS) and atopic dermatitis (AD), all of which have successfully met their corresponding primary and secondary endpoints. No related adverse effects of approved JAK1 inhibitors, such as major adverse cardiovascular events, blood clots, serious infection or formation of malignant tumors, were observed. On March 18, 2022, the Group entered into a cooperation agreement with Lynk Pharmaceuticals Co., Ltd. (凌科藥業(杭州)有限公司) ("**Lynk Pharmaceuticals**"), pursuant to which, the Group obtained the exclusive commercialization interest of LNK01001 for rheumatoid arthritis and ankylosing spondylitis indications in China and be responsible for promotion after regulatory approval.

- On August 23, 2023, the randomized, double-blind, placebo-controlled and multi-center phase II clinical study of LNK01001 among adult patients with active ankylosing spondylitis (AS) achieved positive topline results.
- On December 20, 2023, the randomized, double-blind and placebo-controlled phase III study to evaluate the efficacy and safety of LNK01001 for treating patients with mild-to-moderate active rheumatoid arthritis who have an inadequate response to or are unable to tolerate bDMARDs completed the FPI. The clinical study was led by the Peking Union Medical College Hospital of Chinese Academy of Medical Sciences (中國醫學科學院北京協和醫院), and the Company assisted Lynk Pharmaceuticals to promote this study in clinical research centers across the country.

[1] A product with commercial right

Anti-infection products

ADC189 (PA)[1]

ADC189 is a polymerase acidic (PA) protein inhibitor for anti-influenza, by suppressing cap-dependent endonuclease (CEN) of influenza virus. ADC189 can inhibit the replication of influenza virus directly, and suppress both influenza A and B. As shown in the pre-clinical research, ADC189 demonstrates several benefits, including the absence of central nervous system side effects, no effect of food intake on oral drug absorption and higher safety dose. The entire oral dose of ADC189 is merely "one tablet" and is capable of stopping influenza virus replication in 24 hours, having a prospect of bringing great convenience to a large number of patients, including child patients.

- On October 10, 2023, the Group entered into a cooperation agreement with AnDiCon in relation to ADC189. Pursuant to the agreement, the Group will obtain the exclusive commercialization rights of the Product in China for indications related to influenza. Currently, AnDiCon is about to complete the phase III clinical trials of ADC189 for the treatment adult/adolescent patients with influenza.
- In February 2024, children's granules of ADC189 has received the clinical approval and is initiating the bridging of bioavailability (BA) and phase III clinical trials of ADC189.

PHASE II STAGE DRUG CANDIDATES

Rademikibart (IL-4Rα)

Rademikibart is a fully human monoclonal antibody targeting IL-4Rα, a common subunit of IL-4 receptor and IL-13 receptor. By binding with IL-4Rα, Rademikibart can block the functions of IL-4 and IL-13 effectively, thereby blocking the Th2 inflammatory pathway, thus achieving the goal of treating Th2 related inflammatory diseases such as atopic dermatitis and asthma.

- On November 21, 2023, the Group entered into an exclusive license and collaboration agreement with Connect Biopharma in relation to Rademikibart. Pursuant to the agreement, the Group obtained the exclusive rights in relation to the development, manufacturing and commercialization of all indications of Rademikibart in Greater China.
- As of the date of this report, the clinical trial of Rademikibart for atopic dermatitis and indications of asthma is being conducted in China simultaneously.

[1] A product with commercial right

SIM0270 (SERD)

SIM0270 is the second-generation oral selective estrogen receptor degrading agent ("**SERD**") with blood-brain barrier-penetrating properties independently developed by the Group. The efficacy of SIM0270 in the in vivo model is significantly better than an intramuscular SERD drug already on the market, and is equivalent to the efficacy of the leading compound in the clinical trial stage. It reflects a brain-to-blood ratio significantly better than competing compounds and also shows a tumor- inhibiting drug therapy far superior to fulvestrant on the brain orthotropic model of breast cancer. It is expected to be used for the treatment of breast cancer with brain metastases.

- On February 3, 2023, the treatment of estrogen receptor positive breast cancer using SIM0270 in combination with piperacil or ivimox has obtained the Clinical Trial Approval issued by the NMPA. As of the date of this report, dose escalation of the combination study and enrollment for dose-expansion stage were completed.

SIM0335[1]

SIM0335 is a drug candidate developed by BCY Pharm Co., Ltd. ("**BCY**") that controls fatty acid metabolism and works on IL-17A-related pathways. SIM0335 is a topical ointment with 3-Ocyclohexanecarbony1-11-keto-β-boswellic acid (CKBA) being the active ingredient. Phase I clinical results showed that the systematic exposure was low and the systematic safety risk was expected to be small.

- On January 12, 2023, the phase IIa clinical trial of SIM0335 for the treatment of plaque psoriasis completed the enrollment of all patients. The study is designed to evaluate the safety, efficacy, and pharmacokinetics of SIM0335 in mild-to-moderate plaque psoriasis patients.
- On March 2, 2023, Guangdong Taienkang Pharmaceutical Co., Ltd. acquired 50% equity interests in BCY and BCY was no longer a subsidiary of the Group.

[1] A product with commercial right

PHASE I STAGE DRUG CANDIDATES

SIM0235 (humanized anti-TNFR2 monoclonal antibody)

SIM0235 is a tumor-immune target human immunoglobulin G1 ("**IgG1**") humanized anti-tumor necrosis factor receptor type 2 ("**TNFR2**") monoclonal antibody independently developed by the Group. The preclinical pharmacodynamics model shows significant single-agent efficacy and the potential and superior safety in combination with PD-1. SIM0235 can specifically recognize TNFR2 expressed on the cell surface and kill immunosuppressive cells such as Treg and myeloid derived suppressor cells ("**MDSC**") with high expression of TNFR2 through Fc end functions including antibody dependent cell-mediated cytotoxicity (ADCC) and antibody dependent cell-mediated phagocytosis (ADCP). At the same time, it can also block the activation of endogenous tumor necrosis factor (TNF) on TNFR2, inhibit the immunosuppressive function mediated by TNFR2 and the proliferation of related TNFR2+ immunosuppressive cells Treg and MDSC, enhance the body's killing immune response to tumor and play an anti-tumor role. In addition, SIM0235 can specifically recognize TNFR2 expressed on the surface of tumor cells and directly kill tumor cells with high expression of TNFR2 through the effector function mediated by Fc end of antibody.

- On March 13, 2023, the Group reached a clinical development cooperation agreement with MSD to explore the possibility of using SIM0235 in combination with KEYTRUDAR (Pembrolizumab), a PD-1 antibody drug in the above phase I trial.
- As of the date of this report, the phase I clinical trial of SIM0235 for relapsed or refractory advanced solid tumors and cutaneous T-cell lymphoma (CTCL) progressed smoothly in China and the United States, which has completed the enrollment plan for the single-dose escalation stage and obtained the recommended dose for combination, and is proceeding to the dose exploration study stage of combination therapies currently.

SIM0237 (PD-L1/IL15v bispecific antibody)

SIM0237 is an anti-PD-L1 monoclonal antibody fused with IL-15/IL-15Rα sushi protein and developed in-house by utilizing the Group's protein engineering platform. It can block the PD-1/PD-L1 immunosuppressive pathway via binding to PD-L1 and activate the immune system through its IL-15 part, thus playing a synergistic role of relieving immunosuppression and boosting the immune system to exhibit antitumor effect. Preclinical studies showed that SIM0237 is more effective than PD-L1 or IL-15 mono treatment in mouse tumor models, suggesting a high potential for clinical development.

- On March 8, 2023, a phase 1 first-in-human, open-label and multi-center study for the assessment of safety, tolerability, pharmacokinetics and preliminary anti-tumor activity among adult subjects of SIM0237 advanced solid tumors completed the FPI in Hunan Cancer Hospital. Currently, the MRCT clinical trial of SIM0237 for the treatment of advanced solid tumors is being conducted in the U.S. and China.

- On October 15, 2023, a new indication of SIM0237 for injection has obtained the Clinical Trial Approval issued by the NMPA, which is intended to be applicable to patients with non-muscle invasive bladder cancer ("**NMIBC**").
- On January 23, 2024, SIM0237 for patients with NMIBC completed the FPI.

SIM0501 (USP1 small molecule inhibitor)

SIM0501 is an oral, non-covalent and highly selective inhibitor of Ubiquitin Specific Peptidase 1 ("**USP1**") independently developed by the Group. USP1 is found to be over-expressed in various tumors and plays a key role in DNA damage response and repair. The inhibition of USP1 can promote apoptosis in tumors, especially in the tumors with homologous recombination deficiency ("**HRD**"). Following the success of PARP inhibitor ("**PARPi**"), the USP1 inhibitor is expected to provide innovative solutions for more patients with solid tumors in the field of "synthetic lethality". In preclinical in vitro and in vivo pharmacology studies, SIM0501 has shown significant anti-proliferation activity against HRD tumors as a monotherapy or in combination with PARPi, which demonstrates high potential for clinical development.

- On December 2, 2023, the IND application of SIM0501 to initiate clinical trials for advanced solid tumors was approved by the FDA.
- On January 10, 2024, SIM0501 tablets has obtained the Clinical Trial Approval issued by the NMPA, pursuant to which, SIM0501 tablets have been approved to initiate clinical trials for advanced malignant solid tumors as monotherapy.
- On March 19, 2024, the above clinical trial completed the FIH.

SIM0500 (humanized GPRC5D-BCMA-CD3 trispecific antibody)

SIM0500 is a humanized GPRC5D-BCMA-CD3 trispecific antibody, which is a potential best-in-class (BIC) drug for the treatment of multiple myeloma based on the preclinical data. Through the research and development platform of multispecific antibody drugs with the Group's own T-cell engagers, SIM0500 is a tumor-targeted T-cell activating drug, composed with the Group's self-developed CD3 antibody with the feature activated by low affinity and high target activation and the antibody with anti-tumor associated antigen. It has the advantages of excellent tumor-killing effect and good tolerance. SIM0500 can potentially overcome the drug resistance caused by the existing treatments, and show excellent anti-tumor activity in various animal pharmacodynamic models with different expression levels and has multiple advantages such as low effective dose and no recurrence of tumors after drug withdrawal.

- On January 2, 2024, the IND application of SIM0500 injection in China was accepted by the NMPA.
- On March 9, 2024, the IND application of SIM0500 in the U.S. was approved by FDA. SIM0500 is intended to be investigated in a clinical trial in patients with relapsed or refractory multiple myeloma.

On April 9, 2024, SIM0500 for injection was granted a FDA Fast Track Designation for patients with multiple myeloma, who are refractory to, or intolerant of, established therapies known to provide clinical benefit and have received ≥3 prior lines of therapy including a proteasome inhibitor (PI), an immunomodulatory agent (IMiD) and an anti-CD38 monoclonal antibody.

SIM0348 (humanized TIGIT/PVRIG bispecific antibody)

SIM0348 is an IgG1-based humanized TIGIT/PVRIG bispecific antibody developed in-house by utilizing the Group's protein engineering platform. It can specifically bind two novel immune checkpoint proteins, human TIGIT and PVRIG at the same time, aiming to block the interaction between CD155/TIGIT and CD112/PVRIG, and improve the anti-tumor activity of immune cells. SIM0348 has Fc-mediated effector function and can kill immunosuppressive Treg cells with high expression of TIGIT and dual expression of TIGIT and PVRIG, while better mediating the activation and killing effect of NK cells and further enhancing the tumor-killing ability of dual antibodies.

- On March 29, 2023, a first-in-human, open-label and multi-center phase 1 study to evaluate the safety, tolerability, pharmacokinetics and preliminary anti-tumor activity of SIM0348 in advanced solid tumors reached the FPI in the Cancer Center of Sun Yat-sen University (中山大學). Currently, the study has completed the study for single-dose exploration stage and proceeds to the study for dose exploration of combination therapies.

SIM0395 (PI3K/mTOR)

SIM0395 is a BBB-penetrant inhibitor of the PI3K/mTOR pathway. A phase II clinical study showed that Paxalisib has shown highly encouraging signals of clinical efficacy among glioblastoma patients with unmethylated MGMT promoter status. Paxalisib was awarded the GBM orphan drug certification by FDA in 2018 and the fast track certification by FDA, the rare childhood disease and orphan drug certification of diffuse intrinsic pontine glioma (DIPG) in 2020. In March 2021, the Group entered into an exclusive licensing agreement with Kazia to introduce the development and commercialization rights of SIM0395 for all indications in the Greater China region. At present, the partner Kazia is in the international multi-center pivotal phase III clinical trial for glioblastoma (GBM AGILE Study).

SIM0278 (IL2 mu Fc)

SIM0278 is an Fc fusion protein with an IL-2 mutein of Treg, developed based on the Group's protein engineering technology platform. By introducing the mutation, the affinity of SIM0278 to effector T cells is reduced, while the high affinity of Treg cells is retained. Pre-clinical studies have showed that SIM0278 can selectively activate Treg cells in vitro without activating effector T cells or NK cells, so as to achieve the effect of restoring the body's immune balance and has the potential to be developed for the treatment of various autoimmune diseases. On September 28, 2022, the Group entered into a licensing agreement with Almirall, S.A. ("**Almirall**"). Under the agreement, the Group grants Almirall an exclusive rights and interests in the development and commercialization of SIM0278 outside Greater China, while the Group retains all rights and interests in the Greater China Territory.

- On July 27, 2023, SIM0278 injection obtained the clinical trial approval issued by the NMPA, which is indicated for moderate-to-severe Atopic Dermatitis.

- On August 26, 2023, the phase I clinical study of SIM0278 achieved FIH in China.
- On December 21, 2023, Almirall officially launched the phase I clinical trial of SIM0278 overseas, aiming to evaluate the safety, pharmacokinetics, immunogenicity and pharmacodynamics of SIM0278.

SIM0800 (AQP4)

SIM0800 is an Aquaporin-4 (AQP4) inhibitor developed based on the Aquaporin water channel theory which has been awarded the Nobel Prize. It is intended for the treatment of acute severe ischaemic stroke complicated by cerebral oedema, as a first-in-class small molecule drug with a novel mechanism of action for brain oedema therapy. The Group entered into a license agreement with Aeromics, Inc. in October 2019, pursuant to which, the Group obtained a proprietary and sublicensable license for its self-funded research, development, production and commercialization of SIM0800 in the Greater China region.

- On February 25, 2023, the phase I clinical trial of SIM0800 completed the enrollment of the last subject, and the phase I data demonstrated that the safety and tolerance of such drug was good.

SELECTED IND/PRE-CLINICAL STAGE DRUG CANDIDATES

The Group has approximately 40 pre-clinical drug candidates and its in-house pipelines focus on differentiated targets with FIC and BIC potential, which provide strong and diversified product pipelines for the long-term sustainable growth of the Group. Certain research and development assets with high potential are as follows.

SIM0506 (SOS1 small molecule inhibitor)

SIM0506 is an effective and highly selective SOS1 inhibitor independently developed by the Group with global intellectual property rights for the treatment of various solid tumors. SOS1 is one of the main targets that indirectly inhibits the activity of KRAS, catalyze GTP to swap with GDP in RAS, thus activating KRAS. Pre-clinical studies showed that SIM0506 demonstrates pan-KRAS inhibitory activity and its synergistic effect was remarkable after combination, which is safe and tolerant with low effective dose and good anti-tumor effect. The combination with KRAS and MEK inhibitors both showed good synergistic effect. In clinical applications, it can be used in combination with KRAS inhibitors or ERK inhibitors or MEK inhibitors or chemotherapeutics for the treatment of solid tumors with KRAS mutation.

- On February 7, 2024, the IND of SIM0506 capsules was accepted by the NMPA.

SIM0508 (Pol θ small molecule inhibitor)

Pol θ is a DNA polymerase, whose mediation of MMEJ repair pathway is one of the important approaches for repairing DNA double strand breaks. When tumor cells experience homologous recombination repair deficiency (HRD), MMEJ, a major compensation pathway, is upregulated to help tumors escape from DNA damage and reduce the synthetic lethal effect of PARP inhibitor and HRD. Through the combined use of Pol θ inhibitor and PARP inhibitor, the repair pathways of single-chain recovery and double-chain compensation in HRD tumor cells can be inhibited at the same time, which will lead to the accumulation of a large amount of DNA damages and induce the death of tumor cells, thereby creating enhanced synergistic effects. As compared with other DDR targets, Pol θ inhibitors has relatively less impacts on normal cells. In addition, while Pol θ inhibitors can enhance efficacy when using in combination with PARP inhibitors, the possibility of creating additional safety risk is relatively lower. For patients with solid tumors of various HRDs, it is a new therapeutic strategy which is potentially effective and safe. The Group plans to submit the IND to NMPA and FDA in the first half of 2024.

SIM0505 (CDH6-ADC)

CDH6 is a type II classical cadherin, also known as K-cadherin, located in the lateral basement membrane of epithelial cells and mediates calcium-dependent cell-cell adhesion. The group has developed a targeted CDH6 antibody-drug conjugate (ADC) by connecting CDH6 monoclonal antibody specifically binding to tumor cells with camptothecin toxoid molecules with independent intellectual property rights, which combines the tumor targeting of antibodies with the high-efficiency killing effect of toxin molecules, while avoiding the defects of low curative effect of the former and excessive toxic side effects and poor drug-making performance of the latter. Compared with traditional chemotherapy drugs, it can target tumor cells accurately, reduce the toxic side effects on normal cells and achieve a safer and more effective anti-tumor effect. Such ADC is intended to be developed for the treatment of malignant tumors like ovarian cancer and renal cancer, and the Group plans to submit the IND application to the NMPA and FDA at the end of 2024 and in the first half of 2025, respectively.

SIM0686 (FGFR2b-ADC)

Fibroblast growth factor receptor (FGFR) is a transmembrane tyrosine kinase receptor of fibroblast growth factor (FGF). At present, there are four known subtypes, namely FGFR1, FGFR2, FGFR3 and FGFR4. When FGFR integrates with ligand and heparin, it will induce FGFR to form dimer which make tyrosine kinase domain in cells autophosphorylate, activate multiple signal transduction pathways in cells and promote cell proliferation, survival and differentiation. FGFR2b is a splicing isomer of FGFR2, which is mainly expressed in epithelial tissues and has high affinity for FGF7 subfamily. The Group has developed an ADC targeting FGFR2b, which connects monoclonal antibodies specifically binding to tumor cell surface antigen FGFR2b with camptothecin toxoid molecules with independent intellectual property rights through a linker. Such ADC can kill cells and inhibit tumors by binding antibodies to receptors on the surface of tumor cells and inducing endocytosis to release toxins. Such ADC is intended to be developed for the treatment of advanced malignant tumors like gastric cancer and lung cancer, and the Group plans to submit the IND application to the NMPA and FDA in the first half of 2025.

SIM0323 (CD80/IL2)

SIM0323 is the first-in-class CD80/IL-2 bifunctional fusion protein developed by the Group and GI Innovation, Inc. The preclinical pharmacodynamic model shows significant single-drug efficacy and the potential for combined use with other anticancer drugs, such as PD-1 inhibitors and chemotherapeutics. In 2021, the partner was approved for clinical trials by the Korean Ministry of Food and Drug Safety and the FDA to carry out phase I/II clinical trials of the drug.

SIM0802 (PSD-95)

SIM0802 is a dimer peptide candidate drug that the Group cooperates with Avilex, a Danish biotechnology company, and is intended to be used for the treatment of a variety of neurological diseases such as AIS and Subarachnoid Hemorrhage (SAH). The action target is PSD-95. PSD-95 can induce the production of neuroexcitotoxic substances and damage neurons by forming a complex with N-methyl-D-aspartate ("**NMDA**") receptor and neuronal nitric oxide synthase ("**nNOS**"), one of the subtypes of glutamate receptor. SIM0802, as a dimer inhibitor of PSD-95, can simultaneously bind to two PDZ domains in PSD-95 and block the interaction between PSD-95, NMDA and nNOS. Its molecular structure has been optimized to have higher affinity, higher stability and stronger neuroprotective activity.

GENERIC PHARMACEUTICALS

For the year ended December 31, 2023, the Group obtained approvals for four new generic pharmaceuticals, including bedaquiline fumarate tablets (0.1g (calculated by $C_{32}H_{31}BrN_2O_2$)), sevelamer carbonate tablets (0.8g), posaconazole injection (16.7ml:0.3g) and Apremilast tablets (10mg, 20mg and 30mg), and one consistency evaluation application regarding Palonosetron Hydrochloride Injection (5ml:0.25mg (calculated by $C_{19}H_{24}N_2O$)). In addition, the supplemental application of Tofacitinib Citrate Tablets (5mg (calculated by $C_{16}H_{20}N_6O$)) for additional indication (active psoriatic arthritis) has been approved.

INTELLECTUAL PROPERTY RIGHTS

Meanwhile, the Group attaches great importance to the protection of intellectual property rights. For the year ended December 31, 2023, the Group had 310 new patent applications (including domestic and overseas unpublished patent applications), including 300 invention patent applications, three utility model patent applications and seven appearance design patent applications. As of December 31, 2023, the Group has accumulatively obtained 247 invention patents, 95 utility model patents and 27 appearance design patents.

PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The profit for the year attributable to equity shareholders of the Company was approximately RMB715 million for 2023, representing a decrease of approximately RMB216 million or approximately 23.2% from approximately RMB931 million for 2022. Such decrease in profit for the year attributable to equity shareholders of the Company was mainly attributable to the following investment projects and one-off gain items: (1) net realized and unrealized losses (before tax) on financial assets at fair value through profit or loss of approximately RMB742 million recorded for 2023 due to the change in fair value of the investment in the shares of 3D Medicines Inc., which is measured based on the closing price of the shares of 3D Medicines as of December 31, 2022 and December 31, 2023, while the net realized and unrealized gains (before tax) on financial assets at fair value through profit or loss recorded for such investment in FY2022 was approximately RMB394 million; and (2) one-off gain (before tax) of approximately RMB789 million recorded by the Group from the disposal of subsidiaries in the first half of 2023.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a sound financial position. As at December 31, 2023, the Group had cash and cash equivalents of approximately RMB2,007 million (as at December 31, 2022: approximately RMB1,658 million), time deposits of approximately RMB12 million (as at December 31, 2022: approximately RMB975 million). As at December 31, 2023, the Group had a balance of bank loans of approximately RMB1,221 million (as at December 31, 2022: approximately RMB1,292 million), of which, RMB1,015 million (as at December 31, 2022: RMB1,292 million) would mature within one year. As of December 31, 2023, all of the Group's bank loans bore interest at fixed rates, and the effective interest rate range for these loans was 0.85% to 2.70% per annum. As at December 31, 2023, the gearing ratio of the Group (total liabilities divided by total assets) was approximately 33.5% (as at December 31, 2022: approximately 33.7%).

Currently, the Group follows a set of funding and treasury policies to manage its capital resources and prevent risks involved. The Group expects to fund its working capital and other capital requirements from a combination of various sources, including but not limited to external financing at reasonable market rates. In order to better control and minimize the cost of funds, the Group's treasury activities are centralized.

The assets and liabilities of the Group were denominated in RMB, USD, GBP and HKD. During the Reporting Period, the Group did not employ financial derivatives or enter into foreign derivative contracts to hedge against foreign exchange risk. However, the Group manages the foreign exchange risks by closely monitoring the net exposure of foreign exchange risk to minimize the impact of foreign exchange fluctuations.

PLEDGE OF GROUP'S ASSETS

As at December 31, 2023, the Group pledged bills receivable of approximately RMB76 million for issuance of bank acceptance bills and pledged bank deposits of approximately RMB53 million for issuance of letter of guarantee. As at December 31, 2023, leasehold land with net book value of approximately RMB113 million was pledged as security for banking facilities, which were not used at the reporting date. Save as disclosed above, as at December 31, 2023, none of the Group's assets were pledged.

CONTINGENT LIABILITIES

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

SIGNIFICANT INVESTMENTS HELD

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in "Use of Proceeds from the Listing" in this report, as at December 31, 2023, the Group did not have any other future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS

For the year ended December 31, 2023, the Group had no material acquisition or disposal of subsidiaries, associates and joint ventures.

EMPLOYEES AND REMUNERATION POLICY

As at December 31, 2023, the Group had a total of 7,027 full-time employees. The Group attached great importance to the recruitment, training and retention of outstanding employees, maintained a high standard in selecting and recruiting talents worldwide, and offered competitive compensation packages. The remuneration of employees mainly included basic salary, performance-based bonus and long-term incentives. Remuneration of the full-time Directors and senior management of the Company shall be determined by the Remuneration and Appraisal Committee under the Board with reference to the principal duties of relevant managerial positions, the results of performance assessment, as well as the remuneration level in the market. For the year ended December 31, 2023, staff costs (including emoluments, social insurance and other benefits of the Directors) amounted to approximately RMB2,402 million. The Group established Simcere Institute, providing employees with training on a regular basis, including orientation programs and technical training for new employees, professional and management training for middle and senior management, and health and safety training across all staff. In addition, the Group has also adopted a restricted share unit scheme on May 20, 2021, with an aim to (1) incentivise the existing and incoming directors, senior management and employees for their contribution to the Group; and (2) attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

DEFINED CONTRIBUTION RETIREMENT PLAN

The Group only operates defined contribution pension plans. Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement plan administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

No forfeited contribution (by the Group on behalf of its employees who leave the scheme prior to vesting fully in such contributions) is available to be utilized by the Group to reduce the contributions payable in the future years or to reduce the Group's existing level of contributions to the defined contribution retirement plan.

The board (the "**Board**") of directors ("**Directors**", and each a "**Director**") of the Company is pleased to submit this report and audited consolidated financial statements of the Group for the year ended December 31, 2023 (the "**Reporting Period**").

GENERAL INFORMATION

The Company was incorporated in Hong Kong on November 30, 2015. The shares of the Company (the "**Share(s)**") were listed on the Main Board of the Stock Exchange on October 27, 2020.

PRINCIPAL BUSINESS

The Company is an investment holding company. The Group primarily engages in the R&D, production and commercialization of pharmaceuticals. The Group has a diversified product portfolio in its strategically-focused therapeutic areas, including (i) oncology, (ii) nervous system, (iii) autoimmune and (iv) anti-infection, with leading positions in their respective therapeutic segments and/or established track record.

Operating segment information of the Company for the year ended December 31, 2023 is presented in Note 4 to the consolidated financial statements, and a list of principal subsidiaries of the Company, together with the details of their places of incorporation and business, principal activities and issued and paid-in capital, is set out in Note 15 to the consolidated financial statements. There are no changes in the principal business of the Group during the year.

RESULTS AND DIVIDENDS

The operating results of the Group for the year ended December 31, 2023 and the financial positions of the Group and the Company as at the same date are set out on pages 113 to 116 of the consolidated financial statements and page 227 of the company-level statement of financial position.

On March 20, 2024, the Board declared the payment of final dividend of RMB0.16 per Share for the year ended December 31, 2023 to shareholders of the Company (the"**Shareholder(s)**") whose names are on the register of members of the Company on Tuesday, June 25, 2024. Based on the total number of Shares in issue as of the date of this report, the total final dividend to be paid by the Company amounts to approximately RMB417,561,858.88. The proposed final dividend will be subject to the approval by the Shareholders at the annual general meeting of the Company (the "**AGM**") to be held on Friday, June 14, 2024 and is expected to be distributed to Shareholders on or before Monday, July 15, 2024.

DIVIDEND POLICY

For the details of the dividend policy of the Company, please refer to the "Corporate Governance Report – Dividend Policy" on page 89 of this annual report.

BUSINESS REVIEW

A fair review of the business of the Group including an indication of likely future developments of the Group's business and an analysis of the Group's performance using financial key performance indicators during the year ended December 31, 2023 are provided in the sections headed "Financial Highlights", "Company Overview", "Chairman's Statement" and "Management Discussion and Analysis" on pages 4, 5, 6 and 7 of this annual report, which form part of this report.

FINANCIAL SUMMARY

According to the audited consolidated financial statements, a summary of results, assets and liabilities of the Group for the past five fiscal years is presented on page 230 of this annual report. This summary does not form part of the audited consolidated financial statements.

SUBSIDIARIES

Simnogen Biotech Ltd. ("**Simnogen Biotech**"), a limited liability company established and operated in the PRC, is held as to 51% by the Group, the financial statements of which, however, are not consolidated into that of the Group as the Group does not control its board of directors. Therefore, Simnogen Biotech is a subsidiary of the Company by virtue of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

In addition, Jiangsu Xinhaikang Pharmaceutical Co., Ltd ("**Xinhaikang**"), a limited liability company established and operated in the PRC, is held as to 70% by the Group, the financial statements of which, however, are not consolidated into that of the Group as the Group does not control its board of directors. Therefore, Xinhaikang is a subsidiary of the Company by virtue of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Save as disclosed herein, particulars of the Company's subsidiaries are set out in Note 15 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes in the property, plant and equipment of the Group during the year are set out in Note 12 to the consolidated financial statements.

SHARE CAPITAL

The Company had 2,630,975,618 ordinary Shares in issue as of December 31, 2023. Details of the movements in the share capital of the Company for the year ended December 31, 2023 are set out in Note 35 to the consolidated financial statements.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the initial public offering of the Shares in October 2020 and allotment and issuance of the Shares pursuant to the partial exercise of the over-allotment option in November 2020 (the "**Net Proceeds**"), amounted to approximately HK$3,513.09 million in aggregate. The proposed use of the Net Proceeds was disclosed in the prospectus of the Company dated October 13, 2020 (the "**Prospectus**").

The following table sets out the utilization of the Net Proceeds as of the December 31, 2023 and the expected timeline for utilization:

Purpose	Percentage of the total amount	Actual amount of the Net Proceeds (HK$ in million)	Accumulated amount of the Net Proceeds utilized during the year ended December 31, 2023 (HK$ in million)	Accumulated amount of the Net Proceeds utilized as of December 31, 2023 (HK$ in million)	Amount of the Net Proceeds unutilized as of December 31, 2023 (HK$ in million)	Expected timeline for utilization
Continuous research and development of the Group's selected product candidates in its strategically focused therapeutic areas	60%	2,107.85	378.56	1,575.47	532.38	The actual Net Proceeds are expected to be fully utilized by 2027.
Reinforcement of the Group's sales and marketing capabilities	10%	351.31	-	351.31	-	The actual Net Proceeds have been fully utilized.
Investment in companies in the pharmaceutical or biotechnology sector	10%	351.31	-	351.31	-	The actual Net Proceeds have been fully utilized.
Repayment of certain of the Group's outstanding bank loans	10%	351.31	-	351.31	-	The actual Net Proceeds have been fully utilized.
Working capital and other general corporate purposes	10%	351.31	-	351.31	-	The actual Net Proceeds have been fully utilized.
Total	**100%**	**3,513.09**	**378.56**	**2,980.71**	**532.38**	

For more details, please refer to the section headed "Future Plans and Use of Proceeds – Use of Proceeds" of the Prospectus. On April 15, 2021, the Board resolved to reallocate the Net Proceeds amounting to approximately HK$325.62 million for the selected cell therapy product candidates, including CD19 CAR T-cell therapy (Indication 1), CD19 CAR T-cell therapy (Indication 2), BCMA CAR T-cell therapy and SIM0325, to the selected oncology product candidates that are currently under development, including COSELA® (SCLC, metastatic CRC and TNBC), SIM0395 and Docetaxel Polymeric Micelles for Injection. On August 31, 2022, the Board resolved to reallocate part of the unutilized Net Proceeds amounting to approximately HK$530 million which originally proposed to be used in selected innovative oncology product candidates at pre-clinical stages (including SIM-200, SIM-203-1, SIM-203-2, SIM-203-3 and SIM-236) to continuous R&D of Sanbexin® sublingual tablets, Sanbexin® (Edaravone and Dexborneol Concentrated Solution for Injection), XIANNUOXIN® and SIM0278. For relevant details, please refer to the announcements of the Company dated April 15, 2021 and August 31, 2022 in relation to the change in use of proceeds (the "**Announcements**"). As of December 31, 2023, the Net Proceeds utilized was approximately HK$2,980.71 million and the Net Proceeds unutilized was approximately HK$532.38 million. The Company intends to apply the unutilized Net Proceeds as of December 31, 2023 in the manner and proportion set out in the Prospectus and the Announcements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Directors have been granted a general mandate by the Shareholders at the annual general meeting of the Company held on June 15, 2023 (the "**2022 AGM**") to repurchase up to 266,404,561 Shares on the Stock Exchange (the "**Repurchase Mandate**"), representing 10% of the total number of issued Shares as of the date of the 2022 AGM. During the Reporting Period, the Company repurchased a total of 47,323,000 Shares on the Stock Exchange pursuant to the Repurchase Mandate at a total consideration (excluding expenses) of HK$312,456,420.00 (the "**Share Repurchase**"), which was funded by internal resources of the Company. As of the date of this report, the 47,323,000 Shares repurchased by the Company during the Reporting Period were all cancelled. Details of the Shares repurchased by the Company during the Reporting Period are as follows:

Month of Share Repurchase	Total number of Shares repurchased	The highest purchase price per Share (HK$)	The lowest purchase price per Share (HK$)	Total consideration (excluding expense) (HK$)
June 2023	7,043,000	7.77	7.20	53,079,460
September 2023	21,028,000	6.62	6.05	134,310,160
October 2023	14,375,000	6.82	5.92	91,606,080
November 2023	2,019,000	7.36	6.80	14,496,730
December 2023	2,858,000	7.15	6.24	18,963,990
Total	**47,323,000**	**–**	**–**	**312,456,420**

The Board believes that the Share Repurchase demonstrates the Company's confidence in its own business outlook and prospects and would, ultimately, benefit the Company and create value to the Shareholders. In addition, the Board believes that the current financial resources of the Company enable it to implement the Share Repurchase while maintaining a solid financial position.

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

DEBENTURE ISSUED

The Group did not issue any debenture during the year ended December 31, 2023.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 35 to the consolidated financial statements, respectively.

RESERVES AVAILABLE FOR DISTRIBUTION

The Company's reserves available for distribution to the Shareholders at December 31, 2023 amounted to RMB132,582,000 (2022: RMB252,418,000).

MAJOR CUSTOMERS AND SUPPLIERS

The Company's customers primarily consist of (i) distributors and pharmacy chains which directly purchase pharmaceutical products from the Company; (ii) other pharmaceutical manufacturers to which the Company provides promotion services; and (iii) biotechnology company which the Company provides research services. The Company's suppliers primarily include (i) suppliers for the raw materials of the Group's pharmaceutical products; and (ii) manufacturers of third-party pharmaceutical products.

For the year ended December 31, 2023, revenue from the five largest customers of the Group accounted for 14.1% of its total revenue, and revenue from the largest customer of the Group accounted for 5.2% of its total revenue. For the year ended December 31, 2023, purchase amount from the five largest suppliers of the Group accounted for 54.3% of its total purchase costs, and purchase amount from the largest supplier of the Group accounted for 33.0% of its total purchase costs.

During the year ended December 31, 2023, none of the Directors, their respective close associates or any Shareholder (who, to the knowledge of the Directors, owned more than 5% of the issued Shares of the Company), had any interest in any of the Group's top five customers and suppliers.

KEY RELATIONSHIP WITH STAKEHOLDERS

Human resources are one of the most important assets of the Group. The Group strives to motivate its employees by providing them with a clear career path as well as comprehensive and professional training courses. In addition, the Group also offers competitive remuneration packages to its employees, including basic salary, certain benefits and other performance-based incentives.

The Group purchases imported pharmaceutical products from overseas suppliers directly and generate revenue by on-selling them to hospitals and pharmacies through distributors. The Group's suppliers have granted it the rights to market, promote and manage sales channels for their products in China. The Group maintains a stable and long-term relationship with its suppliers by providing them access to the growing Chinese market with steady sales growth.

The Group sells pharmaceutical products to distributors, who resell the products to hospitals and pharmacies either directly or indirectly through their sub-distributors. The Group maintains stable and long-term relationship with its distributors by providing them guidance and training.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognizes the importance of proper adoption of environmental policies which is essential to the attainability of corporate growth. The strategy committee of the Company is responsible for (i) making suggestions for the development of the Company's environmental, social and governance ("**ESG**") objectives and monitoring the progress of their implementation; and (ii) reviewing the development trends of the ESG industry as well as evaluating and making suggestions for major ESG-related decisions, ensuring the Company complies with relevant legal and regulatory requirements, and promoting implementation of relevant policies by various departments of the Company.

The Group strictly abides by the laws and regulations related to environmental protection in the place of operation, regularly monitors air pollutants, water pollution, harmful and harmless wastes and noise, and disposes them in accordance with the laws. In order to improve the performance of energy conservation and emission reduction and the level of environmental management, the Group continues to improve the environmental management system and include indicators of energy conservation and environmental protection into the annual assessment through the formulation of performance assessment measures for energy conservation and environmental protection management, so as to promote a long-term working mechanism for energy conservation and environmental protection. The Group also carries out online publicity activities of environmental protection to fully integrate the concept of energy conservation and emission reduction into daily office.

The detailed information regarding the Group's performance on environmental and social-related policies and the compliance with relevant laws and regulations which have a significant impact on the Group will be disclosed in the "Environmental, Social and Governance Report" separately published by the Company.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the Reporting Period, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

PRINCIPAL RISKS AND UNCERTAINTIES

Save as disclosed in Note 38 to the consolidated financial statements in this annual report, the Group has identified the following principal risks and uncertainties, which may have a material and adverse impact on the Group's business performance, financial condition, results of operations or prospects. There may be other principal risks and uncertainties in addition to those set out below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Principal Risks and Uncertainties Relating to the Industry

- The Group operates in a highly competitive industry. Inability to compete effectively against new or existing competitors in the industry could result in decrease of sales, reduction of price and loss of market share.
- Science and technology, clinical demand and market condition in the pharmaceutical industry may change continuously and rapidly, and the Group may not be able to sufficiently and promptly respond to such changes.

Principal Risks and Uncertainties Relating to the Group's Existing Products and Product Candidates

- The Group may not be able to maintain the sales volumes, pricing levels and profit margins of its major products due to various factors.
- The Group's products may be excluded or removed from national, provincial or other government-sponsored medical insurance programs, or be included in national or provincial negative catalogs, any of which could adversely affect the Group's sales, profitability and business prospects.
- The Group or its products may not be able to achieve or maintain widespread acceptance and positive reputation among government authorities, business partners, healthcare practitioners and patients.
- The Group may fail in tender processes to sell its products to public hospitals and other medical institutions in China and therefore lose market share.
- The Group's products may not be produced to the necessary and consistent quality standards. The Group's products may cause or be perceived to cause serious adverse events due to the individual differences of patients as well as the complexity of diseases, thus resulting in the Group's reputation and business operations being negatively affected.
- The Group may be subject to claims relating to product liability and adverse events in connection with products sold and/or promoted by it as well as product candidates used by it in clinical trials. The Group may fail to defend itself against such claims.
- The prices of certain of the Group's products are subject to pricing regulation, competition and other factors and therefore may decrease.
- Development of product candidates, in particular innovative drug candidates, is time-consuming and costly, and the outcome is uncertain. The Group may fail to achieve research and development milestones as planned and/or disclosed, address regulatory concerns (particularly on safety and efficacy) effectively, obtain regulatory approvals timely, conduct commercialization successfully, or achieve market acceptance as anticipated, for its product candidates.
- The successful implementation of the Group's product development projects is subject to a number of factors outside its control, including failure to maintain, renew or establish relationships with existing or potential research and development partners, or research and development partners' failure to complete their contractual obligations or research and development targets.

- The Group relies on third parties to monitor, support and/or conduct pre-clinical studies and clinical trials of its product candidates. If these third parties fail to carry out their contractual obligations or meet deadlines as expected, the Group may not be able to obtain regulatory approvals for or commercialize its product candidates in a timely manner or at all.
- Even if the Group obtains regulatory approvals for product candidates, it will also be subject to continued regulatory review. Any failure to comply with regulatory requirements or occurrence of unanticipated problems with the product candidates may subject it to penalties.

Principal Risks and Uncertainties Relating to Third-party Products

- The Group has limited or no control over the quality and production process of the products manufactured by third-party pharmaceutical companies and sold and/or promoted by it. Such third-party pharmaceutical companies may fail to produce or deliver the relevant products as planned and the relevant products may be found defective or otherwise not produced to the necessary and consistent quality standards.
- The progress of third-party research and development and the impact of market policies may cause risks associated with development and commercialization of the Group's products.

Principal Risks and Uncertainties Relating to the Group's Operations

- The Group may face significant competition in seeking appropriate collaboration partners, invest time and effort in negotiating collaboration details, obtain additional expertise and capital, incur non-recurring and other charges, or increase short and long-term expenditures, in connection with its existing and future collaboration arrangements for the development and commercialization of its product candidates. In addition, the Group may not be able to realize benefits from such arrangements.
- The Group depends on the supply of certain raw materials and pharmaceutical products, and it may encounter decrease, shortage or delay in the supply of, or increase in the price of, such raw materials and pharmaceutical products, which may cause disruptions to the Group's production or increase the Group's costs.
- If the Group's production facilities encounter substantial disruption or other problems in manufacturing its products, its production capacity could be materially and adversely affected, and it may fail to complete contractual obligations or meet market demand for its products in a timely manner or at all. If the Group fails to increase production capacity, it may not be able to capture the potential growth in market demand for its products, or to commercialize its product candidates.
- The Group may fail to maintain optimal inventory levels, which could increase its operating costs or lead to unfulfilled customer orders.

- The Group may fail to sell and/or promote its products and third-party products effectively due to various factors, including, among other things, inadequate promotion, sales and marketing activities, failure to attract, train and retain a sufficient number of qualified promotion, sales and marketing personnel, and failure to maintain, expand and optimize an effective distribution network.
- The Group could be subject to risks caused by misuse, leakage or loss of information maintained in its or its collaborators' information technology systems, including personal and medical information that the Group or its collaborators collected in clinical trials. Any misuse, leakage or loss of such information could result in liability and damage to the Group and distract the attention of its management.
- The Group's employees, distributors or third-party promoters may engage in misconduct or other improper activities, as a result of which, the Group may be exposed to regulatory investigations, penalties or other negative consequences.
- The Group may not be able to successfully complete any acquisition or enhance post-acquisition performance in the future.
- If the Group fails to adequately protect its intellectual property, or if the scope of its intellectual property fails to sufficiently protect its proprietary rights, other pharmaceutical companies could compete against it more directly. Occurrence of counterfeits of the Group's products may also expose the Group to reduced sales volume of the relevant products, negative publicity, reputational damages and even litigations.
- The Group may become a party to litigations, legal disputes, claims or administrative proceedings, which could divert its management's attention and result in costs, liabilities and damages to its reputation.
- The Group's insurance coverage is limited and may be insufficient. The occurrence of uninsured losses could adversely affect the Group's financial condition and results of operations.
- If the Group's internal risk management and control system is not adequate or effective, and if it fails to detect potential risks in its business as intended, the Group's business, financial condition and results of operations could be materially and adversely affected.
- The Group may lose the services of one or more of its senior management team, key research and development personnel and other key personnel, and the Group may not be able to locate suitable or qualified replacements in a timely manner or at all.
- Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases, such as the COVID-19 pandemic, could adversely affect the Group's financial condition and results of operations.

Principal Risks and Uncertainties Relating to the Group's Financial Condition

- If the Group experiences delays in collecting payments from distributors, its cash flows and operations could be adversely affected.
- Any change or discontinuation in preferential tax treatment or financial subsidies that currently are or may be available to the Group in the future could materially and adversely affect its business, financial condition and results of operations.
- The fair value measurement of certain of the Group's assets is subject to significant risks and uncertainties and the fair value change of such assets may materially and adversely affect its results of operations.
- Any significant decrease in the Group's future profitability could materially and adversely affect its ability to recover its deferred tax assets.
- If the Group does not have access to sufficient funding for the implementation of its strategies and other aspects of its business, its business prospects and future growth could be adversely affected.

Principal Risks and Uncertainties Relating to Regulatory Compliance

- Promulgation of new laws, rules and regulations, or amendments or further interpretation or enforcement of existing laws, rules and regulations, may materially affect the Group's business and profitability.
- The Group's overseas investments may be subject to laws, rules, regulations and policies, as well as developments thereof, in the corresponding jurisdictions.
- The Group may be restricted from transferring its scientific data abroad and exchanging of data and materials during the collaborative development and research.
- The Group or its business partners may fail to successfully obtain, maintain or renew the necessary permits, licenses or certificates for the development, production, promotion, sales or distribution of its products.
- If the Group fails to comply with laws and regulations regarding environmental, social and governance matters, it could be subject to fines or penalties which may adversely affect its business and reputation.

Principal Risks and Uncertainties Relating to the Group's Operational Environment

- Economic, political and social conditions and government policies could continue to affect the Group's business, results of operations and financial condition.
- Market regulatory actions and civil claims derived therefrom against the Group may expose it to penalties, business constraints and reputational damages.
- Investors may experience difficulties in effecting service of legal process and seeking recognition and enforcement of judgments across jurisdictions.

The Company believes that risk management is essential to the Group's effective and efficient operations, reliable financial reporting and regulatory compliance. Senior management team of the Company assists the Board in evaluating material risk exposure of the Group, participates in formulation of appropriate risk management and internal control measures, and ensures such measures are properly implemented during the Group's daily operations. However, investors are still advised to make their own judgment or consult their own investment advisers before making any investment in the Shares.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as of December 31, 2023 are set out in the section headed "Management Discussion and Analysis – Liquidity and Financial Resources" in this annual report and Note 26 to the consolidated financial statements.

DONATIONS

During the Reporting Period, the Group made charitable and other donations in an aggregate amount of approximately RMB67.13 million.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

On January 1, 2024, Jiangsu Simcere Biological Co., Ltd. (江蘇先聲生物製藥有限公司) ("**Simcere Biological**", an indirectly wholly-owned subsidiary of the Company) entered into an equity transfer agreement with Jiangsu Simcere Diagnostics Technology Co., Ltd. (江蘇先聲診斷技術有限公司) ("**Jiangsu Diagnostics Technology**"), pursuant to which Simcere Biological has agreed to acquire, and Jiangsu Diagnostics Technology has agreed to sell, the entire equity interest in Nanjing BioSciKin Innovative Medical Technology Co., Ltd. (南京百家匯創新醫療科技有限公司) ("**Nanjing BioSciKin**") for a cash consideration of RMB42,306,500 (the "**Acquisition**"). The Acquisition was completed on January 31, 2024. Since then, Nanjing BioSciKin has become an indirectly wholly-owned subsidiary of the Company. For details, please refer to the announcement of the Company dated January 1, 2024.

On February 24, 2024, the Company, Simcere Pharmaceutical (Shandong) Co., Ltd. (先聲藥業(山東)有限公司) (a directly wholly-owned subsidiary of the Company), Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) (an indirectly wholly-owned subsidiary of the Company) and Hainan Simcere Zaiming Pharmaceutical Co., Ltd. (海南先聲再明醫藥股份有限公司) ("**Simcere Zaiming**", formerly known as Simcere Zaiming Pharmaceutical Co., Ltd. (先聲再明醫藥有限公司) and an indirectly wholly-owned subsidiary of the Company before the Capital Contribution) and each of its subsidiaries (collectively, the "**Simcere Zaiming Group**") entered into the capital contribution agreement (the "**Capital Contribution Agreement**"), the shareholders' agreement and other relevant transaction documents with Future Industry Investment Fund II (Limited Partnership) (先進製造產業投資基金二期(有限合夥)), Shenzhen Zhongshen Xinchuang Equity Investment Partnership (Limited Partnership) (深圳中深新創股權投資合夥企業(有限合夥)), Suzhou Apricot Xingyong Emerging Medical Industry Investment Fund Management Partnership (Limited Partnership) (蘇州杏澤興湧新興醫療產業投資基金管理合夥企業(有限合夥)) and Quanzhou Dingxin Zhonghe Investment Partnership (Limited Partnership) (泉州鼎信中和投資合夥企業(有限合夥)) (collectively, the "**Investors**"). Pursuant to the Capital Contribution Agreement, the Investors have conditionally agreed to make capital contribution, by way of cash, to Simcere Zaiming in the aggregate amount of RMB970 million in return for approximately 11.45% of the enlarged issued share capital of Simcere Zaiming in aggregate (the "**Capital Contribution**"). Upon completion of the Capital Contribution, Simcere Zaiming will become an indirectly wholly-owned subsidiary of the Company and the financial results of Simcere Zaiming will continue to be consolidated into the financial statements of the Group. For details, please refer to the announcement of the Company dated February 24, 2024.

In addition, as a step of pre-completion restructurings of the Capital Contribution, the board of directors and shareholders of Simcere Zaiming have resolved to adopt an employee incentive scheme (the "**Scheme**") to recognize the past and present contributions and to incentivize the future contributions by senior management and core employees of Simcere Zaiming Group. On March 20, 2024, the Board has resolved to grant the incentive interest, representing approximately 5% of the enlarged issued share capital of Simcere Zaiming immediately upon completion of the Capital Contribution, to the selected participants by way of subscribing for registered capital in Simcere Zaiming either directly or through the shareholding platform for selected participants under the Scheme (the "**ESOP Platform**"), subject to acceptance by the relevant selected participants. For details, please refer to the announcement of the Company dated March 20, 2024. Moreover, on March 21, 2024, the Board has resolved to grant an aggregate of 3,828,000 RSUs, representing 3,828,000 underlying Shares, to an aggregate of 31 eligible participants under the 2021 RSU Scheme (as defined below) at nil consideration subject to acceptance by the grantees. For details, please refer to the announcement of the Company dated March 21, 2024.

Save as disclosed above, after the Reporting Period and up to the date of this report, there were no important events affecting the Company or any of its subsidiaries.

EQUITY-LINKED AGREEMENTS

2021 RSU Scheme

On May 20, 2021 (the "**Adoption Date**"), the Board adopted the 2021 restricted share unit scheme of the Company (the "**2021 RSU Scheme**"). In light of the amended Chapter 17 of the Listing Rules taking into effect from January 1, 2023, the Company has amended the 2021 RSU Scheme and adopted the scheme mandate limit (as defined in the Listing Rules) of the 2021 RSU Scheme (the "**Scheme Mandate Limit**"), which were approved at the annual general meeting of the Company held on June 15, 2023 (the "**Amendment Date**"). Principal amended terms of the 2021 RSU Scheme are summarized below:

Purpose

The purpose of the 2021 RSU Scheme is to (i) incentivize the existing and incoming directors, senior management and employees for their contribution to the Group; and (ii) attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the selected participants under the 2021 RSU Scheme (the "**Selected Participants**") directly to the Shareholders through ownership of Shares.

Effectiveness and duration

Without prejudicing the subsisting rights of any Selected Participant and subject to any early termination as may be determined by the Board or a committee of the Board delegated by it the authority to administer the 2021 RSU Scheme (the "**Administrator**"), the 2021 RSU Scheme shall be valid and effective for a period of ten years commencing on the Adoption Date, after which no further awards (the "**Awards**") will be granted, but the provisions of the 2021 RSU Scheme shall in all other respects remain in full force and effect to the extent necessary to give effect to any Awards granted prior to such expiry and the administration of the trust fund held by the trustee (the "**Trustee**") for the benefit of the grantees under the 2021 RSU Scheme.

As of the date of this annual report, the remaining life of the 2021 RSU Scheme was approximately seven years.

Administration

The 2021 RSU Scheme is subject to the administration of the Administrator in accordance with the terms and conditions of the 2021 RSU Scheme. The Administrator shall have the sole and absolute right to (i) interpret and construe the provisions of the 2021 RSU Scheme; (ii) determine the eligible participants (the "**Eligible Participants**") who will be granted the RSUs under the 2021 RSU Scheme, the terms and conditions on which the RSUs will be granted and the vesting conditions and schedule of the RSUs to be granted pursuant to the 2021 RSU Scheme; (iii) make such appropriate and equitable adjustments to the terms of the RSUs granted under the 2021 RSU Scheme as it deems necessary; and (iv) make such other decisions or determinations as it shall deem appropriate or desirable in the administration of the 2021 RSU Scheme. All the decisions, determinations and interpretations made by the Administrator in accordance with the 2021 RSU Scheme shall be final, conclusive and binding on all persons affected thereby.

Eligible Participants

The Eligible Participants who can receive RSUs under the 2021 RSU Scheme include directors and employees of the Company or any of its subsidiaries (including persons who is granted RSUs under the 2021 RSU Scheme as an inducement to enter into employment contracts with the Company or any of its subsidiaries), who the Administrator considers, in its sole discretion, has the below eligibility.

The eligibility of the Eligible Participants to the grant of the RSUs shall be determined by the Administrator from time to time and on a case-by-case basis subject to the Administrator's opinion as to his/her contribution to the development and growth of the Group or such other factors as the Administrator may deem appropriate.

Maximum number of Shares to be granted

Unless the Scheme Mandate Limit is refreshed, or grant of RSUs exceeding the Scheme Mandate Limit is separately approved, by the Shareholders in general meeting of the Company in accordance with the 2021 RSU Scheme, the total number of Shares which may be issued in respect of all options and awards to be granted under the 2021 RSU Scheme and any other share options schemes and/or share award schemes involving issuance of new Shares adopted and to be adopted by the Company (the "**Share Scheme(s)**") must not exceed 266,404,561 Shares, representing 10% of the total number of Shares in issue as at the Amendment Date, and 10.21% of the total number of Shares in issue as of the date of this annual report. For the purpose of calculating the Scheme Mandate Limit, options and awards that have already lapsed in accordance with the terms of the Share Schemes shall not be regarded as utilised.

Maximum entitlement of each participant

The maximum entitlement of each Selected Participant under the 2021 RSU Scheme shall not exceed the limits as required under Chapter 17 of the Listing Rules. Specifically, no RSUs shall be granted to any Selected Participant if, at the time of the grant, the number of Shares issued and to be issued in respect of all options and awards granted (excluding any options and awards lapsed in accordance with the terms of the scheme) to such person under the 2021 RSU Scheme and any other Share Schemes in the 12-month period up to and including the grant date of the relevant RSUs would exceed 1% of the total number of Shares in issue as at the grant date, unless such grant has been duly approved by the Shareholders in general meeting of the Company with such proposed Selected Participant and his/her close associates (or associates if the relevant Selected Participant is a connected person) abstaining from voting. The number and terms of RSUs to be granted to such Selected Participant must be fixed before the general meeting of the Company at which the same are approved.

Purchase Price

The purchase price (if any) for acceptance of the RSUs under the 2021 RSU Scheme shall be determined at the sole and absolute discretion of the Administrator after taking into consideration (i) the purpose of the Award; (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the grant date; (iii) the average closing price of the Shares for the five Business Days prior to the grant date; and/or (iv) any other matter which the Administrator considers relevant. Such consideration (if any) shall be paid to the Company or the Trustee at the sole and absolute discretion of the Administrator. For the avoidance of doubt, the Administrator may determine the purchase price to be nil. The grant letter issued by the Administrator to each Selected Participant will state the purchase price, if applicable, and that an acceptance of the grant must be accompanied by payment of the purchase price and its payment period and mechanism.

Vesting of RSUs

Subject to the terms of the 2021 RSU Scheme and the specific terms and conditions applicable to each award, the RSUs granted in an award shall be subject to a vesting schedule (if any) and to the satisfaction of performance milestones or targets and/or other conditions to be determined by the Administrator (if any) in its sole and absolute discretion. If such conditions are not satisfied or waived, the award shall automatically lapse on the date on which any such condition is not satisfied, as determined by the Administrator in its sole and absolute discretion. The Board (or, as the case may be, the person(s) or institution(s) authorized by the Board) will conduct assessment at the end of a performance period by comparing the Group's overall performance and the individual performance of the grantees with the pre-agreed performance targets to determine whether the targets and the extents to which have been met.

The vesting period shall not be less than 12 months unless the Administrator determines, in its sole discretion, that the RSUs granted to a Selected Participant may be subject to a vesting period of less than 12 months in the following circumstances: (i) awards are subject to performance-based vesting conditions provided, in lieu of time-based vesting criteria to stimulate the Selected Participant to achieve the relevant performance targets in a shorter period; or (ii) awards are granted in batches during a year for administrative and compliance reasons, in which case, the vesting period may be shorter to reflect the time from which the RSUs would have been granted.

For further details of the 2021 RSU Scheme and its amendments, please refer to the announcements and circular of the Company dated May 20, 2021, March 31, 2023, May 25, 2023 and June 15, 2023.

Details of the RSUs granted under the 2021 RSU Scheme

During the Reporting Period, the Board resolved on June 28, 2023 to grant an aggregate of 4,378,000 RSUs, representing 4,378,000 underlying Shares, to an aggregate of 59 Eligible Participants, who are employees of the Group, under the 2021 RSU Scheme at nil consideration. For details of such grants, please refer to the announcement of Company dated June 28, 2023.

Given the Scheme Mandate Limit was adopted on June 15, 2023, the number of RSUs available for grant under the 2021 RSU Scheme was 87,884,344 as of January 1, 2023 and was 268,957,858 as of December 31, 2023. The number of Shares underlying the RSUs granted under the 2021 RSU Scheme during the Reporting Period divided by the weighted average number of Shares in issue during the Reporting Period is 0.16%. Details of the outstanding RSUs granted under the 2021 RSU Scheme and the movements during the Reporting Period are set out below:

Name or category of grantee	Date of grant	Number of Shares underlying the RSUs outstanding as of the date of grant[Note 1]	Number of Shares underlying the RSUs outstanding as of January 1, 2023	Number of RSUs granted during the Reporting Period	Closing price of the Shares immediately before the date on which the awards were granted	Weighted average closing price of the Shares immediately before the vesting date[Note 2]	Fair value of awards at the date of grant and the accounting standard and policy adopted[Note 3]	Vested during the Reporting Period	Lapsed during the Reporting Period[Note 4]	Number of Shares underlying the RSUs outstanding as of December 31, 2023	Vesting dates (subject to vesting conditions[Note 5])	Approximate percentage of total number of Shares in issue as of December 31, 2023
Directors												
Mr. Tang Renhong	November 1, 2021	3,000,000	2,000,000	-	HK$8.12	-	HK$7.92	-	1,000,000	1,000,000	Note 6	0.0380%
	November 9, 2022	1,650,000	1,650,000	-	HK$11.34	HK$7.65	HK$11.62	550,000	-	1,100,000	Note 7	0.0418%
Mr. Wan Yushan	November 1, 2021	2,025,000	1,350,000	-	HK$8.12	-	HK$7.92	-	675,000	675,000	Note 6	0.0257%
	November 9, 2022	850,000	850,000	-	HK$11.34	HK$7.65	HK$11.62	283,333	-	566,667	Note 7	0.0215%
Ms. Wang Xi	November 1, 2021	492,000	328,000	-	HK$8.12	-	HK$7.92	-	164,000	164,000	Note 6	0.0062%
Other grantees												
Employees	July 16, 2021	10,937,000	5,844,000	-	HK$12.22	Note 2	HK$12.50	2,344,669	1,310,333	2,188,998	Note 8	0.0832%
	November 1, 2021	3,195,000	1,926,000	-	HK$8.12	Note 2	HK$7.92	-	1,070,000	856,000	Note 6	0.0325%
	December 23, 2021	11,841,000	7,164,000	-	HK$9.12	Note 2	HK$9.35	2,580,702	1,605,298	2,978,000	Note 9	0.1132%
	May 11, 2022	6,810,000	6,177,000	-	HK$7.85	Note 2	HK$8.27	1,750,000	1,815,000	2,612,000	Note 10	0.0993%
	September 28, 2022	14,489,000	14,283,000	-	HK$7.01	Note 2	HK$6.72	4,013,000	2,882,000	7,388,000	Note 11	0.2808%
	November 9, 2022	1,169,000	1,162,000	-	HK$11.34	Note 2	HK$11.62	264,667	377,999	519,334	Note 12	0.0197%
	June 28, 2023	4,378,000	-	4,378,000	HK$7.43	Note 2	HK$7.25	-	624,000	3,754,000	Note 13	0.1427%
Total		**60,836,000**	**42,734,000**	**4,378,000**	**-**	**-**	**-**	**11,786,371**	**11,523,630**	**23,801,999**		**- 0.9047%[Note 14]**

Notes:

1. The RSUs were granted to the grantees at nil consideration and were or will be transferred to the grantees upon vesting at nil consideration.

2. As the RSUs held by each of the Directors were vested only once during the Reporting Period according to their respective vesting schedules, the weighted average closing price of the Shares immediately before the vesting date for each of the Directors equal to the closing price of Shares immediately before the vesting date. The weighted average closing price of the Shares immediately before the vesting date for employees as a category of grantees is HK$7.30.

3. For details of the accounting standard and policy adopted in relation to and the basis of the measurement of fair value of RSUs, please see Note 34 to the financial statements in this annual report.

4. During the Reporting Period, no RSU was cancelled.

5. The vesting of the RSUs shall be subject to the satisfaction of the following performance targets as vesting conditions:

   (i) the aggregate amount of profit for the year and research and development costs for the year has an increment to a certain extent; and

   (ii) the results of individual performance assessments carried out by the Group's human resources committee comply with each department's function and target.

6. One third of the RSUs granted shall vest on August 27, 2022, 2023 and 2024, respectively.

7. One third of the RSUs shall vest on November 9, 2023, 2024 and 2025, respectively.

8. One third of the RSUs granted shall vest on July 16, 2022, 2023 and 2024, respectively.

9. One third of the RSUs granted shall vest on December 23, 2022, 2023 and 2024, respectively.

10. In relation to 1,500,000 RSUs granted, one third of the RSUs shall vest on January 17, 2023, 2024 and 2025, respectively. In relation to 5,310,000 RSUs granted, one third of the RSUs shall vest on May 11, 2023, 2024 and 2025, respectively.

11. In relation to 13,881,000 RSUs granted, one third of the RSUs shall vest on September 28, 2023, 2024 and 2025, respectively. In relation to 528,000 RSUs granted, one third of the RSUs shall vest on May 11, 2023, 2024 and 2025, respectively. In relation to 80,000 RSUs granted, one half of the RSUs shall vest on May 11, 2023 and 2024, respectively.

12. In relation to 1,015,000 RSUs granted, one third of the RSUs shall vest on November 9, 2023, 2024 and 2025, respectively. In relation to 154,000 RSUs granted, all of them shall vest on November 9, 2023.

13. In relation to 4,302,000 RSUs granted, one third of the RSUs shall vest on June 28, 2024, 2025 and 2026, respectively. In relation to 76,000 RSUs granted, all of them shall vest on June 28, 2024.

14. The aggregate percentage of number of Shares underlying the RSUs outstanding as of December 31, 2023 divided by total number of Shares in issue as of December 31, 2023 may not add up to the total percentage of 0.9047% due to rounding.

Saved for the 2021 RSU Scheme adopted by the Company and the pre-IPO share incentive scheme adopted by Simcere Pharmaceutical Holding Limited, a controlling shareholder of the Company, as set out in Note 34 to the consolidated financial statements, no equity-linked agreements were entered into by the Company or subsisted during the year ended December 31, 2023.

PERMITTED INDEMNITY PROVISION

Pursuant to Article 166 of the articles of association of the Company (the "**Articles of Association**"), subject to the provisions of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), every Director, company secretary or other senior management member of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he may sustain or incur in or about the execution of his office or otherwise in relation thereto. Such permitted indemnity provision is currently in force and was in force throughout the year ended December 31, 2023.

The Company has purchased Directors, company secretary and senior management's liabilities insurance on behalf of its Directors, joint company secretaries and senior management.

DIRECTORS

The directors of the Company and its subsidiaries during the Reporting Period and up to the date of this annual report were as follows:

Directors of the Company:	Directors of subsidiaries:	
Executive Directors:	CHENG Xianghua	SONG Wenjie
Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*	CHU Xuexi	SUN Jiancheng[4]
Mr. TANG Renhong	CONG Yuehua[3]	TANG Renhong
Mr. WAN Yushan	GONG Jinjie[3]	WAN Yushan
Ms. WANG Xi[1]	HU Jianzhong	WANG Feng
	HOU Zhiwei	WANG Pin
Independent non-executive Directors:	Kyu Don Kim	WANG Xi
Mr. SONG Ruilin	LI Zhengtao[4]	WANG Xiaobing[4]
Mr. WANG Jianguo	LU Jianxue	XU Gang[4]
Mr. WANG Xinhua	Matthias Markus Hoess[4]	XU Renxiang[4]
Mr. SUNG Ka Woon[2]	MA Yan[3]	XU Jianjian
	PENG Shaoping	XU Yuxi
	QIAN Haibo	ZHANG Rong[3]
	REN Jinsheng	ZHANG Xiaojuan[4]
	REN Weidong[4]	ZHU Tong
	SHI Ruiwen	

Notes:

(1) Ms. WANG Xi has been appointed as an executive Director of the Company with effect from January 18, 2023.

(2) Mr. SUNG Ka Woon has been appointed as an independent non-executive Director of the Company with effect from January 18, 2023.

(3) Ceased to serve as the director of the subsidiaries of the Company during the year ended December 31, 2023 and up to the date of this annual report.

(4) Appointed as the director of the subsidiaries of the Company during the year ended December 31, 2023 and up to the date of this annual report.

BIOGRAPHIES AND CHANGES IN INFORMATION OF THE DIRECTORS AND SENIOR MANAGEMENTS

Biographical details of the Directors and the senior management of the Company are set out on pages 97 to 105 of this annual report.

Except as disclosed in the biographies, none of the Directors is connected with any Director, senior management, substantial shareholder or controlling Shareholder of the Company.

On March 31, 2023, Mr. WAN Yushan, an executive Director, has been appointed as a member of the Remuneration and Appraisal Committee; Ms. WANG Xi, an executive Director, has been appointed as a member of the Nomination Committee; and Mr. SUNG Ka Woon, an independent non-executive Director, has been appointed as a member of the Remuneration and Appraisal Committee, all with effect from March 31, 2023. For details, please refer to the Company's announcement dated March 31, 2023.

Save as disclosed in this annual report, since the date of the 2023 interim report of the Company and up to the date of this annual report, there were no other changes in the information of Directors and chief executive of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS AND LETTERS OF APPOINTMENT

Each of the executive Directors has entered into a service contract with the Company, while each of the independent non-executive Directors has signed a letter of appointment with the Company for a term of three years.

The above appointments are always subject to the provisions of retirement and rotation of Directors under the Articles of Association. None of the Directors proposed for re-election at the forthcoming AGM has a service contract with members of the Group that is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed in the section headed "Continuing Connected Transactions" and the section headed "Connected Transaction" in this report and "Material Related Party Transactions" of Note 37 to the consolidated financial statements in this annual report, no transaction, arrangement or contracts of significance (as defined in Appendix D2 of the Listing Rules) related to the business of the Company to which the Company, its holding companies or any of its subsidiaries was a party and in which a Director, an entity connected with a Director had a material interest, whether directly or indirectly, subsisted as of December 31, 2023 or at any time during the year ended December 31, 2023.

CONTRACT WITH CONTROLLING SHAREHOLDERS

Save as disclosed in the section headed "Continuing Connected Transactions" and the section headed "Connected Transaction" in this report and "Material Related Party Transactions" of Note 37 to the consolidated financial statements in this annual report, during the year ended December 31, 2023, neither contract of significance was entered into between the Company or any of its subsidiaries and a controlling Shareholder or any of its subsidiaries, nor contract of significance was entered into for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed in the Prospectus, during the Reporting Period, none of the Directors or their respective associates (as defined under the Listing Rules) had any interest in a business which competes or is likely to compete with the Group's business under Rules 8.10(2)(b) and 8.10(2)(c) of the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Equity-linked Agreements – 2021 RSU Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures", at no time during the Reporting Period or until the end of 2023, were rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other corporations.

DEED OF NON-COMPETITION

The controlling Shareholders of the Company have respectively acknowledged to the Company that they have honored the non-competition undertaking made to the Company under the deed of non-competition entered into on October 8, 2020 (the "**Deed of Non-competition**"). The independent non-executive Directors have reviewed such compliance and confirmed that the above-mentioned parties had kept and duly performed all the undertakings under the Deed of Non-competition during the Reporting Period.

MANAGEMENT CONTRACTS

No contract, concerning the management and administration of the whole or any substantial part of the business of the Company, as required to be disclosed under section 543 of the Companies Ordinance, was entered into or existed during the Reporting Period.

CONTINUING CONNECTED TRANSACTIONS

During the year ended December 31, 2023 and up to the date of this annual report, the Group has entered into the following transactions, which constituted continuing connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

Partially-exempt Continuing Connected Transactions

As disclosed in the announcements of the Company dated December 23, 2021, December 20, 2022, December 29, 2023 and January 17, 2024 (the "**CCT Announcements**"), the following transactions constituted partially-exempt continuing connected transactions of the Company. For further details, please refer to the CCT Announcements.

The Group has followed the pricing policies set forth in the CCT Announcements, as well as the guidelines under the Listing Rules in determining the prices and terms of the continuing connected transactions conducted during the Reporting Period.

Property Lease and Comprehensive Services Framework Agreement

On December 20, 2022 (after trading hours), in order to remain cooperation with Nanjing BioSciKin Technology Development Co., Ltd (南京百家匯科技發展有限公司) ("**Nanjing BioSciKin Technology**") and renew the previous property lease and comprehensive services framework agreement entered into between the Company and Nanjing BioSciKin Technology on October 8, 2020, which expired on December 31, 2022, the Company entered into a new property lease and comprehensive services framework agreement with Nanjing BioSciKin Technology (the "**BioSciKin Property Lease and Comprehensive Services Framework Agreement**"), for themselves and on behalf of their respective subsidiaries, pursuant to which Nanjing BioSciKin Technology agreed to lease certain properties to the Group for office, laboratory and staff dormitory use and provide related property management services, as well as provide the Group with certain general supporting services which include, among others, utilities and network support, conference supporting services, staff canteen services, accommodation services and other logistics services.

The BioSciKin Property Lease and Comprehensive Services Framework Agreement is for a term of two years commencing from January 1, 2023 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of up to three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Nanjing BioSciKin Technology is a subsidiary of State Good Group Limited which is in turn wholly owned by Mr. Ren Jinsheng, a Director, the chief executive officer and a controlling Shareholder of the Company, through Simcere Investments Group Limited. Therefore, Nanjing BioSciKin Technology is an associate of Mr. Ren Jinsheng and a connected person of the Company.

The annual cap for the continuing connected transactions under the BioSciKin Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2023 is RMB100 million, while the actual amount of the year ended December 31, 2023 was approximately RMB59.11 million.

Xianbo Property Lease and Comprehensive Services Framework Agreement

On December 23, 2021, the Company entered into a property lease and comprehensive services framework agreement (the "**Xianbo Property Lease and Comprehensive Services Framework Agreement**") with Shanghai Xianbo Biological Technology Co., Ltd. (上海先博生物科技有限公司) ("**Shanghai Xianbo**"), for themselves and on behalf of their respective subsidiaries, pursuant to which the Group agreed to lease certain properties to Shanghai Xianbo for office and laboratory use and provide related property management services, as well as provide Shanghai Xianbo with certain general supporting services which include, among others, network support services, conference supporting services, property maintenance services and other logistics services. On December 20, 2022 (after trading hours), the Company and Shanghai Xianbo entered into a supplemental agreement to the Xianbo Property Lease and Comprehensive Services Framework Agreement to increase the original annual caps for the two financial years ending December 31, 2024.

The Xianbo Property Lease and Comprehensive Services Framework Agreement is for a term of three years commencing from January 1, 2022 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Shanghai Xianbo is controlled by Mr. Ren Jinsheng, a Director, the chief executive officer and a controlling Shareholder of the Company. Therefore, Shanghai Xianbo is an associate of Mr. Ren Jinsheng and a connected person of the Company.

The annual cap for the continuing connected transactions under the Xianbo Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2023 is RMB10.00 million, while the actual transaction amount of the year ended December 31, 2023 was approximately RMB2.33 million.

Diagnostics Property Lease and Comprehensive Services Framework Agreement

On December 23, 2021, the Company entered into a property lease and comprehensive services framework agreement (the "**Diagnostics Property Lease and Comprehensive Services Framework Agreement**") with Jiangsu Simcere Medical Diagnostics Co., Ltd. (江蘇先聲醫學診斷有限公司) ("**Jiangsu Simcere Diagnostics**"), for themselves and on behalf of their respective subsidiaries, pursuant to which the Group agreed to lease certain properties to Jiangsu Simcere Diagnostics for office and laboratory use and provide related property management services, as well as provide Jiangsu Simcere Diagnostics with certain general supporting services which include, among others, network support services, conference supporting services, property maintenance services and other logistics services.

The Diagnostics Property Lease and Comprehensive Services Framework Agreement is for a term of three years commencing from January 1, 2022 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Jiangsu Simcere Diagnostics is ultimately controlled by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both of whom are controlling Shareholders of the Company. Therefore, Jiangsu Simcere Diagnostics is an associate of Mr. Ren Yong and Ms. Li Shimeng and a connected person of the Company.

The annual cap for the continuing connected transactions under the Diagnostics Property Lease and Comprehensive Services Framework Agreement for the year ended December 31, 2023 is RMB7.41 million, while the actual transaction amount of the year ended December 31, 2023 was nil.

R&D Project Service Framework Agreement

On December 23, 2021, the Company entered into a R&D project service framework agreement (the "**R&D Project Service Framework Agreement**") with Jiangsu Simcere Diagnostics, for themselves and on behalf of their respective subsidiaries, pursuant to which Jiangsu Simcere Diagnostics agreed to provide R&D project services to the Group, including but not limited to CRO (contract research organization) services, WES (whole exome sequencing) services, CDx (companion diagnostic in vitro diagnostic reagents) service and other R&D project services.

The R&D Project Service Framework Agreement is for a term of three years commencing from January 1, 2022 and ending on December 31, 2024 (both days inclusive), and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Jiangsu Simcere Diagnostics is ultimately controlled by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both of whom are controlling Shareholders of the Company. Therefore, Jiangsu Simcere Diagnostics is an associate of Mr. Ren Yong and Ms. Li Shimeng, and hence a connected person of the Company under Chapter 14A of the Listing Rules.

The annual cap for the continuing connected transactions under the R&D Project Service Framework Agreement for the year ended December 31, 2023 is RMB16.50 million, while the actual transaction amount of the year ended December 31, 2023 was approximately RMB1.46 million.

Order Collection Comprehensive Services Agreement

On December 29, 2023 (after trading hours), Jiangsu Simcere Pharmaceutical Co., Ltd. (江蘇先聲藥業有限公司) ("**Jiangsu Simcere**"), an indirectly wholly-owned subsidiary of the Company, entered into an order collection comprehensive services agreement (the "**Order Collection Comprehensive Services Agreement**") with Jiangsu Simcere Diagnostics, pursuant to which Jiangsu Simcere Diagnostics agreed to entrust Jiangsu Simcere to provide certain order collection comprehensive services for its testing products in the field of neurology and infection treatment.

The Order Collection Comprehensive Services Agreement is for a term of three years commencing from January 1, 2024 to December 31, 2026.

Jiangsu Simcere Diagnostics is ultimately controlled by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both of whom are controlling Shareholders of the Company. Therefore, Jiangsu Simcere Diagnostics is an associate of Mr. Ren Yong and Ms. Li Shimeng and a connected person of the Company.

The annual caps for the continuing connected transactions to be conducted under the Order Collection Comprehensive Services Agreement for the three years ending December 31, 2024, 2025 and 2026 are estimated to be RMB18 million, RMB25 million and RMB30 million, respectively.

Exclusive Promotion Services Cooperation Agreement

On December 29, 2023 (after trading hours), Jiangsu Simcere, an indirectly wholly-owned subsidiary of the Company, entered into an exclusive promotion services cooperation agreement (the "**Exclusive Promotion Services Cooperation Agreement**") with Beijing Simcere Sanroad Biological Products Co., Ltd. (北京先聲祥瑞生物製品股份有限公司) ("**Beijing Simcere Sanroad**"), pursuant to which Jiangsu Simcere agreed to grant the exclusive promotion rights to Beijing Simcere Sanroad to promote the product of the Group (i.e. Fumarate Bedaquiline Tablets) within the prescribed promotion indications and the promotion region.

The Exclusive Promotion Services Cooperation Agreement is effective from January 16, 2024 to December 31, 2026.

Beijing Simcere Sanroad is ultimately controlled by Mr. Ren Jinsheng, a Director, the chief executive officer and a controlling Shareholder of the Company. Therefore, Beijing Simcere Sanroad is an associate of Mr. Ren Jinsheng and a connected person of the Company.

The annual caps for the continuing connected transactions to be conducted under the Exclusive Promotion Services Cooperation Agreement for the three years ending December 31, 2024, 2025 and 2026 are estimated to be RMB27 million, RMB52 million and RMB87 million, respectively.

In respect of the continuing connected transactions, the Company confirms that it has followed the policies and guidelines as set out in the guidance letter HKEX-GL73-14 issued by the Stock Exchange when determining the price and terms of the transactions conducted during the year ended December 31, 2023.

Save as disclosed above, none of the other related party transactions set out in the Note 37 of the financial statements constitute connected transactions or continuing connected transactions that are required to be disclosed under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules during the year ended December 31, 2023.

Confirmation from Independent Non-executive Directors

The independent non-executive Directors of the Company have reviewed the continuing connected transactions outlined above, and confirmed that such continuing connected transactions had been entered into:

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

(ii) on normal commercial terms or better; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Confirmations from the Company's Independent Auditor

The Auditor has performed the relevant procedures regarding the 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 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by Hong Kong Institute of Certified Public Accountants. The Auditor has provided an unqualified letter to the Board containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with Rule 14A.56 of the Listing Rules.

The Auditor has confirmed in a letter to the Board that, with respect to the aforesaid continuing connected transactions entered into in the year ended December 31, 2023:

(i) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to the Auditor's attention that causes the Auditor to believe that the disclosed continuing connected transactions have exceeded the annual caps as set by the Company.

CONNECTED TRANSACTIONS

During the year ended December 31, 2023 and up to the date of this annual report, the Group has entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

Grant of RSUs to Connected Grantees

To (i) recognize and reward nine grantees who are connected persons of the Company (the "**Connected Grantees**") for their contributions to the Group; (ii) encourage, motivate and retain the Connected Grantees, whose contributions are beneficial to the continual operation, development and longterm growth of the Group; and (iii) provide additional incentive for the Connected Grantees to achieve performance goals, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the Connected Grantees to the Shareholders through ownership of Shares, on November 9, 2022, the Board resolved to grant an aggregate of 3,550,000 RSUs to the Connected Grantees of the Company under the 2021 RSU Scheme. On January 18, 2023, the grant of RSUs to the Connected Grantees was approved by the independent Shareholders at the extraordinary general meeting. For details of the RSUs granted to each of the Connected Grantees, please refer to the section headed "Equity-Linked Agreements – 2021 RSU Scheme – Details of the RSUs granted under the 2021 RSU Scheme" in this report.

The Connected Grantees, being two executive Directors, certain directors and chief executives of subsidiaries of the Company, are connected persons of the Company pursuant to Rule 14A.07 of the Listing Rules. Therefore, the grant of RSUs to the Connected Grantees under the 2021 RSU Scheme constituted connected transactions of the Company under Chapter 14A of the Listing Rules and shall be subject to the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. For details, please refer to the announcements of the Company dated November 9, 2022 and January 18, 2023, the circular of the Company dated December 28, 2022 and Note 34 to the consolidated financial statements.

Acquisition of Entire Equity Interest in Nanjing BioSciKin

To make deployments and plannings in advance for the Group's additional production facilities and warehouses in order to catch up with the pace of its future commercial launch and manufacturing of new products, on January 1, 2024, Simcere Biological, an indirectly wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Jiangsu Diagnostics Technology, pursuant to which Simcere Biological has agreed to acquire, and Jiangsu Diagnostics Technology has agreed to sell, the entire equity interest in Nanjing BioSciKin for a cash consideration of RMB42,306,500. The Acquisition was completed on January 31, 2024. Since then, Nanjing BioSciKin has become an indirectly wholly-owned subsidiary of the Company and the financial results of Nanjing BioSciKin has been consolidated into the financial statements of the Group.

Jiangsu Diagnostics Technology is ultimately controlled by Mr. Ren Yong and his spouse, Ms. Li Shimeng, both of whom are controlling Shareholders of the Company. Therefore, Jiangsu Diagnostics Technology is an associate of Mr. Ren Yong and Ms. Li Shimeng and a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company. For details, please refer to the announcement of the Company dated January 1, 2024.

Capital Contributions in Simcere Zaiming

Under the Scheme of Simcere Zaiming as disclosed under the paragraph headed "Important Events After the Reporting Period" of this report, the Board has resolved on March 20, 2024 to grant the incentive interest, representing 5% of the enlarged issued share capital of Simcere Zaiming immediately upon completion of the capital contributions, to the selected participants, among which, among others, (i) Mr. Tang Renhong (唐任宏) will subscribe for and directly hold approximately 2.38% of the enlarged issued share capital; and (ii) the ESOP Platform will in aggregate subscribe for and hold approximately 2.06% of the enlarged issued share capital for and on behalf of selected participants (including Mr. Tang Renhong).

Mr. Tang Renhong is an executive Director, and therefore a connected person of the Company. As the general partner of the ESOP Platform will be Mr. Tang Renhong, who will have control over the operations and affairs of the ESOP Platform, the ESOP Platform will be an associate of Mr. Tang Renhong and therefore a connected person of the Company. Accordingly, each of the capital contributions by Mr. Tang Renhong himself and the ESOP Platform constitutes a connected transaction of the Company. For details, please refer to the announcement of the Company dated March 20, 2024.

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

As of December 31, 2023, the interest or short position of the Directors or chief executives of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ Chief executive	Nature of interest	Number of Shares/ underlying shares interested	Approximate percentage of shareholding interest[1]
Mr. Ren Jinsheng[2]	Interest in controlled corporations/ Interest of concert parties/ Interest of spouse	1,802,595,668	68.51%
Mr. Tang Renhong[3]	Beneficial owner	1,550,000	
	Beneficiary of a trust (other than a discretionary interest)	2,100,000	
	Sub-total:	3,650,000	0.14%
Mr. Wan Yushan[4]	Beneficial owner	1,228,333	
	Beneficiary of a trust (other than a discretionary interest)	1,241,667	
	Sub-total:	2,470,000	0.09%
Ms. Wang Xi[5]	Beneficial owner	164,000	
	Beneficiary of a trust (other than a discretionary interest)	164,000	
	Interest of spouse	1,802,267,668	
	Sub-total:	1,802,595,668	68.51%

Notes:

(1) The calculation is based on the total number of 2,630,975,618 issued Shares of the Company as of December 31, 2023.

(2) Mr. Ren Jinsheng, together with Simcere Investments Group Limited ("**SIG**"), P&H Holdings Group Ltd. ("**P&H Holdings**"), Right Wealth Holdings Limited ("**Right Wealth**"), Mr. Ren Yong, Ms. Li Shimeng, Mr. Ren Weidong, Ms. Ren Zhen and Ms. Peng Suqin (collectively, the "**Ultimate Controlling Shareholders**"), collectively hold 1,802,267,668 Shares, including (i) 606,810,031 Shares and 950,431,689 Shares directly held by Artking Global Limited ("**Artking**") and Simcere Pharmaceutical Holding Limited ("**SPHL**"), respectively, both of which are companies controlled by the Ultimate Controlling Shareholders; (ii) 116,259,578 Shares and 128,327,370 Shares directly or indirectly held by SIG and Fortune Fountain Investment Limited ("**FFI**"), respectively, both of which are companies controlled by Mr. Ren Jinsheng; and (iii) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders. As the Ultimate Controlling Shareholders are deemed to be persons acting in concert under the Codes on Takeovers and Mergers and Share Buy-back (the "**Takeovers Code**"), each of them is deemed to be interested in the Shares held by each other by virtue of the SFO. Mr. Ren Jinsheng is also deemed to be interested in (i) 164,000 Shares held by his spouse, Ms. Wang Xi; and (ii) 164,000 Shares underlying the RSUs granted to Ms. Wang Xi.

(3) Mr. Tang Renhong (i) directly holds 1,550,000 Shares; and (ii) is interested in 2,100,000 RSUs granted to him under the 2021 RSU Scheme which entitled him to receive an aggregate of 2,100,000 Shares subject to vesting.

(4) Mr. Wan Yushan (i) directly holds 1,228,333 Shares; and (ii) is interested in 1,241,667 RSUs granted to him under the 2021 RSU Scheme which entitled him to receive an aggregate of 1,241,667 Shares subject to vesting.

(5) Ms. Wang Xi (i) directly holds 164,000 Shares; (ii) is interested in 164,000 RSUs granted to her under the 2021 RSU Scheme which entitled her to receive an aggregated of 164,000 Shares subject to vesting; and (iii) is deemed to be interested in an aggregate of 1,802,267,668 Shares directly and indirectly held by her spouse, Mr. Ren Jinsheng, together with other Ultimate Controlling Shareholders who are deemed to be persons acting in concert under the Takeovers Code.

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

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

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

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares interested	Approximate percentage of shareholding interest[1]
Mr. Ren Yong[2][3]	Interest in controlled corporations/ Interest of concert parties/ Founder of a discretionary trust	1,802,267,668	68.50%
Ms. Li Shimeng[2][3]	Interest in controlled corporations/ Interest of concert parties/ Interest of spouse	1,802,267,668	68.50%
P&H Holdings[2][3]	Interest in controlled corporations/ Interest of concert parties	1,802,267,668	68.50%
Mr. Ren Weidong[2][4]	Interest in controlled corporations/ Interest of concert parties	1,802,267,668	68.50%
Right Wealth[2][4]	Interest in controlled corporations/ Interest of concert parties	1,802,267,668	68.50%
Ms. Ren Zhen[2][5]	Interest in controlled corporations/ Interest of concert parties	1,802,267,668	68.50%
Ms. Peng Suqin[2][6]	Interest in controlled corporations/ Interest of concert parties	1,801,828,668	
	Beneficial interest	439,000	
	Sub-total:	1,802,267,668	68.50%
Artking[2][7]	Beneficial owner	606,810,031	
	Interest in controlled corporations	950,431,689	
	Interest of concert parties	245,025,948	
	Sub-total:	1,802,267,668	68.50%
Simcere Holding Limited ("**Simcere Holding**")[2][8]	Interest in controlled corporations	950,431,689	
	Interest of concert parties	851,835,979	
	Sub-total:	1,802,267,668	68.50%

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares interested	Approximate percentage of shareholding interest[1]
Excel Investments Group Limited ("**Excel Investments**")[2][9]	Interest in controlled corporations	950,431,689	
	Interest of concert parties	851,835,979	
	Sub-total:	1,802,267,668	68.50%
SPHL[2][10]	Beneficial owner	950,431,689	
	Interest of concert parties	851,835,979	
	Sub-total:	1,802,267,668	68.50%
SIG[2][11]	Beneficial owner	116,259,578	
	Interest in controlled corporation	128,327,370	
	Interest of concert parties	1,557,680,720	
	Sub-total:	1,802,267,668	68.50%
FFI[2][12]	Beneficial owner	120,961,370	
	Interest of concert parties	1,681,306,298	
	Sub-total:	1,802,267,668	68.50%

Notes:

(1) The calculation is based on the total number of 2,630,975,618 issued Shares of the Company as of December 31, 2023.

(2) The Ultimate Controlling Shareholders collectively hold 1,802,267,668 Shares, including (i) 606,810,031 Shares and 950,431,689 Shares directly held by Artking and SPHL, respectively, both of which are companies controlled by the Ultimate Controlling Shareholders; (ii) 116,259,578 Shares and 128,327,370 Shares directly or indirectly held by SIG and FFI, respectively, both of which are companies controlled by Mr. Ren Jinsheng; and (iii) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders. As the Ultimate Controlling Shareholders are deemed to be persons acting in concert under the Takeovers Code, each of them is deemed to be interested in the Shares held by each other by virtue of the SFO.

(3) Mr. Ren Yong, son of Mr. Ren Jinsheng and spouse of Ms. Li Shimeng, is the settlor of the P&H Family Trust, which holds the entire equity interest in P&H Holdings through P&H Family Trust. Mr. Ren Yong, Ms. Li Shimeng and P&H Holdings are the Ultimate Controlling Shareholders and are deemed to be interested in the Shares collectively held by the Ultimate Controlling Shareholders.

(4) Mr. REN Weidong is the brother of Mr. REN Jinsheng and holds the entire equity interest in Right Wealth. Mr. REN Weidong and Right Wealth are the Ultimate Controlling Shareholders and are deemed to be interested in the Shares collectively held by the Ultimate Controlling Shareholders.

(5) Ms. Ren Zhen is the sister of Mr. Ren Jinsheng. She is one of the Ultimate Controlling Shareholders and is deemed to be interested in the Shares collectively held by the Ultimate Controlling Shareholders.

(6) Ms. Peng Suqin is the mother of Mr. Ren Yong and is one of the Ultimate Controlling Shareholders. Ms. Peng Suqin (i) directly holds 439,000 Shares; and (ii) is deemed to be interested in the 1,801,828,668 Shares collectively held by the Ultimate Controlling Shareholders.

(7) Artking directly holds 606,810,031 Shares and is deemed to be interested in 1,195,457,637 Shares, including (i) 950,431,689 Shares directly held by SPHL, a controlled corporation of Artking; (ii) an aggregate of 244,586,948 Shares directly or indirectly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng and are deemed to be acting in concert with Artking under the Takeovers Code; and (iii) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders and is deemed to be acting in concert with Artking under the Takeovers Code.

(8) Simcere Holding is deemed to be interested in 1,802,267,668 Shares, including (i) 950,431,689 Shares directly held by SPHL, a controlled corporation of Simcere Holding; (ii) an aggregate of 851,835,979 Shares, which comprised of (a) 606,810,031 Shares directly held by Artking, a company controlled by the Ultimate Controlling Shareholders; (b) an aggregate of 244,586,948 Shares directly or indirectly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng; and (c) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders. Artking, SIG, FFI and Ms. Peng Suqin are deemed to be acting in concert with Simcere Holding under the Takeovers Code. Mr. REN Jinsheng is the director of Simcere Holding.

(9) Excel Investments is deemed to be interested in 1,802,267,668 Shares, including (i) 950,431,689 Shares directly held by SPHL, a controlled corporation of Excel Investments; and (ii) an aggregate of 851,835,979 Shares, which comprises of (a) 606,810,031 Shares directly held by Artking, a company controlled by the Ultimate Controlling Shareholders; (b) 244,586,948 Shares directly or indirectly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng; and (c) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders. Artking, SIG, FFI and Ms. Peng Suqin are deemed to be acting in concert with Excel Investments under the Takeovers Code. Mr. REN Jinsheng is the director of Excel Investments.

(10) SPHL directly holds 950,431,689 Shares and is deemed to be interested in an aggregate of 851,835,979 Shares, including (i) 606,810,031 Shares directly held by Artking, a company controlled by the Ultimate Controlling Shareholders; (ii) an aggregate of 244,586,948 Shares directly or indirectly held by SIG and FFI, both of which are companies controlled by Mr. Ren Jinsheng; and (iii) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders. Artking, SIG, FFI and Ms. Peng Suqin are deemed to be acting in concert with SPHL under the Takeovers Code. Mr. REN Jinsheng is the director of SPHL.

(11) SIG directly held 116,259,578 Shares and is deemed to be interested in 1,686,008,090 Shares, including (i) 120,961,370 Shares and 7,366,000 Shares directly held by FFI and Nanjing BioSciKin Technology Development Co., Ltd. (南京百家匯科技發展有限公司), both of which are controlled corporations of SIG and ultimately controlled by Mr. Ren Jinsheng; (ii) an aggregate of 1,557,241,720 Shares directly held by SPHL and Artking, both of which are deemed to be acting in concert with SIG under the Takeovers Code; and (iii) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders and is deemed to be acting in concert with SIG under the Takeovers Code. Mr. REN Jinsheng is the director of SIG.

(12) FFI directly held 120,961,370 Shares and is deemed to be interested in 1,681,306,298 Shares, including (i) 1,680,867,298 Shares directly or indirectly held by SPHL, Artking and SIG, all of which are deemed to be acting in concert with FFI under the Takeovers Code; and (ii) 439,000 Shares directly held by Ms. Peng Suqin, who is one of the Ultimate Controlling Shareholders and is deemed to be acting in concert with FFI under the Takeovers Code. Mr. REN Jinsheng is the director of FFI.

Save as disclosed above, as of December 31, 2023, there was no other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

SUFFICIENT PUBLIC FLOAT

In accordance with Rule 8.08(1)(d) of the Listing Rules, the Stock Exchange has granted the Company a waiver and accepted a lower public float of 15.45% of the Company's issued share capital. During the Reporting Period and up to the date of this annual report, according to the public information obtainable by the Company and to the knowledge of the Directors, the Company has maintained the minimum public float to the extent permitted by the Stock Exchange.

ANNUAL GENERAL MEETING

The AGM will be held on Friday, June 14, 2024. A notice convening the AGM will be published and dispatched to the Shareholders in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining the Shareholders' eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, June 11, 2024 to Friday, June 14, 2024 (both days inclusive), during which no transfer of Shares will be registered. The record date will be Friday, June 14, 2024. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on Friday, June 7, 2024.

In order to determine the entitlement of Shareholders to the proposed final dividend, the register of members of the Company will be closed from Thursday, June 20, 2024 to Tuesday, June 25, 2024 (both days inclusive), during which no transfer of Shares will be registered. The record date will be Tuesday, June 25, 2024. All transfer documents together with the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, 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 Wednesday, June 19, 2024.

CORPORATE GOVERNANCE

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

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed the financial reporting processes, risk management and internal control systems of the Group and the consolidated financial statements of the Group for the year ended December 31, 2023, and is of the opinion that these statements have complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosure has been made.

AUDITOR

The consolidated financial statements for the year ended December 31, 2023 have been audited by KPMG, which will retire at the conclusion of the forthcoming AGM and, being eligible, offer themselves for re-appointment. A resolution on the re-appointment of KPMG as the auditor of the Company will be proposed at the forthcoming AGM.

For and on behalf of the Board

Mr. REN Jinsheng

(Executive Director, Chairman and Chief Executive Officer)

March 20, 2024

The Board is pleased to present the corporate governance report of the Company for the year ended December 31, 2023 (the "**Year**").

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to maintaining and promoting stringent corporate governance. The principles of the Group's corporate governance are to promote effective internal control measures, uphold a high standard of ethics, transparency, responsibility and integrity in all aspects of business operation, so as to ensure that its business and operation are conducted in accordance with applicable laws and regulations, enhance the transparency of the Board and strengthen the accountability to all shareholders. The Group's corporate governance practices are based on the principles and code provisions prescribed in the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Save as disclosed in this report, the Group has complied with the code provisions contained in the CG Code during the Year.

CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance functions set out in Code Provision A.2.1 of Part 2 of the CG Code, including at least the followings:

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

For the year ended December 31, 2023, the Board has reviewed and monitored the above-mentioned corporate governance functions.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix C3 to the Listing Rules as the Company's code of conduct regarding the Directors' securities transactions. Having made specific enquiry of all the Directors of the Company, all the Directors confirmed that they have strictly complied with the Model Code for the Year.

THE BOARD

Responsibilities of the Board

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The Board directly, and indirectly through its committees, leads and provides direction to the management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place. The Board has delegated to the Board committees responsibilities as set out in their respective terms of reference.

Delegation of Management Functions

The major powers and functions of the Board include but not limited to convening the general meetings, reporting its work at the general meetings, implementing the resolutions passed at the general meetings, considering and approving the operating plans and investment plans of the Company, formulating the Company's strategic development plans, formulating profit distribution plans and plans on making up losses, as well as exercising other powers and functions as conferred by the Articles of Association of the Company (the "**Articles of Association**"). The Directors are responsible for preparing the accounts.

All Directors have full and timely access to all the information of the Company and advices from the joint company secretaries (the "**Joint Company Secretaries**") and senior management of the Company and may, where appropriate, request to seek independent professional advice for discharging their duties to the Company.

The Board is responsible for making decisions on strategic plans, major investment decisions and other significant operational issues of the Company, while responsibilities for implementing decisions of the Board, day-to-day management, administration and operation of the Company are delegated to the senior management. The delegated functions and tasks are subject to regular review. Prior approvals shall be obtained from the Board for any major transaction.

Composition of the Board

As of the date of this report, the Board comprised eight Directors, including four executive Directors and four independent non-executive Directors. The list of members of the Board and their positions are set out below:

Executive Directors

Mr. REN Jinsheng *(Chairman and Chief Executive Officer)*
Mr. TANG Renhong
Mr. WAN Yushan *(Chief Financial Officer and Joint Company Secretary)*
Ms. WANG Xi *(appointed on January 18, 2023)*

Independent Non-executive Directors:

Mr. SONG Ruilin
Mr. WANG Jianguo
Mr. WANG Xinhua
Mr. SUNG Ka Woon *(appointed on January 18, 2023)*

Biographies of each Director are set out in the section headed "Biographies of Directors and Senior Management" in this annual report.

All Directors, including non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. All Directors have carried out duties in good faith and in compliance with applicable laws and regulations, and have acted in the interests of the Company and the Shareholders at all times.

Mr. REN Jinsheng, the Chairman and Chief Executive Officer, and Ms. WANG Xi, an executive Director, are husband and wife. Apart from that, there is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Board members of the Company.

Chairman and Chief Executive Officer

Under Code Provision C.2.1 of Part 2 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

As of December 31, 2023, the roles of Chairman and Chief Executive Officer of the Company were not separated and Mr. REN Jinsheng currently performs these two roles. Mr. REN Jinsheng is the founder of the Group, the Chairman of the Board and the Chief Executive Officer of the Company. He has been primarily responsible for developing overall corporate business strategies and business operation of the Group and making significant business and operational decisions of the Group. The Directors jointly consider that vesting the roles of both the Chairman of the Board and the Chief Executive Officer of the Company in Mr. REN is beneficial to the business prospects of the Group by ensuring consistent leadership to the Group as well as prompt and effective decision making and implementation. In addition, the Directors jointly believe that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) any decision to be made by the Board requires approval by at least a majority of Directors; (ii) Mr. REN and other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of the Company and will make decisions for the Company accordingly; (iii) As of the date of this report, the balance of power and authority is ensured by the operations of the Board, which consists of four executive Directors (including Mr. REN) and four independent non-executive Directors, and has a fairly strong independence element; and (iv) the overall strategic and other key business, financial, and operational policies of the Company are made collectively after thorough discussion at both Board and senior management levels.

Independent Non-executive Directors

The Board has been complying with the Rules 3.10(1) and 3.10(2) of the Listing Rules relating to the appointment of at least three independent non-executive Directors, with at least one of them possessing appropriate professional qualifications or accounting or related financial management expertise. In addition, according to Rule 3.10A of the Listing Rules, independent non-executive Directors must represent at least one-third of the Board. During the Year, the Company had four independent non-executive Directors, representing four-eighths of the Board as of December 31, 2023 (during the period from January 1, 2023 to January 18, 2023: three-sixths); therefore, the Company has complied with the relevant requirements.

According to Rule 3.13 of the Listing Rules, the independent non-executive Directors have made confirmations to the Company regarding their independence during the Year. Based on the confirmations of the independent non- executive Directors, the Company considers each of them to be independent during the Year.

Appointment and Re-election

Code Provision B.2.2 of the CG Code stipulates that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The procedures and process of appointment, re-election and removal of Directors are set out in the Articles of Association.

Each of the executive Directors, namely Mr. REN Jinsheng, Mr. TANG Renhong and Mr. WAN Yushan, has entered into a service contract with the Company on October 8, 2020, and renewed on June 15, 2023. Ms. WANG Xi, an executive Director, has entered into a service contract with the Company on January 18, 2023. Each service contract is for a term of three years or until the third annual general meeting convened after the date of appointment, whichever is earlier. The service contract is subject to renewal pursuant to the Articles of Association and applicable laws, rules and regulations.

Each of the independent non-executive Directors, namely Mr. SONG Ruilin, Mr. WANG Xinhua and Mr. WANG Jianguo, has entered into an appointment letter with the Company on October 8, 2020, and renewed on June 15, 2023. Mr. SUNG Ka Woon, an independent non-executive Director, has entered into an appointment letter with the Company on January 18, 2023. Each appointment letter is for a term of three years or until the third annual general meeting convened after the date of appointment, whichever is earlier. The appointment letter is subject to renewal pursuant to the Articles of Association and applicable laws, rules and regulations.

Pursuant to Article 110 of the Articles of Association, without prejudice to the power of the Company in general meeting in accordance with any of the provisions of the Articles of Association to appoint any person to be a Director, the Board shall have power, exercisable at any time and from time to time, to appoint any other person as a Director, either to fill a casual vacancy or as an addition to the Board, provided that the number of Directors so appointed shall not exceed the maximum number (if any) determined pursuant to the Articles of Association. Any Directors so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election, but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at each annual general meeting.

Pursuant to Article 111(a) of the Articles of Association, subject to the provisions of the Articles of Association, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but greater than one-third, shall retire from office by rotation. Subject to the provisions of the Ordinance, the Listing Rules and the Articles of Association, the Directors to retire in every year shall be those who have been longest in office since their last election, and as between persons who became Directors on the same day, the Directors to retire shall (unless otherwise agreed by themselves) be determined by lot. Every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

Pursuant to Article 111(a) of the Articles of Association, Mr. REN Jinsheng, Mr. WANG Jianguo and Mr. SONG Ruilin will retire at the annual general meeting and, being eligible, offer themselves for re-election at the annual general meeting.

BOARD MEETINGS AND GENERAL MEETINGS

For the year ended December 31, 2023, the Company held a total of five Board meetings. At the Board meetings, the Board discussed a wide range of matters, including the Group's overall strategies, business prospects, financial and operating performance, approval of the Group's annual and interim results announcements and reports, regulatory compliance, corporate governance and other material matters.

For the year ended December 31, 2023, the Company convened one annual general meeting. The attendance of the above meeting by each Director is as follows:

Name of the Director	No. of Board meetings attended in person/ by proxy/ convened	Attendance rate of Board meetings	No. of annual general meetings attended in person/ convened	Attendance rate of annual general meetings
Executive Directors:				
Mr. REN Jinsheng	5/0/5	100%	1/1	100%
Mr. TANG Renhong	5/0/5	100%	1/1	100%
Mr. WAN Yushan	5/0/5	100%	1/1	100%
Ms. WANG Xi	5/0/5	100%	1/1	100%
Independent non-executive Directors:				
Mr. SONG Ruilin	5/0/5	100%	1/1	100%
Mr. WANG Jianguo	5/0/5	100%	1/1	100%
Mr. WANG Xinhua	5/0/5	100%	1/1	100%
Mr. SUNG Ka Woon	5/0/5	100%	1/1	100%

The Company fully complies with the Code Provision C.5.1 of Part 2 of the CG Code and adopts the practice of holding Board meetings regularly, at least four times a year, and at approximately quarterly intervals. Notices of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting.

For other Board and Board Committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are dispatched to the Directors or Board Committee members at least three days before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meetings. When Directors or Board Committee members are unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to make their views known to the chairman prior to the meeting. Minutes of meetings are kept by the Joint Company Secretaries with copies circulated to all Directors for information and records.

Minutes of the Board meetings and Board Committee meetings are recorded in sufficient detail about the matters considered by the Board and Board Committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of each Board meeting and Board Committee meeting are sent to the Directors for comments within a reasonable time after the date on which the meeting is convened. Minutes of the Board meetings are open for inspection by Directors. All Directors shall obtain information related to the Board resolutions in a comprehensive and timely manner, and may seek independent professional advice at the Company's expense after making reasonable request to the Board.

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT OF DIRECTORS

Each newly appointed director shall be provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's operations and businesses as well as his/her responsibilities under relevant statues, laws, rules and regulations. In particular, Ms. Wang Xi and Mr. SUNG Ka Woon, who were appointed as Directors of the Company with effect from January 18, 2023, has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on January 17, 2023. Each of Ms. Wang Xi and Mr. SUNG Ka Woon has confirmed that he/she understood the obligations as a Director.

The Company also arranges regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. The Company encourages Directors to participate in continuous professional development to develop and refresh their knowledge and skills.

During the Year, all directors have received directors' training in writing or by attending lectures. Directors' training is mainly about updates on regulatory compliance of listed companies in Hong Kong, continuing obligations of listed companies, disclosures of directors' securities dealings, improvement of ESG performance of listed companies, regulation practices on disclosing information of listed companies and creation of corporate integrity culture, etc.

Name of the Director	Attending or participating in relevant seminars/ reading relevant materials
Executive Directors:	
Mr. REN Jinsheng	✓
Mr. TANG Renhong	✓
Mr. WAN Yushan	✓
Ms. WANG Xi	✓
Independent non-executive Directors:	
Mr. SONG Ruilin	✓
Mr. WANG Jianguo	✓
Mr. WANG Xinhua	✓
Mr. SUNG Ka Woon	✓

COMMITTEES UNDER THE BOARD OF DIRECTORS

Audit Committee

The Group established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process, review and oversee the existing and potential risks of the Group and perform other duties and responsibilities as assigned by the Board.

The Audit Committee consists of three members, all of which are independent non-executive Directors, namely Mr. WANG Xinhua, Mr. SONG Ruilin and Mr. WANG Jianguo. The chairperson of the Audit Committee is Mr. WANG Xinhua. Mr. WANG Xinhua possesses the appropriate professional qualifications and accounting and related financial management expertise.

In accordance with the written terms of reference of the Audit Committee, it should convene at least two meetings in each fiscal year.

During the Year, the Company held three meetings of the Audit Committee, the major works include: (i) review and discuss the report to the Audit Committee prepared by the auditors, KPMG, and the matters the Audit Committee should pay attention to as recommended by the auditors; (ii) review and discuss the Report of the Risk Management and Internal Control Systems and to review the risk management and internal control systems of the Group; (iii) review and discuss the draft audited consolidated financial statements; the draft annual results announcement and the draft annual report of the Group for the year ended December 31, 2022 and, if appropriate, make recommendations to the Board; (iv) review and discuss the draft of letter of representation prepared by the auditors, KPMG and make recommendations to the Board; (v) consider and make recommendations to the Board on the reappointment of KPMG as the Company's independent external auditors for a term until the conclusion of the next annual general meeting of the Company; (vi) review and discuss the draft unaudited interim consolidated financial statements, the draft interim results announcement and the draft interim report of the Group for the six months ended June 30, 2023, and make suggestions to the Board of Directors, if appropriate; and (vii) review the continuing connected transactions conducted up to the date of this report.

The Audit Committee held two meetings with the external auditor without the attendance of executive Directors, to discuss the Group's annual financial results for 2022, interim financial results for 2023 and the annual audit plan.

The attendance record of members of the Audit Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/ in proxy by other Directors/convened
Mr. WANG Xinhua	3/0/3
Mr. SONG Ruilin	3/0/3
Mr. WANG Jianguo	3/0/3

The Audit Committee held a meeting on March 20, 2024 to review the annual financial results for 2023 and re-appoint the external auditor. The audited annual results of the Group for the year ended December 31, 2023 have been reviewed by the Audit Committee, which is of the opinion that the preparation of the relevant financial statements complies with the applicable accounting standards and requirements and that adequate disclosures have been made. Members of the Audit Committee have reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal control, risk management and financial reporting matters including the review of the annual results and the consolidated financial statements of the Group for the year ended December 31, 2023.

Remuneration and Appraisal Committee

In accordance with the CG Code, the Company has established a Remuneration and Appraisal Committee (the "**Remuneration and Appraisal Committee**") with written terms of reference. The primary duties of the Remuneration and Appraisal Committee are to establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, assess the performance of executive directors, determine and approve the terms of the specific services contract remuneration package of each executive Director and senior management and review and approve remuneration by reference to corporate goals and objectives resolved by our Directors from time-to-time; and review and/or approve matters relating to share schemes under Chapter 17 of the Listing Rules.

As of December 31, 2023, the Remuneration and Appraisal Committee consists of five members, including three independent non-executive Directors and two executive Directors, namely Mr. WANG Jianguo, Mr. WANG Xinhua, Mr. SUNG Ka Woon, Mr. REN Jinsheng and Mr. WAN Yushan. The chairperson of the Remuneration and Appraisal Committee is Mr. WANG Jianguo. Mr. WAN Yushan and Mr. SUNG Ka Woon have been appointed as members of the Remuneration and Appraisal Committee with effect from March 31, 2023.

During the Year, the Remuneration and Appraisal Committee held one meeting to consider and make recommendations to the Board on the remuneration policies and structure of the Company, remuneration and other benefits of the Directors and senior management, to consider the grant of RSUs and to review the proposed amendments to the 2021 RSU Scheme and other related matters.

The attendance record of members of the Remuneration and Appraisal Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/ in proxy by other Directors/convened
Mr. WANG Jianguo	1/0/1
Mr. WANG Xinhua	1/0/1
Mr. SUNG Ka Woon	1/0/1
Mr. REN Jinsheng	1/0/1
Mr. WAN Yushan	1/0/1

Pursuant to the Code Provision E.1.5 of Part 2 of the CG Code, the following table sets out the total remuneration (excluding equity-settled share expenses) of Directors and senior management members for the year ended December 31, 2023 by remuneration band:

Group	Remuneration (RMB)	Number of Directors	Number of members of senior management	Total number of individuals
1	0-1,000,000	4	2	6
2	1,500,001-2,000,000	1	0	1
3	2,000,001-2,500,000	0	2	2
4	2,500,001-3,000,000	0	1	1
5	5,000,001-5,500,000	0	1	1
6	6,500,001-7,000,000	1	0	1
7	7,000,001-7,500,000	1	0	1
8	9,000,001-9,500,000	1	0	1

Further details of the Directors' remuneration and the five highest paid employees required to be disclosed under Appendix D2 of the Listing Rules are set out in Notes 8 and 9 to the financial statements.

Nomination Committee

In accordance with the CG Code, the Company has established a Nomination Committee (the "**Nomination Committee**") with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of our Board and senior management on a regular basis and make recommendations to our Board regarding any proposed changes to the composition of our Board and senior management, identify, select or make recommendations to our Board on the selection of individuals nominated for directorship and senior management members, ensure the diversity of our Board and senior management members, assess the independence of our independent non-executive Directors and make recommendations to our Board on relevant matters relating to the appointment, reappointment and removal of our Directors and senior management members and succession planning for our Directors and senior management members.

As of December 31, 2023, the Nomination Committee consists of five members, including three independent non-executive Directors and two executive Directors, namely Mr. SONG Ruilin, Mr. WANG Jianguo, Mr. SUNG Ka Woon, Mr. REN Jinsheng and Ms. WANG Xi. The chairperson of the Nomination Committee is Mr. SONG Ruilin. Ms. WANG Xi and Mr. SUNG Ka Woon have been appointed as members of the Nomination Committee with effect from March 31, 2023.

During the Year, the Nomination Committee held three meetings to review the structure, size and composition of the Board, review the Board diversity policy and its progress, assess the independence of the independent non-executive Directors and make recommendations to the Board on re-election of the retiring directors. The Nomination Committee will consider the diversity of Board members from a variety of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, length of service and industry and regional experience. All Board appointments will be based on meritocracy, and candidates will be considered against criteria including talents, skills and experience as may be necessary for the operation of the Board as a whole, with a view to maintaining a sound balance of the Board's composition.

The attendance record of members of the Nomination Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/ in proxy by other Directors/convened
Mr. SONG Ruilin	3/0/3
Mr. WANG Jianguo	3/0/3
Mr. SUNG Ka Woon	3/0/3
Mr. REN Jinsheng	3/0/3
Ms. WANG Xi	3/0/3

Strategy Committee

The Company has established a Strategy Committee with written terms of reference in compliance with the requirements under the Listing Rules.

The Strategy Committee consists of three members, including two non-executive Directors and one independent non-executive Director, namely Mr. REN Jinsheng, Mr. TANG Renhong and Mr. WANG Jianguo. The chairperson of the Strategy Committee is Mr. REN Jinsheng.

The primary duties of the Strategy Committee are to review and make suggestions in respect of mid- to long-term development strategies, annual operation plans, major investments and financings, major business reorganization as well as business and market expansion, and formulation and implementation of ESG goals of the Company.

During the Year, the Strategy Committee held two meetings to assess industry trends, review operating condition, explore long-term planning of the Company, formulate corresponding ESG plans and implement ESG goals.

The attendance record of members of the Strategy Committee is listed in the table below:

Name of the members of the committee	No. of meetings attended in person/ in proxy by other Directors/convened
Mr. REN Jinsheng	2/0/2
Mr. TANG Renhong	2/0/2
Mr. WANG Jianguo	2/0/2

Directors Nomination Policy

In accordance with the Company's director nomination policy, the Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorship:

- Skills, experience and expertise: The candidate should possess the skills, knowledge, experience and expertise which are relevant to the operations of the Company and its subsidiaries;
- Diversity: Candidates should be considered on merit and against objective criteria, with due regard to the diversity perspectives set out in the Board diversity policy of the Company;
- Commitment: The candidate should be able to devote sufficient time to attend Board meetings and participate in induction, trainings and other Board associated activities. In particular, if the proposed candidate will be nominated as an independent non-executive Director and will be holding his/her seventh(or more) listed company directorship, the Nomination Committee should consider the reason given by the candidate for being able to devote sufficient time to the Board and Board Committee meetings;
- Standing: The candidate must satisfy the Board and the Stock Exchange that he/she has the character, experience and integrity to serve as a Director, and is able to demonstrate a standard of competence commensurate with the relevant position as a Director;
- Independence: For the candidate who is proposed as an independent non-executive Director, he or she must satisfy all the independence requirements as set out in Rule 3.13 of the Listing Rules. Where appropriate, the Nomination Committee shall also evaluate the education, qualifications and experience of the candidates in a holistic manner to consider whether they possess appropriate professional qualifications, accounting or related financial management expertise to act as independent non-executive Directors.

The Nomination Committee will recommend to the Board for the appointment of directors (including independent non-executive Directors) in accordance with the following nomination procedures:

- If the Nomination Committee determines that additional appointment or replacement of the Director(s) is required, the Committee may take such measures that it considers appropriate in connection with its identification and evaluation of a candidate;

- The Nomination Committee may propose to the Board a candidate recommended or offered for nomination by the Shareholders of the Group as a nominee for election to the Board and the appointment or reappointment of Directors and succession planning for Directors is subject to the approval of the Board;
- On making recommendation, the Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration. In order to be a valid proposal, the proposal must clearly indicate the nominating intention and the candidate's consent to be nominated and the personal profile must incorporate and/or accompanied by the full particulars of the candidate that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules. If the candidate is proposed to be appointed as an independent non-executive Director, his or her independence shall be assessed in accordance with the factors set out in Rule 3.13 of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time;
- The Board shall observe its Board diversity policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, and any other factors that the Board might consider relevant and applicable from time to time towards achieving Board diversity; and
- Each proposed new appointment, election or re-election of a Director shall be assessed and/or considered against the criteria and qualifications set out in the nomination policy by the Nomination Committee which shall recommend its views to the Board and/or the Shareholders for consideration and determination.

The Nomination Committee is responsible for monitoring the implementation of the Directors nomination policy and reviewing this policy from time to time as appropriate to ensure its effectiveness.

THE MECHANISM WHERE THE BOARD CAN OBTAIN INDEPENDENT VIEWS AND ADVICE

The Board has adopted a mechanism where the Board can obtain independent views and advice on August 31, 2022. Such mechanism aims at facilitating the Company to establish a mechanism to ensure the Board to possess stronger independent elements, which will be one of the key factors to enhance the Board's efficiency. The Board shall review the execution and effect of this policy once a year. The Board has reviewed the mechanism where the Board can obtain independent views and advice on March 31, 2023, and the Board is of the opinion that the mechanism where the Board can obtain independent views and advice is effective.

In the mechanism where the Board can obtain independent views and advice, the considerations for the Board to obtain independent views and advice are as follows:

(a) Channels for the Directors to Seek Advice from Independent Professional Consultants

According to the requirements of code provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules, the Board shall agree on a procedure to enable the Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense. The Board shall resolve to provide separate independent professional advice to the Directors to assist them to perform their responsibilities to the issuer. The Nomination Committee and the Remuneration and Appraisal Committee shall also be provided sufficient resources by the issuer to perform their duties.

For this purpose, the Directors, members of the Nomination Committee or members of the Remuneration and Appraisal Committee of the Company can seek independent professional advice according to the following procedures at the Company's expense, so as to perform their responsibilities:

- A Director makes reasonable request to the secretary to the Board and specify reasons and the responsibilities to be performed.
- Upon receiving the request from a Director, the secretary to the Board shall report to the Chairman of the Board or designated authorised Director as soon as practicable and propose to the Board for granting approval of such request.
- After the Board resolves to approve the relevant requests, the secretary to the Board shall make relevant arrangements as soon as possible to appoint a professional consultant. The selected professional consultant shall be agreed by the Chairman of the Board or designated authorised Director and the Director who make the requisition, and shall not be the consultant used to be engaged by the Company.
- The secretary to the Board shall arrange the independent professional consultants to provide advice.
- The secretary to the Board shall report the relevant arrangements to the Board and keep records.

If the Board and the Director who makes the requisition cannot reach consensus on the appointment of professional consultant, the decision of the Board shall be final and binding.

(b) Seeking Information by Directors

For the matters to be discussed on Board meetings, the Directors have the right to seek further information and documents from the management. The Directors shall also perform due diligence and make independent judgments themselves and shall not solely rely on professional advisers or the information volunteered by the management. To assist the Directors to duly perform their duties and timely discover potential issues, the management shall also provide all relevant documents and information to the Directors, including but not limited to:

- board papers and background information;
- disclosure documents;
- specific project plans and budgets;
- projections and monthly financial updates; and
- supporting information of new project proposals by management.

(c) Qualifications of Independent Non-executive Directors

The Nomination Committee and the Board nominates and appoints independent non-executive Directors according to the nomination policy of the Company. When considering independent non-executive Directors, apart from taking into account their independence as required under the Listing Rules, the Company will also consider whether they are industry practitioners or experts in the Company's business, or have other skills and experience in other areas (e.g. laws and accounting), so as to enhance the Board members' composition of skills, experience and diversity of perspectives.

Independent non-executive Directors shall possess the following functions to provide independent views and advices:

- keeping abreast of the latest information of the businesses of the Company, participating in supervising the Company's performance on achieving established corporate goals and objectives and monitoring relevant reporting process;
- providing independent advice on issues of strategy, policy, corporate performance, accountability, resources, key appointments and standards of conduct, and assist in reviewing certain major decisions of the Board and the Company's performance on corporate goals as well as monitoring relevant reporting process;
- taking the lead where potential conflicts of interests arise; and
- serving as a member of the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and other governance committees, if invited.

(d) Number of Independent Non-executive Directors and the Time Committed

- The Board shall include a balanced composition of executive and non-executive Directors (including independent non-executive Directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgment. There shall be at least three independent non-executive Directors among the Board members and the independent non-executive Directors shall represent at least one-third of the Board, so as to comply with the requirements of the Listing Rules.
- The independent non-executive Directors shall ensure to devote sufficient time and energy to handle such tasks and shall fully engage in the Company's affairs in the Board and other time after the meeting. The independent non-executive Directors who hold directorships in a number of companies or hold important positions in the government or non-profit organizations shall devote sufficient attention to the Board and Board committees.
- If the proposed independent non-executive Directors will be holding their seventh (or more) directorships in listed companies, the Board shall comprehensively considers and explain in the shareholder circular why the Board believes such individual would still be able to devote sufficient time to the Board.
- The Chairman of the Board shall hold at least one meeting with the independent non-executive Directors without the presence of other Directors annually to discuss any doubts or concerns.

- The independent non-executive Directors shall attend general meetings, Board meetings and committee meetings which they serve as a committee member. If they are unable to attend such meetings, it is necessary for them to provide reasons to the Board and relevant committees and make relevant records.

(e) Remuneration

The independent non-executive Directors have not been granted equity-based remuneration (e.g. share options or grants) with performance-related elements as this may lead to bias in their decision-making and compromise their objectivity and independence.

BOARD DIVERSITY POLICY

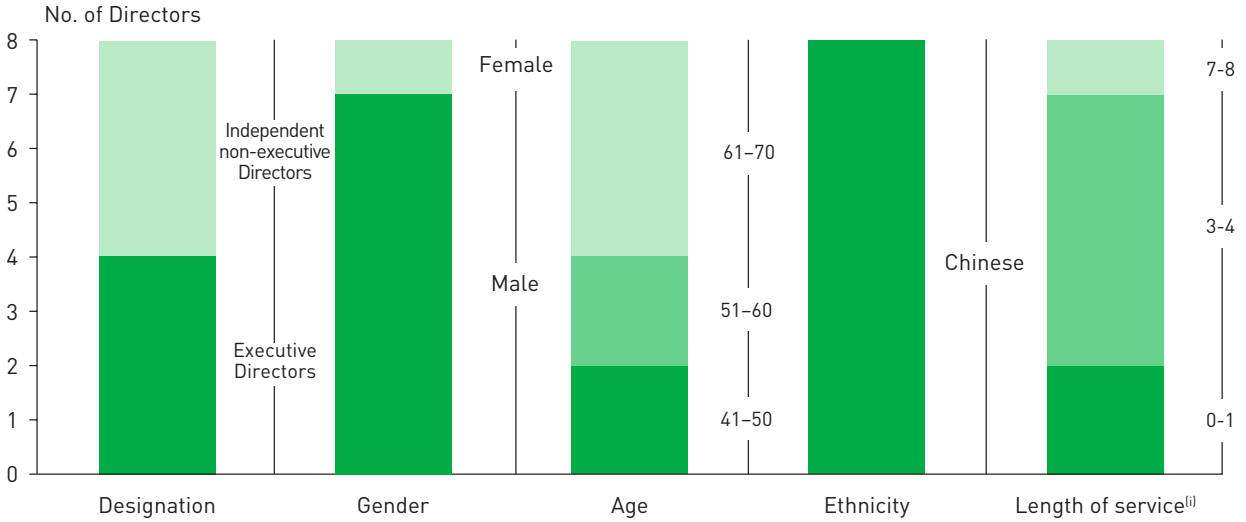
The Company has adopted a Board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to the Company's business growth. The selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merits and contributions that the selected candidates will bring to the Board.

Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development, business operation, accounting and financial management, pharmaceutical research and development. They obtained degrees in various majors or certifications, including in economics, business administration, marketing, law, accounting and pharmacy. The Company has four independent non-executive Directors with different industry backgrounds, representing more than one-third of the Board. In addition, our Board has a wide range of age, ranging from 41 years old to 68 years old. Given the Board's composition of all-male directors in 2022, the Company has appointed Ms. WANG Xi as an executive Director with effect from January 18, 2023. At the same time, the Company will continue to take steps to promote gender diversity at all levels of our Company, including but not limited to our Board and the management levels. Going forward, our Company will consider the possibility of nominating more female senior management to the Board or appointing a female independent non-executive Director who has the necessary skills and experience. The Company targets to achieve 20% female representation in the Board within four years, subject to the Directors (i) being satisfied with the competence and experience of the relevant candidates after a comprehensive review process based on reasonable criteria; and (ii) fulfilling their fiduciary duties to act in the best interest of our Company and our Shareholders as a whole when deliberating on the appointment. To develop a pipeline of potential female successors to the Board, our Company will (i) ensure that there is gender diversity when recruiting staff at mid to senior levels; and (ii) engage more resources in training female staff with the aim of promoting them to be members of our senior management or the Board.

As at December 31, 2023, male employees accounted for 47.8% and female employees accounted for 52.2% of all employees (including senior management) of the Group. We are committed to creating favorable conditions in our working environment to hire more staff and promote more women to hold senior management positions based on the qualifications, experience and skills required for those positions. In addition, we may face the issue of whether the supply of female personnel in the human resources market matches the academic qualifications, experience and skills required for positions within the Group. Despite these challenges, we are still moving towards gender balance.

The Nomination Committee is responsible for ensuring the diversity of our Board. The Nomination Committee will monitor the implementation of the diversity policy and review the Board diversity policy from time to time to ensure its continued effectiveness. The Board has reviewed the Board diversity policy on December 29, 2023 and the Board is of the opinion that the implementation of Board diversity policy is effective.

The graph below set forth the diversity profile of the Board as at December 31, 2023:



Note:

(i) The length of service is calculated from the date of appointment of the Director(s) by the Company to December 31, 2023.

COMPANY SECRETARIES

Mr. WAN Yushan, an executive Director and the chief financial officer of the Company, serves as the secretary to the Board and a Joint Company Secretary of the Company. Mr. WAN Yushan is responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed.

In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also appointed Ms. MAK Po Man Cherie of SWCS Corporate Services Group (Hong Kong) Limited, as the Company's Joint Company Secretary, to assist Mr. WAN Yushan in discharging the duties of a company secretary. Mr. WAN Yushan has attended trainings on, among other things, laws and regulations, Listing Rules, director and Board secretaries' duties, rules on information disclosure, rules on connected transactions, notifiable transactions, equity management of securities companies, directors' and supervisors' securities dealings, disclosure of interests, market misconduct and the implementation of relevant internal policies.

Mr. WAN Yushan and Ms. MAK Po Man Cherie have both confirmed that they received not less than 15 hours of relevant professional training during the year ended December 31, 2023.

DIVIDEND POLICY

The Company currently does not have a fixed dividend distribution ratio. Our Board may declare dividends by considering our future operations and earnings, capital requirements and surplus, general financial conditions, contractual restrictions and other factors that our Directors consider relevant. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the Companies Ordinance, including the approval of our Shareholders.

As the Company is a holding company, our ability to declare and pay dividends will also depend on the availability of dividends received from our PRC subsidiaries. PRC laws require that dividends be paid only out of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including HKFRSs. PRC laws also require foreign invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future.

LIABILITY INSURANCE FOR DIRECTORS AND SENIOR MANAGEMENT

The Company has maintained insurance for all the directors and senior management members to minimum the potential risks which may occur to them during their normal performance of duties.

RESPONSIBILITIES OF THE DIRECTORS FOR FINANCIAL STATEMENTS

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

The Directors are not aware of any material uncertainties involving events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. The statement of the Company's independent auditor regarding its reporting responsibilities on the financial statements is included in the Independent Auditor's Report on pages 106 to 112 of this annual report.

AUDITORS' REMUNERATION

For the year ended December 31, 2023, the Company appointed KPMG as its independent auditors. The total fees paid/payable for audit and non-audit services provided by the Group's independent auditors for the year ended December 31, 2023, excluding disbursements made on behalf of the Company, are as follows:

Service provided	Fees paid/payable (RMB'000)
Audit service	4,940
Non-audit service [note]	234

Note: Non-audit service mainly includes tax-related services.

RISK MANAGEMENT AND INTERNAL CONTROL

The overall objectives of the Group's risk management are to ensure that risks are controlled within an acceptable limits appropriate to the overall objectives, to ensure compliance with relevant laws and regulations, to ensure the implementation of the Group's relevant rules and regulations and major measures taken to achieve business objectives, to ensure the effectiveness of management, to improve the efficiency and effectiveness of business activities, to reduce uncertainty in achieving business objectives, to ensure that a crisis management plan is in place for subsequent management upon occurrence of various significant risks and to ensure that the Company is free of significant loss arising from catastrophic risks or human error. Our risk management system follows the principles of comprehensiveness, prudence, independence, effectiveness and timeliness to ensure the optimized use of the system.

The Group's risk management process consists of five steps: risk identification, risk assessment, risk management strategy selection, risk response and rectification and risk management supervision and improvement. Our internal audit function is performed by the compliance and audit department, which reports directly to the Audit Committee. The Group has separately set an audit department directly reporting to the compliance and audit department, which conducts routine random audits and special audits in accordance with the regulations of each business functions of the Company. In respect of regular random audits, the compliance and audit department prepares the audit plan for the coming year on an annual basis, and carries out the relevant works as per the scheduled timetable. In addition to the regular audits, the compliance and audit department also conducts special audits from time to time based on particular reports and issues identified during the regular random audits. Notices would be issued and notified, in different levels, in respect of the issues identified during the regular random audits and special audits by the compliance and audit department depending on the seriousness of the incidents.

Each business entity of the Group is responsible for identifying, assessing and managing the risks within its scope of business. They will develop their respective internal control system for effective risk management and develop action plans to manage the risks catering for the risks identified and assessed, so as to ensure that the associated risks are effectively controlled in line with the Group's risk appetite.

Management is responsible for monitoring the Group's risk management and internal control activities and holds regular meetings with the business entities to ensure that key risks have been properly managed and newly identified or evolving risks have been identified. Besides, the internal control and compliance related departments will also monitor the internal operations of the Group from time to time.

The Board is responsible for examining and reviewing the adequacy and effectiveness of the Group's risk management and internal control systems, including financial monitoring, operating monitoring and compliance monitoring, the Board also is responsible for reviewing the annual report and taking advice from the Audit Committee.

The Board reviews the effectiveness of risk management and internal control system once a year and has reviewed the effectiveness of the risk management and internal control system for the year ended December 31, 2023 and has covered all important monitoring aspects, including financial monitoring, operational monitoring and compliance monitoring, and the Board has obtained management's confirmation on the effectiveness of the risk management and internal control system of the Company. In particular, the Board considered the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions as well as the performance and reporting of environmental, social and governance to be adequate. The review was conducted through discussions with the management of the Company, its external auditors and the assessment performed by the Audit Committee. The Board is also of the opinion that there is neither material failure of risk control, nor has it identified any major weakness in risk control. The Company has strictly complied with the requirements under the Corporate Governance Code in relation to risk management and internal control, and the Board assesses that the Company's risk management and internal control system is effective and adequate.

The Board acknowledges that it is accountable for the risk management and internal control systems and has the responsibility to review the effectiveness of such systems. These systems are designed to manage, not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance that there will be no material misrepresentation or loss. In addition, the Group will still take further steps to improve its risk management and internal control systems continuously.

The Company is aware of its responsibilities under the SFO and the Listing Rules with respect to the procedures and internal controls over the handling and dissemination of inside information, and the overriding principle is that if some information is determined as inside information, it should be announced as soon as reasonably practicable and handled with close regard to applicable laws and regulations.

ENVIRONMENTAL POLICIES AND PERFORMANCE

With the recognition of the importance of environmental protection to the pursuit of long-term sustainable development, the Group has formulated various internal systems of energy conservation and emission reduction and promoted energy conservation and emission reduction measures, including put forward environmental management goals, monitor emissions, encourage staff to conserve energy and reduce consumption. The Group is committed to improving the sustainable development of the environment and will closely monitor its performance. The Group has always strictly complied with the applicable laws and regulations in the place of operation, such as the Environmental Protection Law of the People's Republic of China(《中華人民共和國環境保護法》), which have been supported and effectively implemented by employees. During the year ended December 31, 2023, the Group has not suffered any fines or other penalties for the violation of any health, safety or environmental regulations. For details, please refer to the environmental, social and governance report to be published independently by the Group.

SHAREHOLDERS' RIGHTS

According to the Articles of Association and the Companies Ordinance, Shareholders of the Company may: (i) move a requisition to move a resolution at the AGM; (ii) requisition to convene an extraordinary general meeting (the "**EGM**"); and (iii) propose a person for election as a Director at a general meeting.

Requisition to Move a Resolution at an AGM

The Company holds a general meeting as its AGM every year. In accordance with section 615 of the Companies Ordinance, a requisition to move a resolution at the AGM may be submitted by any number of Shareholders representing not less than one-fortieth (1/40) of the total voting rights of all Shareholders having the right to vote on that resolution at the AGM, or not less than 50 Shareholders having the right to vote on that resolution at the AGM. The requisition must identify the resolution and must be signed by all the applicant. The requisition must be deposited at the Registered Office (as defined below), for the attention of the Joint Company Secretaries, not later than 6 weeks before the AGM to which the request relates, or if later, when the Notice of AGM is dispatched.

Requisition to Convene an EGM

Shareholders holding not less than one-twentieth (1/20) of the total voting rights of all the members having a right to vote at general meetings of the Company can deposit a requisition to convene an EGM pursuant to sections 566 to 568 of the Companies Ordinance. The requisition must state the general nature of the business to be dealt with at the meeting, and must be signed by the applicant. The requisition must be deposited at our Registered Office for the attention of the Joint Company Secretaries.

Proposing a Person for Election as a Director at a General Meeting

If a Shareholder wishes to propose a person for election as a Director at a general meeting, he/she must give a written notice to that effect to the Joint Company Secretaries. The written notice must include the personal information of the person proposed for election as a Director as required by Rule 13.51(2) of the Listing Rules and be signed by such Shareholder and the person proposed for election as a Director indicating his/her willingness to be appointed or re-appointed and consent of publication of his/her personal information. Such notice shall be given within the period (or a longer period as may be determined by the Directors from time to time) commencing no earlier than the day after the despatch of the notice of such meeting and ending no later than seven days prior to the date appointed for such meeting. Such details and procedures are available in our website.

For requesting the Company to circulate to Shareholders a statement with respect to a matter mentioned in a proposed resolution or any other business to be dealt with at a general meeting, Shareholders are requested to follow the requirements and procedures as set out in section 580 of the Companies Ordinance.

Procedure in relation to Raising Enquiry and Concerns with the Board

Shareholders of the Company wishing to make any enquiry to the Board may do so in writing to the Company since verbal or anonymous ones would not generally be dealt with by the Company.

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

Contact details

Address: 43/F, AIA Tower, 183 Electric Road, North Point, Hong Kong ("**Registered Office**")
(for the attention of the Joint Company Secretaries)
Email: ir@simcere.com

For any enquiry concerning our Shares, Shareholders are advised to directly check with our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited. The contact details of Computershare Hong Kong Investor Services Limited are as follows:

Computershare Hong Kong Investor Services Limited

Address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong
Telephone: +852 2862 8555
Website: www.computershare.com/hk/contact

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS RELATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Company's business performance and strategies. The Company has adopted the Shareholders' Communication Policy. The Board has reviewed the Shareholders' Communication Policy on March 31, 2023 and the Company has maintained communications with Shareholders according to the communication strategies set out in the Shareholders' Communication Policy, where the Shareholders can raise questions to the Directors at the annual general meeting held on June 15, 2023, thus the Board is of the opinion that the Shareholders' Communication Policy is implemented appropriately and effective.

The Shareholders' Communication Policy includes the followings:

General Policies

- The Board shall maintain an on-going dialogue with Shareholders and the investment community, and will regularly review this Policy to ensure its effectiveness.
- Information shall be communicated to Shareholders and the investment community mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings that may be convened; and publish all the disclosures submitted to the Stock Exchange, corporate communications and other corporate publications on the Company's website.
- Effective and timely dissemination of information to Shareholders and the investment community shall be ensured at all times. Any question regarding this Policy shall be directed to the Joint Company Secretaries.

Communication Strategies

Shareholders' enquiries

- Shareholders should direct their questions about their shareholdings to the Company's Share Registrar.
- Shareholders and the investment community may at any time make a request for the Company's information to the extent such information is publicly available.
- Shareholders and the investment community shall be provided with designated contacts, email addresses and enquiry methods of the Company in order to enable them to make any query in respect of the Company.

*Corporate Communication**

- Corporate communication will be provided to Shareholders in plain language and in both English and Chinese versions to facilitate Shareholders' understanding. Shareholders have the right to choose the language (either English or Chinese) or means of receipt of the corporate communications (in hard copy or through electronic means).
- Shareholders are encouraged to provide, amongst other things, in particular, their email addresses to the Company in order to facilitate timely and effective communications.

Company's website

- A dedicated "Investor Relations" section is available on the Company's website (www.simcere.com). Information on such website is updated on a regular basis.
- Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such Information on website includes financial statements, results announcements, circulars and notices of general meetings and associated explanatory documents etc.
- All presentation materials provided in conjunction with the Company's annual general meeting and results announcement each year will be made available on the Company's website as soon as practicable after their release.

General Meetings

- Shareholders are encouraged to participate in general meetings or to appoint proxies to attend and vote at meetings for and on their behalf if they are unable to attend the meetings.
- Appropriate arrangements for the annual general meetings shall be in place to encourage Shareholders' participation.
- The process of the Company's general meetings will be monitored and reviewed on a regular basis, and, if necessary, changes will be made to ensure that Shareholders' needs are best served.
- Board members, in particular, either the chairman of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer Shareholders' questions.
- Shareholders are encouraged to attend Shareholders' activities organized by the Company, where information about the Company, including its latest strategic plan, products and services, will be communicated.

* "Corporate Communication" refers to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to the directors' report and annual accounts together with a copy of the auditor's report, the interim report, a notice of meeting, a circular and a proxy form.

Communications with the Investment Market

- The Company will organize various events regularly, which include briefing sessions to and private meetings with investors/analysts, holding domestic and international roadshows, media interviews and investor promotions, as well as organizing/participating in industry thematic forums, so as to facilitate communication between the Company and its Shareholders and investors.
- The Directors and employees of the Company who have contacts or dialogues with investors, analysts, media or other interested outside parties are required to comply with the disclosure obligations and requirements under the "Inside Information Disclosure Policy" of the Company.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

There is no change in the Articles of Association of the Company during the Year.

Biographical details of the Directors and the senior management of the Company are updated as of the date of this report.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. REN Jinsheng (任晉生), aged 61, is the founder, an executive Director, the chairman of the Board and the chief executive officer of the Company. He is primarily responsible for the overall corporate and business strategies, business operation and making significant business and operational decisions of the Group.

With more than 31 years of industry experience, Mr. REN has gained in-depth understanding of the pharmaceutical industry and acquired rich management experience. At the very beginning of the Group's operations, Mr. REN became the general manager of Jiangsu Simcere Pharmaceutical Co., Ltd. (江蘇先聲藥業有限公司) ("**Jiangsu Simcere**") at the time of its establishment in March 1995, and has subsequently been the chairman of the board and the chief executive officer of the Group. On November 19, 2019, Mr. REN was officially appointed as the chairman of the Board, an executive Director and the chief executive officer of the Company. Mr. REN also has been the chairman of the board of various subsidiaries within the Group, including but not limited to Jiangsu Simcere since April 2004, Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) ("**Hainan Simcere**") since April 2001, Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) ("**Simcere Pharmaceutical**") since February 2003. Prior to the foundation of the Group, Mr. REN served as the manager of the new special drugs business department of Jiangsu Pharmaceutical Industry Co., Ltd. (江蘇省醫藥工業有限公司) from November 1992 to March 1995. Prior to that, Mr. REN worked at Qidong Pharmaceutical Factory ((啟東製藥廠), now known as Qidong branch of Bayer Healthcare (拜耳醫藥啟東分公司)) from February 1982 to November 1992. In addition, Mr. REN was also the vice president of the China Pharmaceutical Innovation Promotion Association (中國醫藥創新促進會) and the vice president of Jiangsu Chamber of Commerce (江蘇省商會).

Mr. REN graduated with a college diploma in traditional Chinese pharmacology from Nanjing University of Chinese Medicine (南京中醫藥大學) (formerly known as Nanjing College of Chinese Medicine (南京中醫學院)) in January 1982. He also graduated with a master's degree in business administration from Nanjing Normal University (南京師範大學) in December 1996. Mr. REN was certified as a researcher (natural science series) and a senior economist by Jiangsu Human Resources and Social Security Department (江蘇省人力資源與社會保障廳) in January 2020 and November 2010, respectively.

Over the years, Mr. REN has received many awards and accolades acknowledging his contributions and accomplishments in the pharmaceutical industry, examples of which are set out below:

Honor/Award	Awarding Body	Timing of granting the award
Top 10 leaders in China's pharmaceutical industry (中國醫藥行業十大領軍人物)	National Federation of Industry and Commerce Pharmaceutical Merchants Association (全國工商業聯合會醫藥商協會)	May 2016
First prize of the Science and Technology Award of Hainan Province (海南省科學技術一等獎)	The People's Government of Hainan Province (海南省人民政府)	December 2014; January 2005
Special Government Allowances (政府特殊津貼)	State Council (國務院)	March 2011
Jiangsu Innovation and Entrepreneurship Talent Award (江蘇創新創業人才獎)	Jiangsu Committee of the Communist Party of China (中共江蘇省委); The People's Government of Jiangsu Province (江蘇省人民政府)	June 2010
National Labor Medal (全國五一勞動獎章)	All-China Federation of Trade Unions (中華全國總工會)	April 2007
Second prize of National Science and Technology Progress Award (國家科學技術進步二等獎)	State Council (國務院)	November 2005

Mr. TANG Renhong (唐任宏), aged 44, is an executive Director of the Company and the chairman of the board of directors and the chief executive officer of Simcere Zaiming Pharmaceutical Co., Ltd. (先聲再明醫藥有限公司) ("**Simcere Zaiming**"), a subsidiary of the Company. Mr. TANG is committed to the overall leading of Simcere Zaiming, which is responsible for the research and development, production and marketing of oncology pharmaceuticals of the Group.

Mr. TANG has nearly 14 years of experience in pharmaceutical research and development and management of pharmaceutical companies. Mr. TANG joined the Group acting as the vice president in May 2019. He was officially appointed as an executive Director and the vice president of the Company on November 19, 2019 and further appointed as the senior vice president, the executive vice president and the co-chief executive officer (the "**Co-CEO**") of the Company on June 1, 2020, March 31, 2021 and May 25, 2022, respectively. Mr. TANG resigned as the Co-CEO of the Company on December 31, 2022 and was appointed as the chairman of the board of directors and the chief executive officer of Simcere Zaiming on January 1, 2023.

Prior to joining Simcere, he served as the vice general manager of Shanghai Shengdi Pharmaceutical Co., Ltd. (上海盛迪醫藥有限公司) from September 2017 to May 2019. From September 2013 to August 2017, Mr. TANG worked as the associate director of China Innovation Center of Astrazeneca Investment (China) Co., Ltd. (阿斯利康投資(中國)有限公司). Before that, he worked at the Novo Nordisk Research Centre China (諾和諾德中國研究發展中心) from June 2009 to September 2013 with the last position there being the head of department. At the beginning of his career, he was a postdoctoral researcher at the University of California, San Francisco from April 2007 to May 2009.

Mr. TANG obtained a bachelor's degree in biotechnology from Shanghai Jiao Tong University (上海交通大學) in July 2002. He also obtained a Ph.D. in molecular cell biology from Nanyang Technological University in April 2007.

Mr. WAN Yushan (萬玉山), aged 53, is an executive Director, the chief financial officer and one of the joint company secretaries of the Company. He is primarily responsible for the financial, legal and compliance management, formulating financial strategies and in charge of the process and information business of the Group.

Mr. WAN has over 21 years of experience with the Group where he has accumulated knowledge and skills required in the financial management of the Group. Mr. WAN joined the Group in May 2000 and has assumed various positions successively since then, including the financial controller, general manager of financial department, vice president and chief financial officer. On November 19, 2019, Mr. WAN was officially appointed as an executive Director and the chief financial officer of the Company. He has also been the director of several subsidiaries of the Company including, among others, Hainan Simcere since July 2011 and Simcere Pharmaceutical since July 2017.

Mr. WAN obtained a bachelor's degree in biochemistry from Nanjing University (南京大學) in June 1992 and a master's degree in management (majoring in accounting) from Nanjing University (南京大學) in June 1999. Mr. WAN was admitted as a non-practicing member of Jiangsu Institute Certified Public Accountants (江蘇省註冊會計師協會) in November 2009.

Ms. WANG Xi (王熙), aged 41, is an executive Director and a vice president of the Company. She is primarily responsible for the procurement and supply chain department of the Group and quality management, material control and business of Jiangsu Simcere. Ms. WANG joined the Group in May 2020 and has been a vice president of the Company since then. She was appointed as an executive Director with effect from January 18, 2023. Ms. WANG is the spouse of Mr. REN Jinsheng.

Ms. WANG has extensive experience in corporate governance. Ms. WANG has been a director of Nanjing BioSciKin Technology Development Co., Ltd. (南京百家匯科技發展有限公司) since April 2020 and a director of Beijing Simcere Sanroad Biological Products Co., Ltd. (北京先聲祥瑞生物製品股份有限公司) (formerly known as Beijing Sanroad Biological Products Co., Ltd. (北京祥瑞生物製品股份有限公司)) (stock code: 873821, NEEQ) since May 2020. In addition, Ms. WANG served as a director of Jiangsu Pharmaceutical Industry Research Institute Co., Ltd. (江蘇省醫藥工業研究所有限公司), the executive director and the general manager of Nanjing Xinjiye Technology Development Co., Ltd. (南京新基業科技發展有限公司) and the chairman of the board of directors of Simcare Jiangsu Pharmaceutical Co., Ltd. (先聲再康江蘇藥業有限公司) from 2015 to 2023.

Ms. WANG obtained a bachelor's degree in marketing from Nankai University (南開大學) in June 2006 and is currently studying for an executive master of business administration (EMBA) degree at China Europe International Business School (中歐國際工商學院).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SONG Ruilin (宋瑞霖), aged 61, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. SONG has extensive experience in the pharmaceutical industry. Mr. SONG joined the Group in November 2019. He has held positions in a number of public companies, including a non-executive director of Luye Pharma Group Ltd. (stock code: 2186.HK) since March 2017, an independent director of Mediwelcome Healthcare Service and Technology Inc. (麥迪衛康健康醫療服務科技有限公司) (stock code: 2159.HK) since December 2020, an independent director of Jacobio Pharmaceuticals Group Co., Ltd. (加科思藥業集團有限公司) (stock code: 1167.HK) since December 2020, an independent director of Shanghai Henlius Biotech, Inc. (上海復宏漢霖生物技術股份有限公司) (stock code: 2696.HK) since June 2018, an independent director of Shenzhen Chipscreen Biosciences Co., Ltd (深圳微芯生物科技股份有限公司) (stock code: 688321.SH) since August 2018, an independent director of Boya Biopharmaceutical Group Co., Ltd. (博雅生物製藥集團股份有限公司) (stock code: 300294.SZ) from March 2017 to March 2021, an independent director of Tibet Aim Pharm. Inc. (西藏易明西雅醫藥科技股份有限公司) (stock code: 002826.SZ) from August 2015 to August 2021, an independent director of Shanxi Zhendong Pharmaceutical Co., Ltd. (山西振東製藥股份有限公司) (stock code: 300158.SZ) from June 2015 to June 2021, an independent director of Zhejiang Jolly Pharmaceutical Co., Ltd. (浙江佐力藥業股份有限公司) (stock code: 300181.SZ) from July 2009 to January 2014 and an independent director of Jointown Pharmaceutical Group Co., Ltd. (九州通醫藥集團股份有限公司) (stock code: 600998.SH) from November 2008 to November 2014.

Mr. SONG is currently the executive president of PhIRDA (中國醫藥創新促進會) (formerly named as China Pharmaceutical Industry Research and Development Association (中國醫藥工業科研開發促進會)). Mr. SONG also hold several important social positions including specially-invited expert of the Talent Pool Participating in and Discussing State Affairs of the CPPCC, consultant of Participating in and Discussing State Affairs of the Chinese Peasants and Workers Democratic Party, the executive deputy director of the Research Centre for Drug Policy and Industrial Development at China Pharmaceutical University (中國藥科大學國家藥物政策與產業發展研究中心), a member of the NMPA's Expert Advisory Committee on the Strategic Decision of Chinese medicine management (中藥管理戰略決策專家諮詢委員會), a member of the Biotech Advisory Panel of the Stock Exchange, vice chairman of China Alliance Rare Diseases, a honorary council member of the Chinese Medicine Society, council member of Chinese Pharmacist Association, a council member of the Bethune Charitable Foundation, a visiting researcher of Shanghai Jiaotong University. Since 2007, Mr. SONG has been dedicated to the research of China's pharmaceutical policies, especially the policies for pharmaceutical innovation. Prior to that, he worked in the Legislative Affairs Office of the State Council of China, mainly engaged in the legislative review and research of health and medicine for a number of years.

Mr. SONG graduated with a bachelor's degree in law from China University of Political Science and Law (中國政法大學) in July 1985. He also graduated with a degree of master of business administration (EMBA) from China Europe International Business School (中歐國際商學院) in November 2004 and a doctoral degree in social and administrative pharmacy from China Pharmaceutical University (中國藥科大學) in December 2018.

Mr. WANG Jianguo (汪建國), aged 63, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. WANG has over 31 years of experience in corporate management. He joined the Group in November 2019, and meanwhile, he has been an independent non-executive director of Honma Golf Limited (stock code: 6858.HK) since September 2016. Mr. WANG also has been the chairman of the board of Five Star Holdings Group Co., Ltd. (五星控股集團有限公司), the chairman of Kidswant Children Products Co., Ltd (stock code: 301078.SZ) and the chairman of Huitongda Network Co., Ltd. (stock code: 9878.HK) since February 2009. Before that, Mr. WANG was the vice president of the Asia-Pacific Region for Best Buy Co., Inc. (stock code: BBY.NY), an American multinational consumer electronics corporation. He founded Jiangsu Five Star Appliance Co., Ltd. (江蘇五星電器有限公司) in 1998 and was its president and the chairman of the board until February 2009. From 1992 to 1998, Mr. WANG held various positions at Jiangsu Wujiaohua Corporation (江蘇五交化總公司) with his last position there being the general manager.

Mr. WANG was elected as the Fifth Excellent Constructor of Socialism with Chinese Characteristics from Non-public Sector (第五屆全國非公有制經濟人士優秀中國特色社會主義事業建設者) in August 2019 and was elected as the Model Worker of the National Business System (全國商務系統勞動模範) by the Ministry of Personnel and the Ministry of Commerce of the PRC in 2007.

Mr. WANG graduated from the Australian National University, in July 2004 with a degree of executive master of business administration (EMBA). He also completed the program of Ph.D. in Business Administration in Global Finance from Arizona State University, U.S.A. in May 2018.

Mr. WANG Xinhua (王新華), aged 68, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. WANG Xinhua has almost 46 years of experience in accounting and financial management. Mr. WANG Xinhua joined the Group in November 2019. He has been an independent non-executive director of China Tobacco International (HK) Company Limited (stock code: 6055.HK) since December 2018. In addition, Mr. WANG Xinhua was an independent director of Guizhou Yibai Pharmaceutical Co., Ltd. (貴州益佰製藥股份有限公司) (stock code: 600594.SH), Guizhou Jiulian Industrial Explosive Material Development Co., Ltd. (貴州久聯民爆器材發展股份有限公司) (stock code: 002037.SZ) (now renamed as Poly Union Chemical Holding Group Co., Ltd. (保利聯合化工控股集團股份有限公司)), Xinjiang Zhongtai Chemical Co., Ltd. (新疆中泰化學股份有限公司) (stock code: 002092.SZ) and China Petroleum Engineering Corporation (中國石油集團工程股份有限公司) (stock code: 600339.SH) from September 2016 to September 2019, from March 2016 to December 2019, from January 2017 to December 2022 and from September 2017 to February 2024, respectively. Prior to that, Mr. WANG Xinhua served as the chief financial officer of China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (stock code: 386.HK and 600028.SH) from May 2009 to December 2015. From November 2004 to April 2009, he served as a director of the financial planning department of China Petrochemical Corporation (中國石化集團公司).

Mr. WANG Xinhua graduated from Northeastern University (東北大學) in July 1996 after completing his undergraduate course in management engineering through correspondence courses. He was recognized as a senior accountant at professor level (教授級高級會計師) by Sinopec Group in January 2004.

Mr. SUNG Ka Woon (宋嘉桓) (whose former name was SONG Li (宋立)), aged 52, is an independent non-executive Director of the Company. He is primarily responsible for supervising and providing independent advice on the operation and management of the Group.

Mr. SUNG has been the vice chairman of the board of directors of the Wuhan branch of Yuhu Cold Chain (China) Co., Ltd. (玉湖冷鏈(中國)有限公司) since March 2017. From August 2013 to March 2017, Mr. SUNG served as a director at Asia Social Development Research Center (亞洲社會發展研究中心). Mr. SUNG served at various social positions including a president of Hong Kong Industrial and Commercial Association Limited (香港工商總會) from February 2021 to June 2022, a member of Heung Yee Kuk New Territories of Hong Kong since May 2020, a member of the Election Committee of Hong Kong since September 2021, a member of the 12th and 13th CPPCC of Zhanjiang City, Guangdong Province from February 2014 to December 2017, and a member of the 12th CPPCC of Shandong Province from January 2018. Mr. SUNG was appointed as non-official Justice of the Peace by the Government of Hong Kong in July 2021.

Mr. SUNG obtained an executive master of business and administration degree from Antai College of Economics & Management, Shanghai Jiao Tong University (上海交通大學安泰經濟與管理學院) in the PRC in December 2011, completed the part-time postgraduate studies majoring in economic management from Party School of the Central Committee of CPC (中共中央黨校) in the PRC in January 1996 and obtained a bachelor's degree of machinery design and automation from Northeastern University (東北大學) (previously known as Northeastern Institute of Technology (東北工學院)) in the PRC in July 1993.

SENIOR MANAGEMENT

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

Mr. ZHOU Gaobo (周高波), aged 45, was appointed as the chief investment officer of the Company on January 17, 2022. He is primarily responsible for business investment, business development management, strategic planning, affairs in Hong Kong and investor relations management.

Mr. ZHOU has approximately 15 years of management consulting experience in the healthcare industry. He was a partner of McKinsey & Company from January 2014 to January 2022, and was the joint head of McKinsey's Greater China Healthcare practice from October 2019 to January 2022. Prior to this, he had taken various positions, including consultant, engagement manager and associate partner at McKinsey between July 2006 to December 2013. He worked with leading pharmaceutical, biotechnology, medical device, and life science investment companies on a broad range of topics in China Healthcare Reform and innovation, including strategy, business model innovation, digital transformation, and investment and partnership. He also built the largest healthcare management consulting team in the industry. Previously, he also worked at Human Genome Sciences (HGSI) in antibody and fusion protein drug development from July 2002 to July 2004.

Mr. ZHOU graduated with a bachelor's degree in genetics from Fudan University (復旦大學) in July 2000. He obtained a Master of Science degree in biochemistry from the University of Maryland in July 2002, as well as a master's degree in business administration from Duke University in May 2006.

Mr. GOH Aik Han (吳奕涵), aged 49, was appointed the Chief Medical Officer, Senior Vice President of the Company since December 1, 2023. He is responsible for the overall clinical development in R&D.

Mr. GOH has over 20 years of experiences in clinical and pharmaceutical industry. He was the Chief Medical Officer and the senior vice president of Reistone Biopharma (瑞石生物醫藥) between May 2018 and November 2023. He worked as a medical advisor, and clinical development director in GlaxoSmithKline (葛蘭素史克公司) from September 2008 to April 2018, both at the London head office and the China R&D center. His expertise focuses on clinical development in neuroscience, autoimmune, and respiratory therapy areas.

Mr. GOH is a UK General Medical Council (GMC) registered doctor and has worked in the UK NHS Hospitals as a general surgeon. He is a member of the Royal College of Surgeons of Edinburgh (MRCS Ed), and the Royal College of Surgeons and Physicians of Glasgow (MRCS Glasg).

Mr. GOH has received his Bachelor of Medicine and Surgery degree from the University of Aberdeen in June 2001, and has subsequently received a Doctor of Medicine degree from Aberdeen in 2013.

Mr. John WANG (王強), aged 63, was appointed as the senior vice president of the Company on December 15, 2023. He is responsible for the development and growth of non-oncology business in the United States and provision of strategic leadership for BD and investments of the Company in the United States, aiming to promote the globalization and BIC business of Simcere.

Mr. John WANG possesses extensive experience in strategic planning and innovation strategies. He was the head of external innovation of immunology and associate vice president of Eli Lilly from December 2018 to December 2023, and he has worked in Wyeth, Sanofi and Merck from May 1996 to December 2018, respectively.

From February 1978 to February 1982, Mr. John WANG received a bachelor's degree of agriculture from Qingdao Agricultural University. From February 1982 to January 1985, he received a master's degree of pharmacology from Nanjing Agricultural University. From February 1989 to August 1992, he received a doctor's degree of pharmacology from St George's Hospital Medical School, University of London. He conducted his postdoctoral researches in Boston University and Harvard Medical School from August 1992 to July 1995, respectively. He received the negotiation plan certificate from Harvard Law School and the project management plan certificate from Franklin Covey.

Mr. CHENG Xianghua (程向華), aged 47, is a vice president of the Company. He is primarily responsible for the marketing management of the Group's neuroscience business units.

Mr. CHENG has over 21 years of experience with the Group where he gained rich experience in the management of the pharmaceutical industry. Mr. CHENG joined the Group in June 2000 and has held various positions within the Group since then, including the sales representative, manager, business director, general manager of business department, president assistant, and vice president, successively. Mr. CHENG has also been the chairman of the board of Oy Simcere Europe Ltd. since June 2019, a director of Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. (蕪湖先聲中人藥業有限公司) since July 2017, a director of Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) since January 2017, a director of Simcere Pharmaceutical since April 2020 and a director of Hainan Simcere since May 2020. In addition, Mr. CHENG served as a director of Xuancheng Menovo Pharmaceutical Co., Ltd. (宣城美諾華藥業有限公司) from July 2019 to September 2020.

Mr. CHENG graduated with a college diploma in pharmaceutical marketing from Anhui University of Chinese Medicine (安徽中醫藥大學) in July 1999. He is currently studying for the executive master of business administration (EMBA) program at China Europe International Business School.

Mr. SHI Ruiwen (史瑞文), aged 58, joined the Group in November 2017 and was appointed as a vice president of the Company on March 31, 2021, primarily responsible for the pharmaceutical business of the Company and the management of the Nanjing Research Institute and the Hainan Research Institute.

Mr. SHI has nearly 30 years of experience in pharmaceutical research and development and production management. From March 1990 to August 1996, he served as an assistant research professor and an associate research professor in the Institute of Biomedical Engineering of Chinese Academy of Medical Sciences (中國醫學科學院生物醫學工程研究所). From August 1996 to August 1997, as a visiting scholar, he conducted research in the Medical School of Kumamoto University. From August 2002 to September 2003, he served in Mannkind Corporation as a research and development scientist of the Formulation and Drug Delivery Science Department. He was a senior scientist of the Drug Delivery Systems and Formulation Development Department of Bausch + Lomb Inc. from September 2003 to September 2005, and a senior scientist in the Pre-formulation and Early Formulation Department of ALZA Corporation, a subsidiary of Johnson & Johnson from October 2005 to August 2007. From August 2007 to October 2017, he served as a senior scientist, a principal scientist (deputy director level) and a deputy director in the Formulation and Drug Delivery Department of Allergan Inc..

Mr. SHI joined the Group in November 2017. He served as the senior director of the pharmaceutical business department of the Group and the chief engineer of Simcere Pharmaceutical from November 2017 to December 2018. From December 2018 to August 2019, he served as the executive director of the pharmaceutical business department of the Group and the vice dean of Nanjing Research Institute (南京研究院). From August 2019 to August 2020, he served as the general manager of Simcere Pharmaceutical. Since November 2019, he has served as the vice president of the Group.

Mr. SHI graduated with a bachelor's degree and a master's degree in polymer chemistry and materials from Tianjin University (天津大學) in September 1987 and March 1990, respectively. Mr. SHI also obtained a Ph.D. in pharmaceutical sciences from the University of British Columbia in May 2003.

Mr. WANG Feng (王峰), aged 41, joined the Group in June 2007 and was appointed as a vice president of the Company on March 31, 2021, who assists the CEO in the daily management of R&D system (non-oncology) and primarily responsible for the management of the Company's preclinical research institute, Beijing Innovation Center, legal and intellectual property department as well as the project management office.

Mr. WANG Feng has nearly 17 years of experience within the Group. He joined the Group in June 2007 and held various positions in the Group, including as a product manager of the marketing department from June 2007 to September 2010, a senior product manager of marketing department from September 2010 to August 2013, a product director of marketing department from August 2013 to January 2016, a general manager of the marketing department from January 2016 to August 2017, a senior director of pharmaceutical business department of the Group from August 2017 to January 2018, a senior director of regulations science department from January 2018 to December 2018, an executive director of regulations and intellectual property department (formerly known as the regulations science department) from December 2018 to May 2019, and a vice dean of Nanjing Research Institute (南京研究院) from May 2019 to September 2020. Mr. WANG was appointed as party secretary and vice president of the Group in September 2020.

Mr. WANG Feng graduated from China Pharmaceutical University (中國藥科大學) with a bachelor's degree in bioengineering in July 2004, a master's degree in microbiology and biochemistry in June 2007 and a Ph. D. in social management pharmacy in 2018.

JOINT COMPANY SECRETARIES

Mr. WAN Yushan (萬玉山) was appointed as one of the joint company secretaries of the Company with effect from November 9, 2022. For more information about Mr. WAN, please refer to "Biographies of Directors and Senior Management – Directors – Executive Directors" above.

Ms. MAK Po Man Cherie (麥寶文) was appointed as one of the joint company secretaries of the Company on September 17, 2020, which took effect on the same day.

Ms. MAK is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has worked for various professional firms and listed companies in Hong Kong, with over 18 years of experience in the fields of audit, accounting, corporate finance, compliance and corporate secretarial. Ms. MAK obtained a master of corporate governance degree from The Hong Kong Polytechnic University in 2017. She has been admitted as an associate member of The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom in 2017, a member of the Hong Kong Institute of Certified Public Accountants in 2003 and a fellow member of the Association of Chartered Certified Accountants in 2006.

Independent auditor's report to the members of
Simcere Pharmaceutical Group Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Simcere Pharmaceutical Group Limited ("**the Company**") and its subsidiaries ("**the Group**") set out on pages 113 to 229, which comprise the consolidated statement of financial position as at December 31, 2023, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Revenue Recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies on pages 139 to 142.

The Key Audit Matter	How the matter was addressed in our audit
The Group's revenue principally comprises sales of pharmaceutical products to the distributors and fee charged for provision of promotion service, accounting for 99.4% of the total revenue. In respect of sales of pharmaceutical products, the Group enters into framework distribution agreements with distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. Revenue from the sale of pharmaceutical products is recognized at the point in time when the customer takes possession of and accepts the products. In respect of promotion service, the Group renews the promotion service contracts entered into with pharmaceutical manufacturers annually which specifies the products to be promoted, the promotion period and intended activities. Promotion service income is recognized when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer.	Our audit procedures to assess the timing of revenue recognition included the followings: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of management's key internal controls in relation to revenue recognition; • inspecting a sample of framework distribution agreements, purchase order and promotion service contracts with key customers to identify terms and conditions relating to goods or service acceptance and the right of return and assessing the Group's policies in respect of the timing of recognition of revenue with reference to the requirements of the prevailing accounting standards; • inspecting goods acceptance records or promotion service reconciliation records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end date had been recognized in the appropriate financial period on the basis of the terms set out in the framework distribution agreements;

KEY AUDIT MATTERS - *continued*

Revenue Recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies on pages 139 to 142.

The Key Audit Matter	How the matter was addressed in our audit
We identified the timing of revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	• inspecting underlying documentation like reconciliation records, the list of dispatched but not accepted products for manual journal entries and adjustments relating to revenue recorded during the year which were considered to be material or met other specific risk-based criteria; and • inspecting actual sales returns and credit notes recorded after the financial year end and evaluating whether the related adjustments to revenue had been recorded in the appropriate financial period.

Loss allowances for trade receivables

Refer to Note 38(a) to the consolidated financial statements and the accounting policies on pages 132 to 134.

The Key Audit Matter	How the matter was addressed in our audit
As at December 31, 2023, the Group had trade receivables with a gross amount of RMB1,996,245,000, net of loss allowances for expected credit losses ("ECLs") of RMB23,175,000. The Group's trade receivables mainly arose from sales of pharmaceutical products. The Group measures the loss allowance at an amount equal to the lifetime ECLs for trade receivables. The estimated loss rates take into account the ageing of trade receivable balances and the repayment history of the Group's customers.	Our audit procedures to assess the loss allowance for trade receivables included the followings: • obtaining an understanding of and assessing the design, implementation and operating effectiveness of key internal controls relating to credit control, debt collection and estimating the credit loss allowance; • evaluating the Group's policy and method for estimating the ECL allowance with reference to HKFRS 9; • assessing the accuracy and reliability of the key parameters used for the estimated ECL rates by examining, on a sample basis, the historical collection data and whether items were correctly categorised in the trade receivables ageing report by comparing individual items therein with sales invoices and other relevant underlying documentation; and

KEY AUDIT MATTERS - *continued*

Loss allowances for trade receivables

Refer to Note 38(a) to the consolidated financial statements and the accounting policies on pages 132 to 134.

The Key Audit Matter	How the matter was addressed in our audit
We identified the ECL allowance for trade receivables as a key audit matter because of the significance of the balance to the consolidated financial statements and the assessment of the ECL allowance is inherently subjective and requires the exercise of significant management judgement.	• re-performing the calculation of the ECL allowance as at December 31, 2023 based on the Group's credit loss allowance policies and method.

Fair value measurement for investments with no quoted market prices in active markets

Refer to Note 38(e) to the consolidated financial statements and the accounting policies on pages 126 to 127.

The Key Audit Matter	How the matter was addressed in our audit
The Group made unlisted investments in a wide variety of companies in healthcare sector to broaden the access to potential research and development collaboration opportunities. Those unlisted investments are accounted for as financial assets at fair value through profit or loss ("**FVPL**") or financial assets at fair value through other comprehensive income ("**FVOCI**") under HKFRS 9, Financial Instruments. At December 31, 2023, the fair value of unlisted investments with no quoted market prices in active markets is RMB438,982,000, which were classified under the fair value hierarchy as level 3. The fair value of these unlisted investments with no quoted market prices in active markets are determined based on valuation techniques which require significant unobservable inputs. We identified the fair value measurement for these investments at reporting date as a key audit matter because judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof.	Our audit procedures to assess the fair value of investments with no quoted market prices in active markets included the followings: • obtaining an understanding of and assessing the design and implementation of key internal control relating to fair value measurement for unlisted investments with no quoted market prices on active markets; • obtaining and inspecting the valuation assessment prepared by the external valuers engaged by the management and on which the assessment of the fair values of the Group's unlisted investments was based; • assessing the external valuers' qualifications, experience and expertise in the assets being valued and considering their objectivity; • with the assistance of our internal valuation specialists, on a sample basis, discussing with the external valuers, without the presence of management, and assessing their valuation methodologies in estimating the fair values of unlisted investments; assessing the key assumptions and critical judgements adopted and significant unobservable inputs used which impacted the valuation by comparing them with market data; and • assessing the reasonableness of the disclosures in the consolidated financial statements with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS - *continued*

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS - *continued*

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

The engagement partner on the audit resulting in this independent auditor's report is Fung Ping Kwong.

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

March 20, 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2023

(Expressed in Renminbi)

	NOTE	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Revenue	4	**6,607,805**	6,324,082
Cost of sales		**(1,623,652)**	(1,327,404)
Gross profit		**4,984,153**	4,996,678
Other income	5(a)	**166,221**	172,814
Other net (loss)/gain	5(b)	**(20,636)**	254,264
Research and development costs		**(1,563,138)**	(1,728,283)
Selling and distribution expenses		**(2,356,386)**	(2,402,764)
Administrative and other operating expenses		**(499,279)**	(446,076)
Reversal of impairment loss on trade and other receivables		**867**	13,972
Profit from operations		**711,802**	860,605
Finance income	6(a)	**54,960**	59,867
Finance costs	6(a)	**(34,568)**	(34,408)
Net finance income		**20,392**	25,459
Share of profits of associates	16	**5,823**	115
Share of profits of joint ventures	17	**2,021**	75
Profit before taxation	6	**740,038**	886,254
Income tax	7	**(26,088)**	40,478
Profit for the year		**713,950**	926,732
Attributable to:			
Equity shareholders of the Company		**714,761**	930,868
Non-controlling interest		**(811)**	(4,136)
Profit for the year		**713,950**	926,732
Earnings per share	11		
Basic (RMB)		**0.27**	0.36
Diluted (RMB)		**0.27**	0.36

The notes on pages 121 to 229 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 35(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2023

(Expressed in Renminbi)

	NOTE	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Profit for the year		**713,950**	926,732
Other comprehensive income for the year (after tax adjustments)	10		
Items that will not be reclassified to profit or loss:			
Financial assets at fair value through other comprehensive income (FVOCI) - net movement in fair value reserves (non-recycling), net of tax		**31,045**	(156,346)
Exchange difference on translation of company level financial statements		**36,306**	142,973
Items that will be reclassified to profit or loss:			
Exchange difference on translation of financial statements of overseas subsidiaries		**10,109**	33,840
Other comprehensive income for the year		**77,460**	20,467
Total comprehensive income for the year		**791,410**	947,199
Attributable to:			
Equity shareholders of the Company		**792,221**	951,335
Non-controlling interest		**(811)**	(4,136)
Total comprehensive income for the year		**791,410**	947,199

The notes on pages 121 to 229 form part of these financial statements.

	NOTE	December 31, 2023 RMB'000	December 31, 2022 RMB'000 (restated) (Note 39)
Non-current assets			
Property, plant and equipment	12	**2,170,339**	2,138,952
Intangible assets	13	**715,786**	379,896
Goodwill	14	**142,474**	172,788
Interest in associates	16	**52,502**	4,978
Interest in joint ventures	17	**98,069**	4,477
Prepayments, deposits and other receivables	24	**188,954**	97,470
Financial assets at fair value through other comprehensive income	18	**174,267**	137,774
Financial assets at fair value through profit or loss	19	**1,254,331**	2,056,700
Loan to a third party	20	**100,326**	—
Time deposits	25(c)	**673**	10,752
Deferred tax assets	30(b)	**317,002**	326,713
		5,214,723	5,330,500
Current assets			
Inventories	21	**614,562**	304,780
Contract assets	22	**13,000**	—
Trade and bills receivables	23	**2,631,645**	2,338,830
Prepayments, deposits and other receivables	24	**286,777**	165,860
Taxation recoverable	30(a)	**—**	6,506
Pledged deposits	25(b)	**52,513**	560
Restricted deposits	25(b)	**22,148**	19,378
Time deposits	25(c)	**11,137**	964,226
Cash and cash equivalents	25(a)	**2,007,162**	1,658,312
		5,638,944	5,458,452
Current liabilities			
Bank loans	26	**1,015,133**	1,292,067
Lease liabilities	27	**79,848**	58,756
Trade and bills payables	28	**317,218**	335,433
Other payables and accruals	29	**1,229,812**	1,269,800
Taxation payable	30(a)	**17,899**	10,562
Provisions	31	**25,990**	—
		2,685,900	2,966,618
Net current assets		**2,953,044**	2,491,834
Total assets less current liabilities		**8,167,767**	7,822,334

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Renminbi)

	NOTE	December 31, 2023 RMB'000	December 31, 2022 RMB'000 (restated) (Note 39)
Non-current liabilities			
Bank loans	26	**205,846**	—
Lease liabilities	27	**128,397**	155,921
Deferred income	32	**393,112**	403,350
Deferred tax liabilities	30(b)	**102,676**	115,291
Other non-current liability	33	**115,000**	—
		945,031	674,562
NET ASSETS		**7,222,736**	7,147,772
CAPITAL AND RESERVES			
Share capital	35	**3,173,805**	3,081,131
Reserves	35	**4,048,931**	4,050,579
Total equity attributable to equity shareholders of the Company		**7,222,736**	7,131,710
Non-controlling interest		**—**	16,062
TOTAL EQUITY		**7,222,736**	7,147,772

Approved and authorized for issue by the board of directors on March 20, 2024.

Ren Jinsheng
Directors

Wan Yushan
Directors

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(Expressed in Renminbi)

		Attributable to equity shareholders of the Company								
	NOTE	Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2022, as previously reported		3,002,871	123,653	692,195	(121,141)	137,450	2,601,969	6,436,997	25,760	6,462,757
Adjustments arising from adoption of merger accounting	2(b)	–	9,730	–	–	–	(2,881)	6,849	–	6,849
Balance at January 1, 2022, as restated		3,002,871	133,383	692,195	(121,141)	137,450	2,599,088	6,443,846	25,760	6,469,606
Changes in equity for 2022:										
Profit for the year, as restated		–	–	–	–	–	930,868	930,868	(4,136)	926,732
Other comprehensive income	10	–	–	–	176,813	(156,346)	–	20,467	–	20,467
Total comprehensive income		–	–	–	176,813	(156,346)	930,868	951,335	(4,136)	947,199
Appropriation of reserve	35(d)(ii)	–	–	82,193	–	–	(82,193)	–	–	–
Acquisition of non-controlling interest		–	(10,465)	–	–	–	–	(10,465)	(5,562)	(16,027)
Equity settled share-based transactions	34	–	138,290	–	–	–	–	138,290	–	138,290
Vesting of restricted shares	35(c)(i)	78,260	(78,260)	–	–	–	–	–	–	–
Appropriation of dividends	35(b)	–	–	–	–	–	(391,296)	(391,296)	–	(391,296)
Balance at December 31, 2022, as restated		3,081,131	182,948	774,388	55,672	(18,896)	3,056,467	7,131,710	16,062	7,147,772

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

(Expressed in Renminbi)

	NOTE	Attributable to equity shareholders of the Company								
		Share capital RMB'000	Other reserve RMB'000	PRC statutory reserve RMB'000	Exchange reserve RMB'000	Fair value reserve (non-recycling) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
Balance at January 1, 2023, as restated		3,081,131	182,948	774,388	55,672	(18,896)	3,056,467	7,131,710	16,062	7,147,772
Changes in equity for 2023:										
Profit for the year		–	–	–	–	–	714,761	714,761	(811)	713,950
Other comprehensive income	10	–	–	–	46,415	31,045	–	77,460	–	77,460
Total comprehensive income		–	–	–	46,415	31,045	714,761	792,221	(811)	791,410
Consideration for acquisition of Nanjing Jiayuantang Biotechnology Co., Ltd.	2(b)	–	(5,023)	–	–	–	–	(5,023)	–	(5,023)
Appropriation of reserve	35(d)(ii)	–	–	190,620	–	–	(190,620)	–	–	–
Equity settled share-based transactions	34	–	12,119	–	–	–	–	12,119	–	12,119
Vesting of restricted shares	35(c)(i)	92,674	(92,674)	–	–	–	–	–	–	–
Disposal of interest in subsidiaries with non-controlling interest		–	–	–	–	–	–	–	(15,251)	(15,251)
Purchase of own shares	35(c)(ii)	–	–	–	–	–	(289,073)	(289,073)	–	(289,073)
Appropriation of dividends	35(b)	–	–	–	–	–	(419,218)	(419,218)	–	(419,218)
Balance at December 31, 2023		3,173,805	97,370	965,008	102,087	12,149	2,872,317	7,222,736	–	7,222,736

The notes on pages 121 to 229 form part of these financial statements.

	NOTE	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Operating activities			
Cash generated from operations	25(d)	161,231	1,347,003
Tax (paid)/refund	30(a)	(10,183)	7,096
Net cash generated from operating activities		151,048	1,354,099
Investing activities			
Payment for the acquisition of property, plant and equipment		(483,182)	(342,815)
Proceeds from disposal of property, plant and equipment		118,314	273
Payment for the acquisition of intangible assets		(496,673)	(335,190)
Payment for acquisition of financial assets measured at fair value through other comprehensive income		—	(30,000)
Dividends received from financial assets at fair value through profit or loss		206,261	195,928
Proceeds from disposal of financial assets measured at fair value through profit or loss		49,757	124,287
Payment for acquisition of financial assets measured at fair value through profit or loss		(68,485)	(271,106)
Proceeds from redemption of time deposits		899,340	700,000
Increase in pledged deposits		(51,953)	—
Payment for acquisition of interest in joint ventures		(47,320)	
Payment for acquisition of interest in associates		(40,000)	—
Payment for deposits for investment		—	(43,680)
Proceeds from disposal of interest in subsidiaries		993,520	—
New loan to a third party		(100,000)	—
Interest received		108,228	70,609
Net cash generated from investing activities		1,087,807	68,306

The notes on pages 121 to 229 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2023

(Expressed in Renminbi)

	NOTE	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Financing activities			
Capital element of lease rentals paid	25(e)	**(82,386)**	(49,146)
Interest element of lease rentals paid	25(e)	**(7,513)**	(6,754)
Proceeds from new bank loans	25(e)	**1,215,743**	916,932
Repayment of bank loans	25(e)	**(1,284,428)**	(1,184,161)
Interest paid	25(e)	**(27,959)**	(23,229)
Payment for purchase of own shares	35(c)	**(289,073)**	—
Acquisition of non-controlling interest		**—**	(16,027)
Dividends paid to equity shareholders of the Company	35(b)	**(419,218)**	(391,296)
Net cash used in financing activities		**(894,834)**	(753,681)
Net increase in cash and cash equivalents		**344,021**	668,724
Cash and cash equivalents at the beginning of the year	25(a)	**1,658,312**	974,464
Effect of foreign exchange rate changes		**4,829**	15,124
Cash and cash equivalents at the end of the year	25(a)	**2,007,162**	1,658,312

The notes on pages 121 to 229 form part of these financial statements.

1 GENERAL INFORMATION

Simcere Pharmaceutical Group Limited (the "**Company**") was incorporated in Hong Kong on November 30, 2015 as a limited liability company with its registered office at Room 703, 7/F, Block 20E, Hong Kong Science Park Phase 3, Pak Shek Kok, New Territories, Hong Kong. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on October 27, 2020. The Company is an investment holding company. The Company and its subsidiaries (together, "**the Group**") are principally engaged in the research and development, manufacturing and sales of pharmaceutical products as well as rendering promotion service of pharmaceutical products that are not manufactured by the Group.

2 MATERIAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKAS**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Material accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements of the Group for the year ended December 31, 2023 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that the certain assets and liabilities are stated at their fair value as explained in the accounting policies as set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(b) Basis of preparation of the financial statements - *continued*

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

In November 2023, the Group agreed to acquire the entire equity interest of Nanjing Jiayuantang Biotechnology Co., Ltd., which is principally engaged in manufacturing and sales of healthcare products in the PRC, from Jiangsu Xianhui Pharmaceutical Research and Development Co., Ltd. at a consideration of RMB5,022,600. The acquisition was completed on November 17, 2023.

Upon completion of the acquisition, Nanjing Jiayuantang Biotechnology Co., Ltd. and its subsidiary (together, "**Nanjing Jiayuantang Group**") became subsidiaries of the Group. As Nanjing Jiayuantang Group and the Group was ultimately controlled by Mr. Ren Jinsheng before and after the business combination and the control is not transitory, the acquisition of Nanjing Jiayuantang Group was considered as a business combination involving entities under common control, and Accounting Guideline 5 ("**AG5**"), *Merger Accounting for Common Control Combinations*, issued by HKICPA has been applied.

The consolidated financial statements of the Group have been therefore prepared using the merger basis of accounting as if the current group structure had been in existence throughout the periods presented. The net assets of Nanjing Jiayuantang Group have been consolidated using the existing book values from the perspective of ultimate controlling party. Comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the beginning of the comparative period unless the combining entities or businesses first came under common control at a later date.

The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income include the results of combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination. The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income also take into account the profit or loss attributable to the non-controlling interest recorded in the consolidated financial statements of the controlling party. The effects of all transactions between the combining entities or businesses, whether occurring before or after the common combination, are eliminated. The opening balance at January 1, 2022 have been restated, with consequential adjustments to comparatives for the year ended December 31, 2022 (see Note 39).

A uniform set of accounting policies is adopted when preparing the consolidated financial statements. The details of the restated balances have been disclosed in Note 39 to these financial statements.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(c) Changes in accounting policies

The HKICPA has issued the following new and amended HKFRSs that are first effective for the current accounting period of the Group:

- HKFRS 17, *Insurance contracts*
- Amendments to HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to HKAS 1, *Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies*
- Amendments to HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to HKAS 12, *Income taxes: International tax reform — Pillar Two model rules*

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism.

Apart from the impacts of the adoption of the amended HKFRSs discussed below, none of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and considered it is consistent with the amendments.

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(c) Changes in accounting policies - *continued*

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction - continued

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognized the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in Note 30(b), but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

(d) Subsidiaries and non-controlling interest

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Inter-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

For each business combination, the Group can elect to measure any non-controlling interest ("**NCI**") either at fair value or at the NCI's proportionate share of the subsidiary's net identifiable assets. NCI is presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. NCI in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of the Company. Loans from holders of NCI and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes 2(p) or (q) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(d) Subsidiaries and non-controlling interest - *continued*

When the Group loses control of a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in that former subsidiary is measured at fair value when control is lost.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(k)(ii)), unless is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has the rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

An interest in an associate or a joint venture is accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group classified as held for sale), or it does not in substance currently give access to the returns associated with an ownership interest in an associate or a joint venture (see Note 2(g)). They are initially recognized at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("**OCI**") of those investees, until the date on which significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent there is no evidence of an impairment.

(f) Goodwill

Goodwill arising on acquisition of businesses is measured at cost less accumulated impairment losses and is tested annually for impairment (see Note 2(k)(ii)).

2 MATERIAL ACCOUNTING POLICIES - *continued*

(g) Other investments in securities

The Group's policies for investments in securities, other than investments in subsidiaries, interest in associates and joint ventures accounted for using the equity method, are set out below.

Investments in securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("**FVPL**") for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 38(e). These investments are subsequently accounted for as follows, depending on their classification.

(i) Non-equity investments

Non-equity investments are classified into one of the following measurement categories:

— amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Expected credit losses, interest income calculated using the effective interest method (see Note 2(u)(ii)(c)), foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

— FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognized in profit or loss and computed in the same manner as if the financial asset was measured at amortised cost. The difference between the fair value and the amortised cost is recognized in OCI. When the investment is derecognized, the amount accumulated in OCI is recycled from equity to profit or loss.

— FVPL if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(g) Other investments in securities - *continued*

(ii) Equity investments

An investment in equity securities is classified as FVPL, unless the investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in OCI. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. If such an election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other net gain (see Note 2(u)(ii)(b)).

(h) Property, plant and equipment

The following items of property, plant and equipment are stated at cost, which includes capitalized borrowing costs, less accumulated depreciation and any accumulated impairment losses (see Note 2(k)(ii)):

— right-of-use assets arising from leasehold properties where the Group is not the registered owner of the property interest; and

— items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see Note 2(j)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual values, if any, using the straight line method over their estimated useful lives, and is generally recognized in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful life
Leasehold land (see Note 2(j))	over the period of leases
Plant and buildings	10–20 years or unexpired lease terms
Machinery and equipment	3–10 years
Furniture, fixtures and office equipment	3–5 years
Motor vehicles	5–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(h) Property, plant and equipment - *continued*

Construction in progress represents properties under construction and machinery and equipment pending installation and is stated at cost (which is, in the case of assets acquired in a business combination, the acquisition date fair value) less impairment losses (see Note 2(k)(ii)). Cost comprises the purchase costs of the asset and the related construction and installation costs.

Construction in progress is transferred to property, plant and equipment when the asset is ready for its intended use and depreciation will be provided at the appropriate rates in accordance with the depreciation polices specified above.

No depreciation is provided in respect of construction in progress.

(i) Intangible assets (other than goodwill)

(i) Research and development expenditures

Expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources and the intention to complete development and to use or sell the resulting asset. Otherwise, it is recognized in profit or loss as incurred. Capitalized development expenditure is subsequently measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Intangible assets acquired through business combination

The developed technology, Good Supply Practice ("**GSP**") licenses and product trademarks of the Group are associated with different products arising from various business combination and acquisitions from third parties. These intangible assets have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses (see Note 2(k)(ii)).

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognized in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated useful life
Developed technology	10-16 years
Good Supply Practice ("**GSP**") licenses	3-5 years
Product trademarks	6-10 years

2 MATERIAL ACCOUNTING POLICIES - *continued*

(i) Intangible assets (other than goodwill) - *continued*

(ii) Intangible assets acquired through business combination - continued

The useful lives of developed technology and product trademarks are estimated based on the remaining period of economic benefits to be derived from the respective products to be produced relying on the acquired developed technology and product trademarks. The Group estimates the period of economic benefits to be derived from the respective products based on the expected time period required for a pharmaceutical drug development from its discovery to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition.

The Group considers that the maximum economic useful life of developed technology and product trademarks held by the Group is 16 years and 10 years, respectively. As the different products have different commercialization commencement dates, acquisition dates by the Group and the expected lifespan of economic benefits, the useful life of the Group's developed technology and product trademarks varies at a range of 10 - 16 and 6 - 10 years, respectively. The useful lives of GSP licenses are estimated based on the remaining valid period of the GSP licenses.

(iii) Exclusive commercialization rights and in-licensed rights

The exclusive commercialization rights and in-licensed rights are associated with different innovative drugs under development, and they either arise from collaboration arrangement with third parties or are otherwise separately acquired from third parties.

The consideration for such rights may include non-refundable upfront payments and variable payments such as development-based milestone payments, sales-based milestone payments and royalty payments. Non-refundable upfront payments are capitalized. Variable payments based on period activity or usage of the underlying intellectual property after the related intangible assets are available for use are expensed when incurred. Other variable payments, such as development-based milestone payments, generally relate to the cost of the related intangible assets and would bring in probable future economic benefits, they are added to the carrying amount of the related intangible assets.

The amortization of exclusive commercialization rights and in-licensed rights will commence when these rights are available for use.

When intangible assets are not available for use, they are not be amortized but tested for impairment annually either individually or at the cash generating unit level. Intangible assets are not amortized while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortization of intangible assets with finite lives as set out above.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for leases that have a short lease term of 12 months or less, and leases of low-value items such as laptops and office furniture. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalize the lease on a lease-by-lease basis. If not capitalized, the associated lease payments are recognized in profit or loss on a systematic basis over the lease term.

Where the lease is capitalized, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is recognized using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(h) and 2(k)(ii)).

Refundable rental deposits are accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in non-equity securities carried at amortized cost (see Notes 2(g)(i) and 2(k)(i)). Any excess of the nominal value over the initial fair value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(j) Leased assets - *continued*

(i) As a lessee - continued

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognized the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets in 'property, plant and equipment' and presents 'lease liabilities' separately in the consolidated statement of financial position.

(ii) As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. Otherwise, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with Note 2(u)(ii)(a).

2 MATERIAL ACCOUNTING POLICIES - *continued*

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments and contract assets

The Group recognizes a loss allowance for expected credit losses ("ECL"s) on financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to a third party) and contract assets (see Note 2(m)).

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted using the following rates if the effect is material:

— fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and

— lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

— financial instruments that are determined to have low credit risk at the reporting date; and

— other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(k) Credit losses and impairment of assets - *continued*

(i) Credit losses from financial instruments and contract assets - continued

Significant increases in credit risk

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 3 months past due.

The Group considers a financial asset to be in default when:

— the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

— the financial asset is 12 months past due.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Credit-impaired financial assets

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or being more than 12 months past due;

— the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;

— it is probable that the debtor will enter bankruptcy or other financial reorganisation; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(k) Credit losses and impairment of assets - *continued*

(i) Credit losses from financial instruments and contract assets - continued

Write-off policy

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group otherwise determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than property carried at revalued amounts, investment property, inventories and other contract costs, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(k) Credit losses and impairment of assets - *continued*

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(k)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

(l) Inventories

Inventories are measured at the lower of cost and net realizable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In the case of work in progress, costs include direct labor and appropriate share of overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Contract assets and contract liabilities

A contract asset is recognized when the Group recognizes revenue (see Note 2(u)(i)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs (see Note 2(k)(i)) and are reclassified to receivables when the right to the consideration has become unconditional (see Note 2(n)).

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see Note 2(u)(i)). A contract liability is also recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such latter cases, a corresponding receivable is also recognized (see Note 2(n)).

2 MATERIAL ACCOUNTING POLICIES - *continued*

(n) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost (see Note 2(k)(i)).

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL (see Note 2(k)(i)).

(p) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with Note 2(w).

(q) Trade and other payables

Trade and other payables are initially recognized at fair value. Subsequent to initial recognition, trade and other payables are stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amount.

(r) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided. Contributions to local retirement schemes pursuant to the relevant labor rules and regulations in the jurisdictions in which the Group's subsidiaries located are recognized as an expense in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognized as an expense.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(r) Employee benefits - *continued*

(ii) Share-based payments

Restricted shares

The grant-date fair value of equity-settled share-based payment awards (i.e. restricted shares) granted to employees is recognized as an employee cost with a corresponding increase in other reserve within equity. The fair value of the restricted shares is measured at grant date by reference to the market price or the valuer's valuation of the underlying shares. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the restricted shares, the total estimated fair value of the restricted shares is spread over the vesting period, taking into account the probability that the restricted shares will vest. The amount recognized as an expense is adjusted to reflect the number of awards for which the related vesting conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related vesting conditions at the vesting date.

(iii) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognizes costs for a restructuring.

(s) Income tax

Income tax expense comprises current tax and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

— temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;

— temporary differences related to investment in subsidiaries, associates and joint ventures to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

2 MATERIAL ACCOUNTING POLICIES - *continued*

(s) Income tax - *continued*

— taxable temporary differences arising on the initial recognition of goodwill; and

— those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organization for Economic Co-operation and Development.

The Group recognized deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

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

Deferred tax assets and liabilities are offset only if certain criteria are met.

(t) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognized for any expected reimbursement that would be virtually certain. The amount recognized for the reimbursement is limited to the carrying amount of the provision.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Revenue from contracts with customers

Revenue is recognized when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

(a) Sale of pharmaceutical products

The Group enters into framework distribution agreements with all distributors which specify the terms of sales relating to pricing, goods acceptance and return, as well as credit terms. Revenue is recognized when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers, but the Group generally provides credit terms to customers within 30 to 90 days upon customer acceptance. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

(b) Promotion service income

Promotion service income is recognized when the Group satisfies its promise to arrange for the pharmaceutical products to be provided by supplier to the customer.

(c) License income

When the Group grants a license of its intellectual property to customers in a contract bundled with other promised goods or services, it determines whether the license is a distinct performance obligation by assessing whether the customer can benefit from the license on its own or together with other readily available resources and the license is separately identifiable from other goods and services in the contract. The Group considers relevant factors such as whether the other promised services (e.g. manufacturing) are highly specialized or unique for the customer to realize the benefits from the license and whether the Group would be able to fulfil its promise to transfer the license independently of fulfilling its promise to subsequently provide other goods or services.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(u) Revenue and other income - *continued*

(i) Revenue from contracts with customers - continued

(c) License income - *continued*

The Group further assesses whether the nature of promise is to provide the customer with a right to use the underlying intellectual property as it exists at the point in time at which the license is granted, or a right to access the underlying intellectual property as it exists throughout the license period. In considering whether license revenue is recognized at a point in time or over time, the Group considers its involvement and activities that it has promised to undertake during the licensing period and the corresponding impact on the customer.

When the licensing arrangement contains variable consideration other than a sales-based or usage-based royalty – such as development and/or regulatory milestone payments from the licensee, the amount is estimated using the most likely method based on whether the milestones are considered probable of being achieved and included in the transaction price to the extent that it is highly probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Milestone payments subject to uncertainties that are outside the control of the Group or the licensee, such as regulatory approvals, are generally constrained until the required approvals are obtained. The estimated variable consideration is updated at each reporting date to reflect the current facts and circumstances.

Sales-based or usage-based royalties (including milestone payments based on the level of sales) are only recognized when (or as) the latter of two events occurs: (i) the occurrence of subsequent sale or usage, and (ii) the (partial) satisfaction of the performance obligation to which some or all of the sales- or usage-based royalty has been allocated.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(u) Revenue and other income - *continued*

(i) Revenue from contracts with customers - continued

(d) Research service income

For certain revenue from research services, control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

— the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

When the outcome of a research service contract can be reasonably measured, revenue from the contract is recognized over time during the service process using the cost-to-cost method. Under the cost-to-cost method, revenue is recognized based on the proportion of the actual costs incurred relative to the estimated total costs to provide a faithful depiction of the transfer of those services.

The likelihood of the Group earning contractual bonuses for early completion or suffering contractual penalties for late completion are taken into account in making these estimates, such that revenue is only recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The Group applies the most likely amount approach to estimate such variable consideration by considering the single most likely amount in a limited range of possible consideration amounts, taking into account the Group's current progress and future performance expectations compared to the agreed completion timeline.

When the outcome of the contract cannot be reasonably measured, revenue is recognized only to the extent of contract costs incurred that are expected to be recovered.

Otherwise, revenue is recognized at a point in time when the Group transfers the control for services/deliverable units and has right to payment from the customers for the services performed upon finalization, or upon the delivery and acceptance of the deliverable units.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(u) Revenue and other income - *continued*

(ii) Revenue from other sources and other income

(a) Rental income from operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are earned.

(b) Dividends

Dividend income is recognized in profit or loss on the date on which the Group's right to receive payment is established.

(c) Interest income

Interest income is recognized using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(d) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(v) Translation of foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

However, foreign currency differences arising from the translation of an investment in equity securities designated as at FVOCI is recognized in OCI.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into RMB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognized, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

2 MATERIAL ACCOUNTING POLICIES - *continued*

(x) Related parties

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

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(y) Segment reporting

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

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Sources of estimation uncertainty

Notes 13, 14, 18, 19, 34 and 38(e) contain information about the assumptions and their risk factors relating to impairment on not-ready-for-use intangible assets, goodwill impairment, fair value of financial assets and fair value of restricted shares granted. Other significant sources of estimation uncertainty are as follows:

(i) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. These estimates are based on the current market conditions and the historical experience of selling products with similar nature. Any change in the assumptions would increase or decrease the amount of inventories write-down or the related reversals of write-down made in prior years and affect the Group's net assets value. The Group reassesses these estimates annually.

(ii) Impairment of trade and other receivables

The Group estimates the amount of loss allowance for ECLs on trade and other receivables that are measured at amortized cost based on the credit risk of the respective financial instruments. The loss allowance amount is measured as the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by business lines is as follows:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of pharmaceutical products	**5,974,933**	5,617,050
Promotion service income	**591,407**	601,487
License income	**28,465**	105,545
Research service income	**13,000**	—
	6,607,805	6,324,082

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Timing of revenue recognition		
At a point in time	**6,594,805**	6,324,082
Over time	**13,000**	—
	6,607,805	6,324,082

The Group's customer base is diversified and nil (2022: nil) customers with whom transactions have exceeded 10% of the Group's revenues for the year ended December 31, 2023. Details of concentrations of credit risk arising from the customers are set out in Note 38(a).

(ii) Revenue expected to be recognized in the future arising from contracts with customers in existence at the reporting date

The Group has applied the practical expedient in paragraph 121 of HKFRS 15 to its sales contracts for goods such that information about revenue expected to be recognized in the future is not disclosed in respect of revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for sales of goods that had an expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING - *continued*

(b) Segment reporting

Operating segments are identified on the basis of internal reports that the Group's most senior executive management reviews regularly in allocating resources to segments and in assessing their performances.

The Group's most senior executive management makes resources allocation decisions based on internal management functions and assess the Group's business performance as one integrated business instead of by separate business lines or geographical regions. Accordingly, the Group has only one operating segment and therefore, no segment information is presented.

HKFRS 8, *Operating Segments*, requires identification and disclosure of information about an entity's geographical areas, regardless of the entity's organization (i.e. even if the entity has a single reportable segment). The Group operates within one geographical location because primarily all of its revenue was generated in the PRC and primarily all of its non-current operating assets and capital expenditure were located/incurred in the PRC. Accordingly, no geographical information is presented.

5 OTHER INCOME AND OTHER NET (LOSS)/GAIN

(a) Other income

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Government grants (Note)	134,181	125,172
Rental income	5,070	17,738
Property management income	7,053	11,573
Consulting and technology service income	11,450	6,682
Others	8,467	11,649
	166,221	172,814

Note:

During the year ended December 31, 2023, the Group received unconditional government grants of RMB90,952,000 (2022: RMB80,130,000) as rewards of the Group's contribution to technology innovation and regional economic development.

During the year ended December 31, 2023, the Group received conditional government grants of RMB26,181,000 (2022: RMB1,927,000) as subsidies for construction and equipment and recognized such grants of RMB32,843,000 (2022: RMB33,894,000) in the consolidated statements of profit or loss when related conditions were satisfied. During the year ended December 31, 2023, the Group received conditional government grants of RMB7,450,000 (2022: RMB32,942,000) as encouragement of technology research and development and recognized such type of grants of RMB10,386,000 (2022: RMB11,148,000) in the consolidated statements of profit when related conditions were satisfied.

5 OTHER INCOME AND OTHER NET (LOSS)/GAIN - *continued*

(b) Other net (loss)/gain

	2023 RMB'000	2022 RMB'000
Net foreign exchange loss	(13,283)	(57,215)
Net gain/(loss) on disposal of property, plant and equipment	2,433	(10,571)
Net realized and unrealized (losses)/gains on financial assets at fair value through profit or loss	(744,816)	113,112
Compensation from contract termination	—	208,938
Net gain on disposal of interest in subsidiaries (Note i)	789,491	—
Impairment loss on a manufacturing plant (Note ii)	(6,871)	—
Impairment loss on prepayments	(21,600)	—
Provision for litigations (Note 31)	(25,990)	—
	(20,636)	254,264

Notes:

(i) On February 24, 2023, the Group entered into an agreement with a third party to dispose its 50% equity interest in BCY Pharm Co., Ltd. ("**BCY**"), one of its controlled subsidiaries, at consideration of RMB200,000,000. Upon the completion of the disposal in March 2023, the Group lost its control on BCY and recognized the remaining 13.57% equity interest in BCY, which amounted to RMB54,150,000, as a financial asset measured at fair value through profit or loss. The net gain on disposal of interest in BCY was RMB197,222,000.

On April 13, 2023, the Group entered into an agreement with a third party to dispose its total equity interest in Simcere (Shanghai) Pharmaceutical Co., Ltd. ("**Simcere (Shanghai)**") at consideration of RMB926,865,000. The disposal was completed in May 2023. The net gain on disposal of interest in Simcere (Shanghai) was RMB592,269,000.

(ii) The Group terminated the operation of one of its manufacturing plants located in the PRC. A loss of RMB6,871,000 was recorded in the consolidated statement of profit or loss during the year ended December 31, 2023 including the impairment of property, plant and equipment of RMB4,876,000 and scrapped inventories of RMB1,995,000.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance income

	2023 RMB'000	2022 RMB'000
Interest income from bank deposits	(54,960)	(59,867)
Finance income	(54,960)	(59,867)
Interest expenses on bank loans	27,055	27,654
Interest expenses on lease liabilities	7,513	6,754
Finance costs	34,568	34,408
Net finance income	(20,392)	(25,459)

(b) Staff costs

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Salaries, wages and other benefits	2,253,154	1,903,727
Contributions to defined contribution retirement plans (Note)	137,048	95,265
Equity settled share-based payment expenses (Note 34)	12,119	138,290
	2,402,321	2,137,282

Note:

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement plans administered and operated by the local municipal government. The Group's PRC subsidiaries contribute funds which are calculated on certain percentages of the average employee salary as agreed by the local municipal government to the plan to fund the retirement benefits of the employees.

The Group's contributions to the defined contribution retirement plans are expensed as incurred and not reduced by contributions forfeited by those employees who leave the plans prior to vesting fully in the contributions. The Group has no other material obligation for the payment of retirement benefits associated with the scheme beyond the annual contributions described above.

6 PROFIT BEFORE TAXATION - *continued*

(c) Other items

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Cost of inventories recognized as expenses (Note i)	1,173,985	884,571
Depreciation charge		
—owned property, plant and equipment	214,286	209,036
—right-of-use assets	77,221	59,626
Amortization of intangible assets	18,087	14,985
Research and development costs (Note ii)	1,563,138	1,728,283
Reversals of impairment on trade and other receivables	(867)	(13,972)
Auditors' remuneration		
—audit services	4,940	4,200
—non-audit services	234	294

Notes:

(i) Cost of inventories recognized as expenses includes amounts relating to staff costs, depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

(ii) Research and development costs include amounts relating to staff costs, depreciation and amortization expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

	2023 RMB'000	2022 RMB'000
Current tax		
PRC Corporate Income Tax		
Provision for the year	27,249	11,262
Over-provision in respect of prior years (Note 7(b))	(4,927)	(13,677)
	22,322	(2,415)
Overseas Corporate Income Tax		
Provision for the year	1,704	9
Deferred tax		
Origination and reversal of temporary differences (Note 30(b))	2,062	(38,072)
Total income tax	26,088	(40,478)

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS - *continued*

(a) Taxation in the consolidated statements of profit or loss represents: - *continued*

Notes:

(i) Pursuant to the income tax rules and regulations of Hong Kong, the Company and the subsidiary in Hong Kong were liable to the Hong Kong Profits Tax at a rate of 16.5% during the years ended December 31, 2023 and 2022.

(ii) The PRC subsidiaries of the Group are subject to PRC Corporate Income Tax ("**CIT**") at a statutory rate of 25%, except for the following specified subsidiaries:

According to the Administrative Measures for Determination of High-Tech Enterprises (Guokefahuo [2016] No. 32), Hainan Simcere Pharmaceutical Co., Ltd. ("**Hainan Simcere**") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2023 to 2025.

Shandong Simcere Biopharmaceutical Co., Ltd. ("**Shandong Simcere**") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2023 to 2025.

Simcere Pharmaceutical Co., Ltd. ("**Simcere Pharmaceutical**") obtained the qualification as a high-tech enterprise and was entitled to a preferential income tax rate of 15% for the years from 2021 to 2023.

According to the prevailing PRC CIT law and its relevant regulations, non-PRC tax resident enterprises are levied withholding tax on dividends from their PRC resident investees for intra-group earnings accumulated beginning on January 1, 2008, at 10% (unless reduced by tax treaties or similar arrangements). Undistributed earnings generated prior to 2008 are exempt from such withholding tax. Under the arrangement between the Chinese Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, dividends paid by a PRC resident enterprise to its direct holding company in Hong Kong will be subject to withholding tax at a reduced rate of 5% (if the Hong Kong investor is the "beneficial owner" and owns directly at least 25% of the equity interest of the PRC resident enterprise for the past twelve months before the dividends distribution).

Pursuant to Notice on Expanding the Applicable Scope of the Policy of Temporarily Not Levying Withholding Income Tax on Overseas Investors' Direct Investment with Distributed Profits (Caishui [2018] No.102), withholding tax on dividends distributed by from a PRC resident enterprise to its direct overseas holding company was not levied if the dividend distributed was reinvested to the PRC resident investees.

(iii) Pursuant to the income tax rules and regulations of the United States, the Group's subsidiaries in the United States were liable to United States federal income tax at a rate of 21% plus the state income tax determined by income ranges during the years ended December 31, 2023 and 2022.

(iv) Pursuant to the income tax rules and regulations of the United Kingdom, the Group's subsidiary in the United Kingdom was liable to the United Kingdom corporation tax at a rate of 19% during the years ended December 31, 2023 and 2022.

(v) Pursuant to the income tax rules and regulations of Finland, the Group's subsidiary in Finland was liable to Finnish income tax at a rate of 20% during the years ended December 31, 2023 and 2022.

(vi) Pursuant to the income tax rules and regulations of Singapore, the Group's subsidiary in Singapore was liable to Singapore corporate income tax at a rate of 17% during the year ended December 31, 2023.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS - *continued*

(b) Reconciliation between tax expense/(benefit) and accounting profit at applicable tax rates:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Profit before taxation	**740,038**	886,254
Notional tax on profit before taxation, calculated using the PRC statutory tax rate of 25%	**185,010**	221,564
Tax effect of different tax rates	**(97,883)**	(75,996)
Tax effect of non-deductible expenses (Note i)	**159,627**	45,291
Tax effect of non-taxable income (Note ii)	**(95,450)**	(3,875)
Tax effect of tax losses not recognized	**102,640**	23,260
Tax effect of bonus deduction for research and development costs	**(190,675)**	(207,242)
Tax effect of change in tax rates	**(1,494)**	(745)
Tax effect of previously unrecognized tax losses now utilized	**(13,812)**	(3,156)
Tax effect of previously unrecognized temporary differences now utilized	**(3,303)**	(22,168)
Tax effect of withholding tax on undistributed profits	**(13,645)**	(4,402)
Over-provision in of prior years	**(4,927)**	(13,677)
Derecognition of deferred tax assets recognized in prior years	**—**	668
Actual tax expense/(benefit)	**26,088**	(40,478)

Notes:

(i) Tax effect of non-deductible expenses mainly represented the tax effect of equity settled share-based payment expenses, expenses incurred by entities without assessable profits and other non-deductible expenses and tax effect of net realized and unrealized loss on financial assets of FVPL which is not subject to deduction under Hong Kong Profits Tax rules.

(ii) Tax effect of non-taxable income mainly represented the tax effect of gain on disposal of interest in subsidiaries.

8 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (Note) RMB'000	2023 Total RMB'000
Executive directors							
Ren Jinsheng	—	5,020	2,362	44	7,426	—	7,426
Wan Yushan	—	1,834	5,090	75	6,999	2,357	9,356
Tang Renhong	—	3,659	5,414	48	9,121	5,413	14,534
Wang Xi (appointed on January 18, 2023)	—	1,089	666	16	1,771	(443)	1,328
Independent non-executive directors							
Wang Xinhua	360	—	—	—	360	—	360
Song Ruilin	360	—	—	—	360	—	360
Wang Jianguo	360	—	—	—	360	—	360
Sung Ka Woon (appointed on January 18, 2023)	360	—	—	—	360	—	360
	1,440	11,602	13,532	183	26,757	7,327	34,084

8 DIRECTORS' EMOLUMENTS - *continued*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	Sub-Total RMB'000	Share-based payments (Note) RMB'000	2022 Total RMB'000
Executive directors							
Ren Jinsheng	–	2,044	781	65	2,890	–	2,890
Wan Yushan	–	1,282	5,595	39	6,916	4,338	11,254
Tang Renhong	–	2,842	10,555	39	13,436	6,791	20,227
Non-Executive director							
Zhao John Huan (resigned on August 31, 2022)	–	–	–	–	–	–	–
Independent non-executive directors							
Wang Xinhua	360	–	–	–	360	–	360
Song Ruilin	360	–	–	–	360	–	360
Wang Jianguo	360	–	–	–	360	–	360
	1,080	6,168	16,931	143	24,322	11,129	35,451

All the executive directors are key management personnel of the Group for the year ended December 31, 2023 and their remuneration disclosed above include those for services rendered by them as key management personnel.

Note:

These represent the estimated value of restricted shares granted to the directors under the Company's share incentive scheme. The value of these restricted shares is measured according to the Group's accounting policies for share-based payment transactions and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

8 DIRECTORS' EMOLUMENTS - *continued*

The details of these benefits in kind, including the principal terms and number of restricted shares granted, are disclosed in Note 34.

Apart from the above, no transaction, arrangement or contract of significance to which the Company was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2022: two) are directors whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	7,323	10,606
Discretionary bonuses	2,512	6,772
Retirement scheme contributions	72	187
Share-based payments	2,038	12,031
	11,945	29,596

The emoluments of the two (2022: three) individuals with the highest emoluments are within the following bands:

	2023 Number of individuals	2022 Number of individuals
HKD5,500,001 to HKD6,000,000	1	—
HKD7,000,001 to HKD7,500,000	1	—
HKD9,500,001 to HKD10,000,000	—	1
HKD11,000,001 to HKD11,500,000	—	1
HKD12,000,001 to HKD12,500,000	—	1

10 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	Exchange differences on translation of financial statements RMB'000	Financial assets at fair value through other comprehensive income – net movement in fair value reserves (non-recycling) RMB'000	Total RMB'000
For the year ended December 31, 2022			
Before-tax amount	176,813	(183,953)	(7,140)
Tax effect	—	27,607	27,607
Net-of-tax amount	176,813	(156,346)	20,467
For the year ended December 31, 2023			
Before-tax amount	46,415	36,493	82,908
Tax effect	—	(5,448)	(5,448)
Net-of-tax amount	46,415	31,045	77,460

(Expressed in Renminbi)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB714,761,000 (2022: RMB930,868,000, as restated) and the weighted average of 2,608,533,908 ordinary shares (2022: 2,611,171,592 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2023	2022
Issued ordinary shares at January 1	**2,660,376,618**	2,628,290,618
Effect of shares issued to Trustee (Note 34)	**2,362,233**	17,704,132
Effect of purchase of own shares (Note 35(c))	**(13,192,041)**	—
Effect of vested shares under 2021 RSU Scheme (Note 34)	**3,603,748**	2,529,974
Effect of unvested shares under 2021 RSU Scheme (Note 34)	**(44,616,650)**	(37,353,132)
Weighted average number of ordinary shares at December 31	**2,608,533,908**	2,611,171,592

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB714,761,000 (2022: RMB930,868,000, as restated) and the weighted average of ordinary shares of 2,608,533,908 shares (2022: 2,620,375,892 shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2023	2022
Weighted average number of ordinary shares at 31 December	**2,608,533,908**	2,611,171,592
Effect of deemed issuance of shares under 2021 RSU scheme for nil consideration (Note 34)	**—**	9,204,300
Weighted average number of ordinary shares (diluted) at 31 December	**2,608,533,908**	2,620,375,892

12 PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Leasehold Land RMB'000	Plant and buildings RMB'000	Machinery and equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At January 1, 2022, as previously reported	223,410	1,405,360	962,425	128,040	32,041	95,751	2,847,027
Business combination under common control	–	1,171	3,941	252	159	–	5,523
At January 1, 2022, as restated	223,410	1,406,531	966,366	128,292	32,200	95,751	2,852,550
Additions	82,024	159,885	43,854	30,560	2,256	164,777	483,356
Transfers	–	31,881	15,941	–	–	(47,822)	–
Disposals	–	–	(3,550)	(1,946)	(1,364)	(10,573)	(17,433)
At December 31, 2022 and January 1, 2023	305,434	1,598,297	1,022,611	156,906	33,092	202,133	3,318,473
Additions	137,745	52,667	110,316	4,192	3,076	243,852	551,848
Transfers	–	96,466	5,509	539	–	(102,514)	–
Disposals of interest in subsidiaries	(19,327)	(303,728)	–	(338)	–	–	(323,393)
Disposals	–	(137,374)	(6,776)	(2,202)	(1,251)	–	(147,603)
At December 31, 2023	423,852	1,306,328	1,131,660	159,097	34,917	343,471	3,399,325
Accumulated depreciation and impairment:							
At January 1, 2022, as previously reported	35,736	396,993	376,721	79,782	26,583	–	915,815
Business combination under common control	–	471	937	144	81	–	1,633
At January 1, 2022, as restated	35,736	397,464	377,658	79,926	26,664	–	917,448
Charge for the year, as restated	5,136	143,208	100,533	17,831	1,954	–	268,662
Written back on disposals	–	–	(3,435)	(1,790)	(1,364)	–	(6,589)
At December 31, 2022 and January 1, 2023, as restated	40,872	540,672	474,756	95,967	27,254	–	1,179,521
Charge for the year	8,569	153,895	106,638	19,491	2,914	–	291,507
Impairment loss	–	302	4,516	58	–	–	4,876
Written back on disposals of interest in subsidiaries	(5,948)	(121,857)	–	(156)	–	–	(127,961)
Written back on disposals	–	(110,683)	(4,947)	(2,125)	(1,202)	–	(118,957)
At December 31, 2023	43,493	462,329	580,963	113,235	28,966	–	1,228,986
Net book value:							
At December 31, 2022, as restated	264,562	1,057,625	547,855	60,939	5,838	202,133	2,138,952
At December 31, 2023	380,359	843,999	550,697	45,862	5,951	343,471	2,170,339

12 PROPERTY, PLANT AND EQUIPMENT - *continued*

(a) Reconciliation of carrying amount - *continued*

As at December 31, 2023, property certificates of certain properties and leasehold land with an aggregate net book value of RMB254,249,000 (2022: RMB298,308,000) is yet to be obtained.

As at December 31, 2023, leasehold land with net book value of RMB112,942,000 was pledged as security for banking facilities, which were not used at the reporting date.

(b) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	2023 RMB'000	2022 RMB'000
Leasehold land	380,359	264,562
Plant and buildings	160,580	208,393
	540,939	472,955

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	2023 RMB'000	2022 RMB'000 (restated)
Depreciation charge of right-of-use assets by class of underlying asset:		
Leasehold land	8,569	5,136
Plant and buildings	68,652	54,490
	77,221	59,626
Interest on lease liabilities (Note 6(a))	7,513	6,754
Expense relating to short-term leases	7,448	15,052

12 PROPERTY, PLANT AND EQUIPMENT - *continued*

(b) Right-of-use assets - *continued*

During the year ended December 31, 2023, additions to right-of-use assets were RMB183,759,000 (2022: RMB236,358,000). This amount included the acquisition of leasehold land of RMB137,745,000 (2022: RMB82,024,000), and the remainder primarily related to the capitalized lease payments under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 25(e) and 38(b), respectively.

Some leases include an option to renew the lease for an additional period after the end of the contract term. Where practicable, the Group seeks to include such extension options exercisable by the Group to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. If the Group is not reasonably certain to exercise the extension options, the future lease payments during the extension periods are not included in the measurement of lease liabilities. The potential exposure to these future lease payments is summarized below.

	Lease liabilities recognized (discounted)		Potential future lease payments under extension options not included in lease liabilities (undiscounted)	
	2023 RMB'000	2022 RMB'000	**2023 RMB'000**	2022 RMB'000
Plant and buildings	**34,481**	70,148	**—**	—

13 INTANGIBLE ASSETS

	Developed technology RMB'000	GSP licenses RMB'000	Product trademarks RMB'000	Exclusive commercialization right (i) RMB'000	In-licensed rights (ii) RMB'000	Total RMB'000
Cost:						
At January 1, 2022	307,159	343	4,303	–	–	311,805
Additions	–	–	–	125,472	209,718	335,190
At December 31, 2022 and January 1, 2023	307,159	343	4,303	125,472	209,718	646,995
Additions	318	–	–	–	397,161	397,479
Disposals of interest in subsidiaries	(60,700)	–	–	–	–	(60,700)
At December 31, 2023	246,777	343	4,303	125,472	606,879	983,774
Accumulated amortization:						
At January 1, 2022	247,468	343	4,303	–	–	252,114
Charge for the year	14,985	–	–	–	–	14,985
At December 31, 2022 and January 1, 2023	262,453	343	4,303	–	–	267,099
Charge for the year	1,221	–	–	–	16,866	18,087
Write back on disposals of interest in subsidiaries	(17,198)	–	–	–	–	(17,198)
At December 31, 2023	246,476	343	4,303	–	16,866	267,988
Net book value:						
At December 31, 2022	44,706	–	–	125,472	209,718	379,896
At December 31, 2023	301	–	–	125,472	590,013	715,786

The Group's intangible assets as at December 31, 2023 mainly represent developed technology, GSP licenses, product trademarks acquired by the Group in connection with the acquisitions of the Group's operating subsidiaries in the PRC, and the exclusive commercialization right and in-licensed rights either arising from collaboration arrangement with third parties or separately acquired by the Group.

13 INTANGIBLE ASSETS - *continued*

The amortization charge for the year is included in "cost of sales" and "research and development costs" in the consolidated statement of profit or loss.

(i) Exclusive commercialization right

On March 18, 2022, the Group entered into an agreement with a third party for an exclusive commercialization right in relation to a drug under development in China at the consideration of RMB125,472,000. The third party is responsible for clinical development of the drug and the Group will have exclusive marketing right to the drug after regulatory approval.

As at December 31, 2023, the exclusive commercialization right is not yet available for use and is not amortized. As such, it is subject to annual impairment test based on the recoverable amount of the CGU to which the intangible asset is related to which is at the product level. Management determined the recoverable amount of the relevant CGU using the value in use calculations. The Group engaged an independent professional valuer to assist with the calculation. The calculation used cash flow projections based on management's expectations of the expected time period for a pharmaceutical drug development to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition. The expected average earnings before interest and taxes ("**EBIT**") growth rate was estimated taking into account revenue, gross margins and operating expenses to reflect the characteristics of the commercial right and the expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the drug.

The key assumptions used in estimating the recoverable amount are as follows:

	2023	2022
Expected average EBIT growth rate	9%	18%
Pre-tax discount rate	26%	26%

Based on the result of impairment assessment, there was no impairment as at December 31, 2023.

The Group has performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of expected average EBIT growth rate, which are the key assumptions for determining the recoverable amount of the intangible asset, with all other variables held constant. The impacts on the amount by which the intangible asset's recoverable amount above its carrying amount (headroom) are as below:

	2023 RMB'000	2022 RMB'000
Headroom	89,377	113,966
Impact by increasing pre-tax discount rate	(11,824)	(15,514)
Impact by decreasing expected average EBIT growth rate	(5,734)	(2,394)

(Expressed in Renminbi)

13 INTANGIBLE ASSETS - *continued*

(i) Exclusive commercialization right - *continued*

Considering there was still sufficient headroom based on the assessment, management believes that a reasonably possible change in any of the key assumptions on which management has based its determination of the CGU's recoverable amount would not cause its carrying amount to exceed its recoverable amount.

(ii) In-licensed rights

The in-licensed rights include certain intangible assets not ready for use. Details are as below.

Daridorexant

On November 15, 2022, the Group entered into an agreement with a third party to have a exclusive right to develop and commercialize a drug product in the Greater China region. The drug was approved by the United States Food and Drug Administration and subsequently made commercially available in May 2022.

The consideration payable by the Group comprises upfront payment, additional milestone payments, commercialization milestone payments and royalties based upon future sales. As at December 31, 2023, an upfront payment of USD30,000,000 (RMB equivalent 209,718,000) paid by the Group was recognized as an intangible assets.

As at December 31, 2023, the in-licensed right is not yet available for use and is not amortized. As such, it is subject to annual impairment test based on the recoverable amount of the CGU to which the intangible asset is related to which is at the product level. Management determined the recoverable amount of the relevant CGU using the value in use calculations. The calculation used cash flow projections based on management's expectations of the expected time period for a pharmaceutical drug development to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition. The cash flows beyond the projection period are extrapolated using negative growth rate. The expected average EBIT growth rate was estimated taking into account revenue, gross margins and operating expenses to reflect the characteristics of the license and the expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the drug.

The key assumptions used in estimating the recoverable amount are as follows:

	2023	2022
Expected average EBIT growth rate	28%	40%
Pre-tax discount rate	20%	20%

Based on the result of impairment assessment, there was no impairment as at December 31, 2023.

13 INTANGIBLE ASSETS - *continued*

(ii) In-licensed rights - *continued*

The Group has performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of expected average EBIT growth rate, which are the key assumptions for determining the recoverable amount of the intangible asset, with all other variables held constant. The impacts on the amount by which the intangible asset's recoverable amount above its carrying amount (headroom) are as below:

	2023 RMB'000	2022 RMB'000
Headroom	**32,416**	70,247
Impact by increasing pre-tax discount rate	**(30,197)**	(33,040)
Impact by decreasing expected average EBIT growth rate	**(12,810)**	(15,639)

Considering there was still sufficient headroom based on the assessment, management believes that a reasonably possible change in any of the key assumptions on which management has based its determination of the CGU's recoverable amount would not cause its carrying amount to exceed its recoverable amount.

Rademikibart

On November 21, 2023, the Group entered into an agreement with a third party to have a exclusive right to develop and commercialize a drug product in the Greater China region.

The consideration payable by the Group comprises upfront payment, additional milestone payments, commercialization milestone payments and royalties based upon future sales. As at December 31, 2023, an upfront payment of RMB141,509,000 is recognized as an intangible assets.

As at December 31, 2023, the in-licensed right is not yet available for use and is not amortized. As such, it is subject to annual impairment test based on the recoverable amount of the CGU to which the intangible asset is related to which is at the product level. Management determined the recoverable amount of the relevant CGU using the value in use calculations. The calculation used cash flow projections based on management's expectations of the expected time period for a pharmaceutical drug development to commercialization and other factors, including the patent protection period, the historical life of similar products, the characteristics of such technologies, their update frequency and market requirement and competition. The cash flows beyond the projection period are extrapolated using negative growth rate. The expected average EBIT growth rate was estimated taking into account revenue, gross margins and operating expenses to reflect the characteristics of the license and the expectation for market development. The discount rate used is pre-tax and reflects specific risks relating to the drug.

13 INTANGIBLE ASSETS - *continued*

(ii) In-licensed rights - *continued*

Rademikibart - continued

The key assumptions used in estimating the recoverable amount are as follows:

	2023
Expected average EBIT growth rate	17%
Pre-tax discount rate	20%

Based on the result of impairment assessment, there was no impairment as at December 31, 2023.

The Group has performed sensitivity test by increasing 1% of pre-tax discount rate or decreasing 1% of expected average EBIT growth rate, which are the key assumptions for determining the recoverable amount of the intangible asset, with all other variables held constant. The impacts on the amount by which the intangible asset's recoverable amount above its carrying amount (headroom) are as below:

	2023 RMB'000
Headroom	62,214
Impact by increasing pre-tax discount rate	(44,895)
Impact by decreasing expected average EBIT growth rate	(17,392)

Considering there was still sufficient headroom based on the assessment, management believes that a reasonably possible change in any of the key assumptions on which management has based its determination of the CGU's recoverable amount would not cause its carrying amount to exceed its recoverable amount.

14 GOODWILL

	2023 RMB'000	2022 RMB'000
Balance at the beginning of the year	172,788	172,788
Disposal during the year	(30,314)	—
Balance at the end of the year	142,474	172,788

Impairment tests for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating units ("**CGU**") identified according to the product line. Goodwill is allocated to the Group's CGU as follows:

	2022 RMB'000	Disposal RMB'000	Goodwill reallocation RMB'000	2023 RMB'000
Pharmaceutical business	142,474	–	(142,474)	–
BCY	30,314	(30,314)	–	–
Oncology pharmaceutical business	–	–	91,790	91,790
Other pharmaceutical business	–	–	50,684	50,684
Total	172,788	(30,314)	–	142,474

In 2023, the Group restructured its pharmaceutical business by dividing CGU of pharmaceutical business into two CGUs, the oncology pharmaceutical business and other pharmaceutical business.

The Group performs annual impairment test on goodwill at the end of the reporting year. The recoverable amount of each CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management with the final year representing a steady state in the development of the business. Cash flows beyond the period are extrapolated using zero growth rate. The key assumptions used for the value in use calculations are the discount rate and budgeted earnings before interest, taxes, depreciation and amortization ("**EBITDA**") growth rate in the projection period. The discount rate was a pre-tax measure based on the risk-free rate in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increased risk of investing in equities generally and the systematic risk of the CGU. Budgeted EBITDA growth rate in the projection period was estimated taking into account revenue, gross margins and operating expenses based on past performance and its expectation for market development.

(Expressed in Renminbi)

14 GOODWILL - *continued*

Impairment tests for cash-generating unit containing goodwill - *continued*

Key assumptions used in estimating the recoverable amount are as follows:

	2023
Pre-tax discount rate	
Oncology pharmaceutical business	15%
Other pharmaceutical business	15%
Budgeted average EBITDA growth rate	
Oncology pharmaceutical business	22.4%
Other pharmaceutical business	11.3%
Budget period	
Oncology pharmaceutical business	5 years
Other pharmaceutical business	5 years

	2022
Pre-tax discount rate	
Pharmaceutical business	15%
BCY	25.8%
Budgeted average EBITDA growth rate	
Pharmaceutical business	23.3%
BCY	26.3%
Budget period	
Pharmaceutical business	5 years
BCY	11 years

The estimated recoverable amount of the oncology pharmaceutical business CGU and other pharmaceutical business CGU exceeded its carrying amount as at December 31, 2023 by RMB371,878,000 and RMB5,113,162,000, respectively.

The estimated recoverable amount of the pharmaceutical business CGU and BCY CGU exceeded its carrying amount as at December 31, 2022 by RMB5,294,563,000 and RMB45,260,000, respectively.

(Expressed in Renminbi)

14 GOODWILL - *continued*

Management performed sensitivity analysis of two key assumptions that could significantly affect the recoverable amount. The following table shows the percentage point by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount:

Change required for carrying amount to equal recoverable amount (in percentage point)

	2023
Oncology pharmaceutical business	
Increase in discount rate	**+4.9%**
Decrease in budgeted EBITDA growth rate (average of forecast period)	**-6.4%**
Other pharmaceutical business	
Increase in discount rate	**+20.6%**
Decrease in budgeted EBITDA growth rate (average of forecast period)	**-16.8%**

	2022
Pharmaceutical business	
Increase in discount rate	+11.0%
Decrease in budgeted EBITDA growth rate (average of forecast period)	-13.3%
BCY	
Increase in discount rate	+4.4%
Decrease in budgeted EBITDA growth rate (average of forecast period)	-2.5%

The recoverable amount of the CGUs based on the value-in-use calculations was higher than the carrying amount as at December 31, 2023 and 2022. Accordingly, no impairment loss for goodwill was recognized in the consolidated statements of profit or loss. Also, based on the sensitivity analysis above, the Group concluded that a reasonably possible change in key parameters would not cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2023 and 2022.

(Expressed in Renminbi)

15 INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries which affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation and business/ date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Jiangsu Simcere Pharmaceutical Technology Co., Ltd. (江蘇先聲醫藥科技有限公司) (Note)	The People's Republic of China ("**PRC**") August 14, 2017	United States Dollar ("**USD**") 251,500,000	100%	–	Investment holding
Simcere Pharmaceutical (Shandong)Co., Ltd. (先聲藥業(山東)有限公司) (Note) ("**Simcere Shangdong**")	The PRC March 28, 2022	USD150,000,000	100%	–	Investment holding
Simcere UK Limited	The United Kingdom December 20, 2017	Great Britain Pound ("**GBP**") 100	100%	–	Pharmaceutical related business development and cooperation
Oy Simcere Europe Ltd.	Finland September 14, 2007	Euro ("**EUR**") 2,500	100%	–	Pharmaceutical related business development and cooperation
Simcere Pharmaceutical Co., Ltd. (先聲藥業有限公司) (Note)	The PRC September 10, 1998	Chinese Yuan ("**RMB**") 1,602,813,820	–	100%	Manufacturing and sales of pharmaceutical products
Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司) (Note)	The PRC April 28, 1993	RMB221,110,900	–	100%	Manufacturing and sales of pharmaceutical products
Jiangsu Simcere Biological Co., Ltd. (江蘇先聲生物製藥有限公司) (Note) ("**Simcere Biological**")	The PRC July 10, 2017	RMB400,000,000	–	100%	Research and development and manufacturing of biopharmaceutical products
Wuhu Simcere Zhongren Pharmaceutical Co., Ltd. (蕪湖先聲中人藥業有限公司) (Note)	The PRC September 19, 2008	RMB37,000,000	–	100%	Manufacturing and sales of pharmaceutical products
Nanjing BioSciKin Biotechnology Development Co., Ltd. (南京百家匯生物科技發展有限公司) (Note)	The PRC December 13, 2018	RMB86,660,000	–	100%	Investment holding
Simcere International Limited	Hong Kong June 19, 2014	USD10,000,000	–	100%	Pharmaceutical related business development and cooperation
Simgene LLC	The United States April 19, 2019	Not applicable	–	100%	Investment holding

(Expressed in Renminbi)

15 INVESTMENTS IN SUBSIDIARIES - *continued*

Company name	Place of incorporation and business/ date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Simcere of America Inc.	The United States January 5, 2011	USD125	–	100%	Pharmaceutical related business development and cooperation and investment holding
Jiangsu Simcere Pharmaceutical Co., Ltd. (江蘇先聲藥業有限公司) (Note)	The PRC March 28, 1995	RMB568,800,000	–	100%	Sales, distribution and research and development of pharmaceutical products
Shanghai Simcere Pharmaceutical Co., Ltd. (上海先聲藥業有限公司) (Note)	The PRC July 20, 2000	RMB154,000,000	–	100%	Sales and distribution of pharmaceutical products
Zigong Yirong Industrial Co., Ltd. (自貢市益榮實業有限公司) (Note)	The PRC September 2, 2005	RMB2,380,000	–	100%	Manufacturing of pharmaceutical ingredients
Shandong Simcere Bio-Pharmaceutical Co., Ltd. (山東先聲生物製藥有限公司) (Note)	The PRC June 30, 1999	RMB50,000,000	–	100%	Manufacturing and sales of pharmaceutical products
Simcere Biology Medical Technology Co., Ltd. (先聲生物醫藥科技有限公司) (Note)	The PRC March 14, 2012	RMB50,000,000	–	100%	Research and development of biopharmaceutical products
Hainan Simcere Zaiming Pharmaceutical Co., Ltd. (海南先聲再明醫藥股份有限公司) (formerly known as Simcere Zaiming Pharmaceutical Co., Ltd. (先聲再明醫藥有限公司)) ("**Simcere Zaiming**")(Note)	The PRC December 3, 2020	RMB300,000,000	–	100%	Research and development of biopharmaceutical products
Simcere(Beijing) Pharmaceutical Co., Ltd. (先聲(北京)醫藥有限公司) (Note)	The PRC April 21, 2021	RMB5,000,000	–	100%	Research and development of biopharmaceutical products
Shanghai Simcere Biomedical Co.,Ltd. (上海先聲生物醫藥有限公司) (Note)	The PRC June 29, 2021	RMB226,310,000	–	100%	Research and development of biopharmaceutical products
Jiangsu Xiansheng Biology Medical Co., Ltd. (江蘇先盛生物醫藥有限公司)(Note)	The PRC March 11, 2022	RMB200,000,000	–	100%	Manufacturing and sales of pharmaceutical products

(Expressed in Renminbi)

15 INVESTMENTS IN SUBSIDIARIES - *continued*

Company name	Place of incorporation and business/ date of incorporation	Particulars of issued and paid-in capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Shanghai Xianxiang Medical Technology Co., Ltd. (上海先祥醫藥科技有限公司) (Note)	The PRC September 27, 2022	RMB10,000,000	–	100%	Research and development of biopharmaceutical products
Jiangsu Simcere Zaiming Pharmaceutical Co., Ltd. (江蘇先聲再明醫藥有限公司)(Note)	The PRC December 9, 2022	RMB100,000,000	–	100%	Sales and distribution of pharmaceutical products
Beijing Simcere Zaiming Pharmaceutical Co., Ltd. (北京先聲再明醫藥有限公司)(Note)	The PRC December 27, 2022	RMB5,000,000	–	100%	Sales, distribution and research and development of pharmaceutical products
Nanjing Zaiming Pharmaceutical Co., Ltd. (南京再明醫藥有限公司) (Note)	The PRC January 17, 2023	RMB110,000,000	–	100%	Sales, distribution and research and development of pharmaceutical products
Simcere Zaiming Inc.	The United States February 17, 2023	USD1	–	100%	Pharmaceutical related business development and cooperation and investment holding
Simcere Pharmaceutical (Singapore) Pte, Ltd	The Republic of Singapore May 12, 2023	Singapore Dollar 1	–	100%	Pharmaceutical related business development and cooperation
Nanjing Jiayuantang Biotechnology Co., Ltd. (南京佳原堂生物科技有限公司) (Note)	The PRC November 8, 2018	RMB9,730,000	–	100%	Sales of pharmaceutical products
Jiangsu Jiayuantang Biotechnology Co., Ltd. (江蘇佳原堂生物科技有限公司) (Note)	The PRC December 24, 2018	–	–	100%	Sales of pharmaceutical products
Shanghai Zaiming Pharmaceutical Co., Ltd. (上海再明醫藥有限公司) (Note)	The PRC December 18, 2023	–	–	100%	Research and development of biopharmaceutical products
Shanghai Simcere Medical Technology Co., Ltd. (上海先聲醫藥科技有限公司) (Note)	The PRC December 22, 2023	–	–	100%	Sales and distribution of pharmaceutical products

Note:

These entities are limited liability companies established in the PRC. The official names of these entities are in Chinese. The English translation of the Company names is for identification purpose only.

(Expressed in Renminbi)

16 INTEREST IN ASSOCIATES

Details of the Group's interest in associates as at December 31, 2023 which is accounted for using equity method in the consolidated financial statements are set out below:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Nanjing Ruichu Pharm Co., Ltd. ("**Nanjing Ruichu**")	Incorporated	The PRC	RMB2,735,000	5.4%	–	5.4%	Development and manufacturing of pharmaceutical ingredients
Nanjing Coenlis Biopharmaceutical Co., Ltd. ("**Nanjing Coenlis**")	Incorporated	The PRC	RMB8,622,000	19.7%	–	19.7%	Development and manufacturing of pharmaceutical ingredients

In August 2021, the Group acquired 12.5% of equity interest in Nanjing Ruichu through capital injection of RMB5,000,000. The proportion of the Group's equity interest in Nanjing Ruichu was diluted to 8.9% in 2022 and further to 5.4% in 2023 due to the new financing obtained by Nanjing Ruichu. The Group has a right to appoint one director to the board of Nanjing Ruichu in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on Nanjing Ruichu and account for the equity interest in Nanjing Ruichu using the equity method.

In August 2023, the Group established Nanjing Coenlis with third parties by capital contribution through the transfer of certain machinery and equipment. During the year ended December 31, 2023, due to the new financing obtained by Nanjing Coenlis, the effective interest decreased from 25.5% to 19.7%. The Group has a right to appoint one director to the board of Nanjing Coenlis in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group can cast significant influence on Nanjing Coenlis and account for the equity interest in Nanjing Coenlis using the equity method.

Both entities are unlisted corporate entities whose quoted market price are not available.

16 INTEREST IN ASSOCIATES - *continued*

The directors of the Company consider that there are no material associates.

Aggregate financial information of associates accounted for using equity method and not individually material:

	2023 RMB'000	2022 RMB'000
Carrying amount of associates in the consolidated financial statements	12,502	4,978

	2023 RMB'000	2022 RMB'000
Aggregate amounts of the Group's share of those associates'		
Loss from operations	(2,225)	(813)
Gain on dilution of interests	8,048	928
Total comprehensive income	5,823	115

(Expressed in Renminbi)

16 INTEREST IN ASSOCIATES - *continued*

Details of the Group's interest in an associate as at December 31, 2023 which is accounted for using FVPL method in the consolidated financial statements are set out below:

Name of associate	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Jiaxing Andicon Biotechnology Co., Ltd. ("**Andicon**")	Incorporated	The PRC	RMB8,622,000	5,2%	-	5.2%	Development and manufacturing of pharmaceutical ingredients

In November 2023, the Group entered into an investment agreement for acquisition of 5.2% interest in Andicon with preferred rights at consideration of RMB40,000,000. The Group has a right to appoint one director to the board of Andicon in accordance with the investment agreement, therefore the directors of the Company are in the view that the Group has significant influence on Andicon and measure the interest in Andicon at fair value through profit or loss, as it is not subject to the current access to the returns associated with the ownership interest due to the preferred rights. As at December 31, 2023, the director of the Company consider the fair value of this investment is not materially different from the consideration.

Andicon is an unlisted corporate entity whose quoted market price is not available.

(Expressed in Renminbi)

17 INTEREST IN JOINT VENTURES

Details of the Group's interest in joint ventures as at December 31, 2023 which is accounted for using equity method in the consolidated financial statements are set out below:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by a subsidiary	Principal activity
Simnogen Biotech Ltd.	Incorporated	The PRC	USD 4,000,000	51%	–	51%	Research and development of innovative pharmaceuticals and vaccine products
Jiangsu Xinhaikang Pharmaceutical Co., Ltd ("**Xinhaikang**")	Incorporated	The PRC	RMB 23,500,000	70%	–	70%	Manufacturing and sales of pharmaceutical products

In June 2019, the Group acquired 51% of the equity interest in Simnogen Biotech Ltd. from a company controlled by the ultimate controlling shareholder of the Group, BioSciKin Precision Medical Holding Group Co., Ltd., at a consideration of RMB5,200,000. Simnogen Biotech Ltd. is mainly engaged in research and development of innovative pharmaceutical and vaccine products. According to the articles of association, no single investor is in a position to control the investors' meeting nor no single director appointed by either investor is in a position to control the board of directors. Therefore, the directors of the Company consider that the Group is not able to control Simnogen Biotech Ltd. and deem it to be a joint venture of the Group rather than a subsidiary.

In January 2023, the Group acquired 70% of the equity interest in Xinhaikang from former shareholder of Xinhaikang at a consideration of RMB91,000,000. Xinhaikang is mainly engaged in manufacturing and sales of pharmaceutical products. According to the articles of association, certain key operating decision making should be agreed in consensus. Therefore, the directors of the Company consider that the Group is not able to control Xinhaikang and deem it to be a joint venture of the Group rather than a subsidiary.

Both joint ventures in which the Group participates are unlisted corporate entities whose quoted market price is not available.

17 INTEREST IN JOINT VENTURES - *continued*

The directors of the Company consider that there are no material joint ventures.

Aggregate financial information of joint ventures that are not individually material:

	December 31, 2023 RMB'000	December 31, 2022 RMB'000
Carrying amount of the joint venture in the consolidated financial statements	98,069	4,477
Amount of the Group's share of the joint venture's		
Loss from operations	2,021	75
Total comprehensive income	2,021	75

18 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2023 RMB'000	2022 RMB'000
Equity securities designated at FVOCI (non-recycling)		
—Listed equity securities	10,714	23,414
—Unlisted equity securities	163,553	114,360
	174,267	137,774

The listed equity securities at FVOCI (non-recycling), represent investment in listed equity securities issued by listed companies incorporated in the United States. The unlisted equity security at FVOCI (non-recycling), represents investment in unlisted equity interest in private entity incorporated in the PRC. These investments are engaged in research and development of innovative pharmaceutical products.

The Group designated these investments at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the year ended December 31, 2023 and 2022.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 38(e).

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000
Financial assets at FVPL - non-current		
—Listed equity security	159,540	876,263
—Unlisted investments	563,077	517,555
—Unlisted units in investment funds	531,714	662,882
	1,254,331	2,056,700

The Group's non-current balances of financial assets at FVPL represent listed equity securities issued by listed company incorporated in Australia, the Cayman Islands, the unlisted investments in private entities incorporated in the PRC, the United States and the Cayman Islands and unlisted units in investment funds incorporated in the PRC, the United States, and the Netherlands. These investments are primarily engaged or further invested in the healthcare and pharmaceutical sectors.

The analysis on the fair value measurement of the Group's above financial assets is disclosed in Note 38(e).

20 LOAN TO A THIRD PARTY

	2023 RMB'000	2022 RMB'000
Due over 1 year	100,326	—

On November 8, 2023, the Group entered into a loan agreement with a third-party entity incorporated in the PRC. Pursuant of the loan agreement, the Group agreed to lend a loan of RMB100,000,000 with interest rate agreed as long prime rate ("**LPR**") on the day before the drown down date, i.e. 3.45%. The accrued interest is repayable on quarterly basis and the loan principal is repayable in full at the end of 36 months from the drawn down date. The loans are fully secured by machinery held by the third party.

In 2023, the Group also entered into an agreement with this third party for an exclusive commercialization right in relation to a drug under development, the upfront payment is refundable under certain circumstance (see Note 24).

As at December 31, 2023, loan to a third party represented the outstanding principal and accrued interest income.

21 INVENTORIES

(a) Inventories in the consolidated statements of financial position comprise:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Raw materials	212,668	118,185
Semi-finished goods	96,424	49,765
Finished goods	305,470	136,830
	614,562	304,780

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Carrying amount of inventories sold	1,109,694	834,993
Provision for write-down of inventories	64,291	49,578
	1,173,985	884,571

All inventories are expected to be recovered within one year.

22 CONTRACT ASSETS

	2023 RMB'000	2022 RMB'000
Contract assets arising from research service	13,000	—

The Group's research service contracts include payment schedules which require stage payments over the research service period once milestones are reached.

All of the contract assets are expected to be recovered within one year.

23 TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Trade receivables	1,996,245	1,872,701
Bills receivable	658,575	490,804
	2,654,820	2,363,505
Less: loss allowance	(23,175)	(24,675)
	2,631,645	2,338,830

All of the trade and bills receivables are expected to be recovered within one year.

As at December 31, 2023, bills receivable of RMB75,977,000 were pledged for issuance of bills payable (2022: RMB115,465,000).

Aging analysis

As of the end of the reporting period, the aging analysis of trade and bills receivables, based on the invoice date and net of loss allowance, is as follows:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Within 3 months	2,014,485	1,822,014
Over 3 months but within 6 months	564,369	514,009
Over 6 months but within 9 months	47,761	1,739
Over 9 months but within 12 months	5,030	418
Over 12 months	—	650
	2,631,645	2,338,830

Trade and bills receivables are due within 30-90 days from the date of billing. Further details on the Group's credit policy and credit risk arising from trade and bills receivables are set out in Note 38(a).

23 TRADE AND BILLS RECEIVABLES - *continued*

As at December 31, 2023, the Group endorsed certain bills receivable to suppliers for settling trade payables of the same amount on a full recourse basis. The Group has derecognized these bills receivable and payables to suppliers in their entirety. In the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations, should the issuing banks fail to settle the bills on maturity date. The Group considers the issuing banks of these bills are of good credit quality and non-settlement of these bills by the issuing banks on maturity is not probable. As at December 31, 2023, the Group's maximum exposure to loss and undiscounted cash outflow, which is the same as the amount payable by the Group to suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB34,219,000 (2022: RMB139,635,000).

24 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Current		
Prepayments for raw materials and expenses	155,577	66,809
Value added tax recoverable	73,275	33,694
Other deposits and receivables	80,468	65,667
	309,320	166,170
Less: loss allowance (Note i)	(22,543)	(310)
	286,777	165,860
Non-current		
Prepayments for property, plant and equipment	21,275	36,129
Deposits for investments	—	43,680
Other deposits and receivables	21,315	17,661
Prepayments for exclusive commercialization rights (Note ii)	146,364	—
	188,954	97,470

Notes:

(i) As at 31 December 2023, the loss allowance included an impairment loss on prepayments for raw materials of RMB21,600,000 (2022: nil).

(ii) The balance of prepayments for exclusive commercialization rights represented upfront payments which is refundable under certain circumstance.

All of prepayments, deposits and other receivables current balances are expected to be recovered or recognized as expense within one year.

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS

(a) Cash and cash equivalents comprise:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Cash at bank	2,007,162	1,658,312

As at December 31, 2023, cash and cash equivalents situated in Chinese Mainland amounted to RMB1,843,969,000 (2022: RMB1,495,666,000). Remittance of funds out of Chinese Mainland is subject to relevant rules and regulations of foreign exchange control.

(b) Pledged deposits and restricted deposits comprise:

	2023 RMB'000	2022 RMB'000
Pledged deposits for		
— issuance of letter of guarantee	52,513	560

	2023 RMB'000	2022 RMB'000
Restricted deposits for		
— research and development projects	7,926	13,435
— litigations (Note 31)	3,990	-
— 2021 RSU Scheme	10,232	5,943
	22,148	19,378

(c) Time deposits comprise:

	2023 RMB'000	2022 RMB'000
Current portion	11,137	964,226
Non-current portion	673	10,752
	11,810	974,978

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS - *continued*

(d) Reconciliation of profits before taxation to cash generated from operations

	Note	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Profit before taxation		**740,038**	886,254
Adjustments for:			
Depreciation of property, plant and equipment	6(c)	**291,507**	268,662
Amortization of intangible assets	6(c)	**18,087**	14,985
Net finance income	6(a)	**(20,392)**	(25,459)
Share of profits of associates	16	**(5,823)**	(115)
Share of profits of joint ventures	17	**(2,021)**	(75)
Net (gain)/loss on disposal of property, plant and equipment	5(b)	**(2,433)**	10,571
Net realized and unrealized losses/(gains) on financial assets at fair value through profit or loss	5(b)	**744,816**	(113,112)
Net gain on disposal of interest in subsidiaries	5(b)	**(789,491)**	—
Impairment loss on a manufacturing plant	5(b)	**6,871**	—
Impairment loss on prepayments	5(b)	**21,600**	—
Provision for litigations	5(b)	**25,990**	—
Equity settled share-based payment expenses	34	**12,119**	138,290
Reversals loss on trade and other receivables	6(c)	**(867)**	(13,972)
Provision for write-down of inventories	21(b)	**64,291**	49,578
Foreign exchange loss		**3,690**	51,754
Changes in working capital:			
Increase in restricted deposits		**(2,770)**	(14,353)
Increase in inventories		**(376,639)**	(116,992)
(Increase)/decrease in trade and bills receivables		**(294,854)**	75,244
Increase in prepayments, deposits and other receivables		**(153,575)**	(14,588)
Increase in contract assets		**(13,000)**	—
(Decrease)/increase in trade and bills payables		**(15,044)**	11,000
(Decrease)/increase in other payables and accruals		**(80,631)**	153,594
Decrease in deferred income		**(10,238)**	(14,263)
Cash generated from operations		**161,231**	1,347,003

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS - *continued*

(e) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Bank loans RMB'000 (Note 26)	Lease liabilities RMB'000 (Note 27)	Total RMB'000
At January 1, 2023	1,292,067	214,677	1,506,744
Changes from financing cash flows:			
Proceeds from bank loans	1,215,743	—	1,215,743
Repayment of bank loans	(1,284,428)	—	(1,284,428)
Capital element of lease rentals paid	—	(82,386)	(82,386)
Interest element of lease rentals paid	—	(7,513)	(7,513)
Interest paid	(27,959)	—	(27,959)
Total changes from financing cash flows	(96,644)	(89,899)	(186,543)
Exchange adjustments	(1,499)	1,540	41
Other changes:			
Increase in lease liabilities from entering into new leases during the year	—	100,479	100,479
Decrease in lease liabilities from ceasing leases during the year	—	(26,065)	(26,065)
Interest expenses (Note 6(a))	27,055	7,513	34,568
Total other changes	27,055	81,927	108,982
At December 31, 2023	1,220,979	208,245	1,429,224

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS - *continued*

(e) Reconciliation of liabilities arising from financing activities - *continued*

	Bank loans RMB'000 (Note 26)	Lease liabilities RMB'000 (Note 27)	Total RMB'000
At January 1, 2022	1,530,085	105,797	1,635,882
Changes from financing cash flows:			
Proceeds from bank loans	916,932	—	916,932
Repayment of bank loans	(1,184,161)	—	(1,184,161)
Capital element of lease rentals paid	—	(49,146)	(49,146)
Interest element of lease rentals paid	—	(6,754)	(6,754)
Interest paid	(23,229)	—	(23,229)
Total changes from financing cash flows	(290,458)	(55,900)	(346,358)
Exchange adjustments	24,786	3,692	28,478
Other changes:			
Increase in lease liabilities from entering into new leases during the year	—	154,334	154,334
Interest expenses (Note 6(a))	27,654	6,754	34,408
Total other changes	27,654	161,088	188,742
At December 31, 2022	1,292,067	214,677	1,506,744

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS - *continued*

(f) Total cash flow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Within operating cash flows	7,448	15,052
Within investing cash flows	137,745	82,024
Within financing cash flows	89,899	55,900
	235,092	152,976

These amounts relate to the following:

	2023 RMB'000	2022 RMB'000 (restated)
Lease rentals paid	97,347	70,952
Increase in leasehold land	137,745	82,024
	235,092	152,976

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS - *continued*

(g) Net cash flow arising from disposal of interest in subsidiaries

During the year ended December 31, 2023, the Group disposed its interests in BCY and Simcere (Shanghai).

Aggregate of assets and liabilities at the date of disposal of the subsidiaries over which control was lost:

	2023 RMB'000
Property, plant and equipment	195,432
Intangible assets	43,502
Goodwill	30,314
Trade and bill receivables	3,539
Other receivables	2,549
Time deposits	10,234
Cash and cash equivalents	91,213
Trade payables	(3,171)
Other payables and accruals	(18,445)
Deferred tax liabilities	(10,875)
Net assets disposed of	344,292

Net gain on disposal of interest in subsidiaries:

	2023 RMB'000
Cash consideration (Note 5(b))	1,126,865
Net assets disposed of	(344,292)
Non-controlling interest disposal of	15,251
Fair value of the remaining interest in the disposed subsidiaries	54,150
Effect of plant and buildings leased back	(54,465)
Transaction costs	(8,018)
Net gain on disposal of interest in subsidiaries (Note 5(b))	789,491

25 CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS, RESTRICTED DEPOSITS, AND TIME DEPOSITS - *continued*

Analysis of net cash in respect of the disposal of interest in subsidiaries is as follows:

	2023 RMB'000
Consideration	1,126,865
Less: cash and cash equivalents disposed of	(91,213)
Transaction costs	(8,018)
Consideration receivable as at December 31, 2023	(34,114)
Net proceeds received for disposal of interest in subsidiaries	993,520

26 BANK LOANS

The maturity profile for the interest-bearing bank loans of the Group at the end of each reporting period is as follows:

	2023 RMB'000	2022 RMB'000
Short-term bank loans	762,427	1,183,700
Current portion of long-term bank loans	252,706	108,367
Within 1 year or on demand	1,015,133	1,292,067
After 1 year but within 2 years	197,655	—
After 2 years but within 5 years	1,965	—
After 5 years	6,226	—
	205,846	—
	1,220,979	1,292,067

Notes:

(i) As at December 31, 2023 and 2022, the bank loans were unsecured.

(ii) Fulfilment of loan covenants

Certain banking facilities of the Group are subject to the fulfilment of certain covenants, as are commonly found in lending arrangements with financial institutions. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in Note 38(b). As at December 31, 2023 and 2022, none of the covenants relating to drawn down facilities was breached.

27 LEASE LIABILITIES

At December 31, 2023, the lease liabilities were repayable as follows:

	2023 RMB'000	2022 RMB'000
Within 1 year	79,848	58,756
After 1 year but within 2 years	53,848	56,711
After 2 years but within 5 years	57,752	82,693
After 5 years	16,797	16,517
	128,397	155,921
	208,245	214,677

28 TRADE AND BILLS PAYABLES

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Trade payables	228,585	227,148
Bills payable	88,633	108,285
	317,218	335,433

As of the end of the reporting period, the aging analysis of trade and bills payables, based on the invoice date, is as follows:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Within 3 months	220,812	240,701
3 to 12 months	94,377	93,289
Over 12 months	2,029	1,443
	317,218	335,433

All of the trade and bills payables are expected to be settled within one year or repayable on demand.

29 OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Accrued expenses (Note i)	495,241	583,739
Contract liabilities (Note ii)	43,311	63,338
Payable for employee reimbursements	18,236	28,884
Payables for staff related costs	335,832	335,601
Payables for purchase of property, plant and equipment	29,675	21,877
Other tax payables	152,670	134,133
Payables for research and development costs	43,516	41,695
Payable for in-licensed rights	47,170	–
Others	64,161	60,533
	1,229,812	1,269,800

All of the other payables and accruals are expected to be settled within one year or repayable on demand.

Notes:

(i) Accrued expenses primarily comprise marketing and promotion expenses, research and development costs and other expenses.

(ii) Contract liabilities represent customers' advances received for goods that have not yet been transferred to the customers.

Movements in contract liabilities

	2023 RMB'000	2022 RMB'000
Balance at 1 January	63,338	26,140
Decrease in contract liabilities as a result of recognizing revenue during the year that was included in the contract liabilities at the beginning of the year	(63,338)	(26,140)
Increase in contract liabilities as a result of customers' advances received for goods and services that have not yet been transferred to the customers as at the year end	43,311	63,338
Balance at 31 December	43,311	63,338

Contract liabilities are expected to be recognized as income within one year.

30 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) Current taxation in the consolidated statements of financial position represents:

	2023 RMB'000	2022 RMB'000
At the beginning of the year	4,056	(634)
Provision for income tax for the year	28,953	11,271
Over-provision in respect of prior years	(4,927)	(13,677)
Tax (paid)/refund	(10,183)	7,096
At the end of the year	17,899	4,056
Represented by:		
Taxation recoverable	–	(6,506)
Taxation payable	17,899	10,562
	17,899	4,056

(b) Deferred tax assets and liabilities recognized represents:

(i) The components of deferred tax assets recognized in the consolidated statements of financial position and the movements during the year are as follows:

	Provision for asset impairment RMB'000	Unrealized profits on inventories RMB'000	Deductible tax losses RMB'000	Depreciation of property, plant and equipment RMB'000	Fair value change of financial assets RMB'000	Government grants RMB'000	Accrued expenses RMB'000	Other temporary differences RMB'000	Total RMB'000
At January 1, 2022	14,550	108,413	122,248	1,485	4,069	65,299	102,214	5,436	423,714
Recognized in profit or loss	(144)	(6,428)	65,323	(587)	(9,033)	(67)	(59,893)	385	(10,444)
Recognized in other comprehensive income	–	–	–	–	9,816	–	–	–	9,816
At December 31, 2022 and January 1, 2023	14,406	101,985	187,571	898	4,852	65,232	42,321	5,821	423,086
Recognized in profit or loss	1,796	(57,578)	6,473	(348)	–	702	17,994	30,980	19
Recognized in other comprehensive income	–	–	–	–	(1,563)	–	–	–	(1,563)
At December 31, 2023	16,202	44,407	194,044	550	3,289	65,934	60,315	36,801	421,542

30 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - *continued*

(b) Deferred tax assets and liabilities recognized represents: - *continued*

(ii) The components of deferred tax liabilities recognized in the consolidated statements of financial position and the movements during the year are as follows:

	Fair value adjustment arising from business combination RMB'000	Depreciation of property, plant and equipment RMB'000	Fair value change of financial assets RMB'000	Undistributed profits RMB'000	Other temporary differences RMB'000	Total RMB'000
At January 1, 2022	14,533	78,383	91,129	91,967	501	276,513
Recognized in profit or loss	(2,653)	(22,561)	(18,743)	(4,402)	(157)	(48,516)
Recognized in other comprehensive income	–	–	(17,791)	–	–	(17,791)
Exchange adjustment	–	–	1,458	–	–	1,458
At December 31, 2022 and January 1, 2023	11,880	55,822	56,053	87,565	344	211,664
Recognized in profit or loss	(299)	(9,532)	5,938	(13,645)	19,619	2,081
Recognized in other comprehensive income	–	–	3,885	–	–	3,885
Disposals of interest in subsidiaries	(10,875)	–	–	–	–	(10,875)
Exchange adjustment	–	–	461	–	–	461
At December 31, 2023	706	46,290	66,337	73,920	19,963	207,216

(iii) Reconciliation to the consolidated statements of financial position:

	2023 RMB'000	2022 RMB'000
Net deferred tax assets recognized in the consolidated statements of financial position	317,002	326,713
Net deferred tax liabilities recognized in the consolidated statements of financial position	(102,676)	(115,291)
	214,326	211,422

30 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION - *continued*

(c) Deferred tax assets not recognized

In accordance with the accounting policy set out in Note 2(s), the Group did not recognize deferred tax assets of RMB121,316,000 (2022: RMB48,963,000, as restated), in respect of cumulative tax losses RMB532,288,000 (2022: RMB203,624,000, as restated) as at December 31, 2023. The Group did not recognize deferred tax assets of RMB4,595,000 (2022: RMB7,917,000), in respect of cumulative time differences RMB16,562,000 (2022: RMB28,092,000) as at December 31, 2023. It was not probable that future taxable profits against which the losses and time differences can be utilized will be available in the relevant tax jurisdiction and entities.

(d) Deferred tax liabilities not recognized

For the year ended December 31, 2023, the Group did not recognize deferred tax liabilities of RMB52,494,000 (2022: RMB37,443,000), in respect of distributable profits of the Group's PRC subsidiaries amounted to RMB1,049,874,000 (2022: RMB748,851,000), as the Group controls the timing of the reversal of temporary differences associated with undistributed profits of these subsidiaries and it has been determined that it is probable that these undistributed profits earned by the Group's PRC subsidiaries will not be distributed in the foreseeable future in accordance with the Group's dividend policy. As at December 31, 2023, the deferred tax liabilities not recognized in respect of distributable profits of the Group's PRC subsidiaries is RMB175,025,000 (2022: RMB122,531,000).

31 PROVISIONS

In June 2022, a subsidiary of the Group received a notice that it was being sued by a customer in respect of a supply arrangement of raw materials with an indemnity claim of RMB200 million. On December 29, 2023, the court awarded the first instance judgement and ruled that the claimed amount should be RMB22,000,000. Both the Group and the customer made an appeal application against the first instance judgment in January 2024. A provision of RMB22,000,000 was made in respect of this claim by the Group with reference to the first instance judgement.

In October 2023, a subsidiary of the Group received a notice that it was being sued by a supplier in respect of a purchase agreement of machinery with an indemnity claim of RMB3,990,000. This claim is currently under trial. A provision of RMB3,990,000 was made by the Group in respect of this claim.

32 DEFERRED INCOME

As at December 31, 2023, deferred income represented unamortized conditional government grants amounting to RMB393,112,000 (2022: RMB403,350,000) for plant relocation and construction and technology research and development.

Deferred income relating to technology research and development is recognized as income upon the satisfaction of acceptance standards. Deferred income relating to plant relocation and construction is amortized over the useful life of the related property, plant and equipment upon the completion of the construction.

33 OTHER NON-CURRENT LIABILITY

In 2023, Shandong Simcere entered into an agreement with the local government to relocate its production plant. The local government agreed to pay an amount of RMB230,000,000 as the compensation for the disposal of the property, plant and equipment and related relocation costs in the interest of urban planning. The relocation is expected to be completed in 2027. As at December 31, 2023, the Group had received from the local government RMB115,000,000 in relation to the abovementioned compensation.

34 EQUITY SETTLED SHARE-BASED TRANSACTIONS

The 2021 RSU Scheme

On May 20, 2021, the board of the Company approved the adoption of the 2021 Restricted Share Unit ("**RSU**") Scheme and would grant up to 137,296,927 restricted shares to the Participants under the 2021 RSU Scheme in aggregate.

On June 15, 2023, the shareholders of the Company approved the amendments of the 2021 RSU Scheme and would grant up to 266,404,561 RSUs, representing 266,404,561 underlying shares to the Participants under the 2021 RSU Scheme in aggregate.

For the year ended December 31, 2023, the Company allotted and issued 3,669,000 shares (December 31, 2022: 32,086,000 shares), to Futu Trustee Limited and Tricor Trust (Hong Kong) Limited ("**the Trustees**"), which will be issued to Participants upon the vest of the RSUs granted under 2021 RSU Scheme. Neither the Participants nor the Trustees may exercise any of the voting rights in respect of any shares held by the Trustees for the purpose of the 2021 RSU Scheme.

(Expressed in Renminbi)

34 EQUITY SETTLED SHARE-BASED TRANSACTIONS - *continued*

(a) The terms and conditions of the grants are as follows:

	Number of Restricted shares	Vesting condition	Price per restricted share RMB
Restricted shares granted to directors and employees:			
2021 RSU Scheme			
– on July 16, 2021	10,838,000	Graded vest of one third per year over three years from the date of grant and subject to performance conditions	Nil
– on November 1, 2021	8,712,000	Graded vest of one third on August 27, 2022, 2023 and 2024, respectively, and subject to performance conditions	Nil
– on December 23, 2021	11,841,000	Graded vest of one third per year over three years from the date of grant and subject to performance conditions	Nil
– on May 11, 2022	6,810,000	Graded vest of one third of 1,500,000 RSUs on January 17, 2023, 2024 and 2025, respectively, one third of 5,310,000 RSUs per year over three years from the date of grant and both subject to performance conditions	Nil
– on September 28, 2022	14,489,000	Graded vest of one half of 80,000 RSUs on May 11, 2023 and 2024, Graded vest of one third of 528,000 RSUs on May 11, 2023, 2024 and 2025, respectively, one third of 13,881,000 RSUs per year over three years from the date of grant and both subject to performance conditions	Nil
– on November 9, 2022	3,669,000	Cliff vest of 154,000 RSUs on November 9, 2023, Graded vest of one third of 3,515,000 RSUs on November 9, 2023, 2024 and 2025, and both subject to performance conditions	Nil
– on June 28, 2023	4,282,000	Cliff vest of 76,000 RSUs on June 28, 2024, Graded vest of one third of 4,206,000 RSUs on June 28, 2024, 2025 and 2026, and both subject to performance conditions	Nil

(Expressed in Renminbi)

34 EQUITY SETTLED SHARE-BASED TRANSACTIONS - *continued*

(b) A summary of restricted shares outstanding for the year ended December 31, 2023 and 2022:

	2023		2022	
	Weighted average grant-date fair value RMB	Number of restricted shares	Weighted average grant-date fair value RMB	Number of restricted shares
Balance at the beginning of the year	7.59	39,932,000	8.20	30,941,000
Grant during the year	6.67	4,282,000	7.04	24,968,000
Vested during the year	7.86	(11,786,371)	8.19	(9,480,583)
Forfeited during the year	7.50	(23,882,629)	7.48	(6,496,417)
Balance at the end of the year	7.00	8,545,000	7.59	39,932,000

(c) Fair value of restricted shares granted

The grant-date fair value of the restricted shares granted is measured at the market price of the Company's shares at the respective grant date.

Share-based payment expense of RMB12,119,000 (2022: RMB138,290,000) is recognized as staff costs in the consolidated statements of profit or loss for the year ended December 31, 2023.

35 CAPITAL, RESERVES AND DIVIDENDS

(a) Movement in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company		Reserves			
	Share capital RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at January 1, 2022	3,002,871	2,128,142	(203,664)	735,858	5,663,207
Changes in equity for 2022:					
Issue of shares for 2021 RSU scheme	–	–	–	–	–
Equity settled share-based transactions	–	138,290	–	–	138,290
Vesting of restricted shares	78,260	(78,260)	–	–	–
Appropriation of dividends	–	–	–	(391,296)	(391,296)
Profit and total comprehensive income for the year	–	–	430,207	(92,144)	338,063
Balance at December 31, 2022 and January 1, 2023	3,081,131	2,188,172	226,543	252,418	5,748,264
Changes in equity for 2023:					
Issue of shares for 2021 RSU scheme	–	–	–	–	–
Equity settled share-based transactions	–	12,119	–	–	12,119
Vesting of restricted shares	92,674	(92,674)	–	–	–
Purchase of own shares	–	–	–	(289,073)	(289,073)
Appropriation of dividends	–	–	–	(419,218)	(419,218)
Profit and total comprehensive income for the year	–	–	142,103	588,455	730,558
Balance at December 31, 2023	3,173,805	2,107,617	368,646	132,582	5,782,650

35 CAPITAL, RESERVES AND DIVIDENDS - *continued*

(b) Dividends

(i) Dividend payable to equity shareholders of the Company attribute to the year:

	2023 RMB'000	2022 RMB'000
Dividends proposed after the end of the reporting period of RMB0.16 per ordinary share (2022: RMB0.16 per ordinary share)	418,675	425,660
Less: Dividends for unvested shares under 2021 RSU scheme	(5,462)	(6,761)
	413,213	418,899

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial years, declared and approved during the year:

	2023 RMB'000	2022 RMB'000
Dividends in respect of previous financial years approved and paid during the year, of RMB0.16 per share (2022: RMB0.15 per share)	419,218	391,296

(Expressed in Renminbi)

35 CAPITAL, RESERVES AND DIVIDENDS - *continued*

(c) Share capital

(i) Issued share capital

	Note	Number of outstanding shares fully paid	Number of shares held for RSU scheme	Total
Ordinary shares, issued and fully paid:				
At January 1, 2022		2,608,641,618	19,649,000	2,628,290,618
Issues of ordinary shares under 2021 RSU Scheme	(a)	–	32,086,000	32,086,000
Vesting of restricted shares	(c)	9,480,583	(9,480,583)	–
At December 31, 2022 and January 1, 2023		2,618,122,201	42,254,417	2,660,376,618
Issues of ordinary shares under 2021 RSU Scheme	(b)	–	3,669,000	3,669,000
Purchase of own shares	(ii)	(47,323,000)	–	(47,323,000)
Vesting of restricted shares	(d)	11,786,371	(11,786,371)	–
At December 31, 2023		2,582,585,572	34,137,046	2,616,722,618

	Note	HKD
Ordinary shares, issued and fully paid:		
At January 1, 2022		3,474,779,512
Vesting of restricted shares	(c)	89,478,610
At December 31, 2022 and January 1, 2023		3,564,258,122
Vesting of restricted shares	(d)	101,869,282
At December 31, 2023		3,666,127,404

35 CAPITAL, RESERVES AND DIVIDENDS - *continued*

(c) Share capital - *continued*

(i) Issued share capital - continued

Notes:

(a) On January 10, 2022, May 25, 2022, and November 4, 2022, the Company allotted and issued 11,841,000 shares, 6,776,000 shares and 13,469,000 shares, respectively, to the Trustees for the purpose of the 2021 RSU Scheme (see Note 34).

(b) On May 10, 2023, the Company allotted and issued 3,669,000 shares to the Trustees for the purpose of the 2021 RSU Scheme (see Note 34).

(c) In 2022, a total of 9,480,583 restricted shares were vested under 2021 RSU Scheme, RMB78,260,000 (HKD equivalent 89,478,610) was transferred from the other reserve to the share capital account in accordance with policy set out in Note 2(r)(ii).

(d) In 2023, a total of 11,786,371 restricted shares were vested under 2021 RSU Scheme, RMB92,674,000 (HKD equivalent 101,869,282) was transferred from the other reserve to the share capital account in accordance with policy set out in Note 2(r)(ii).

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The holders of ordinary shares, except for the shares held by the Trustees, are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(Expressed in Renminbi)

35 CAPITAL, RESERVES AND DIVIDENDS - *continued*

(c) Share capital - *continued*

(ii) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/Year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price HKD
June 2023	7,043,000	7.77	7.20	53,079,460
September 2023	21,028,000	6.62	6.05	134,310,160
October 2023	14,375,000	6.82	5.92	91,606,080
November 2023	2,019,000	7.36	6.80	14,496,730
December 2023	2,858,000	7.15	6.24	18,963,990
Total	47,323,000			312,456,420
Equivalent to RMB				289,073,000

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased shares of HKD312,456,420 (RMB equivalent 289,073,000) was paid wholly out of retained profits.

As at December 31, 2023, 14,253,000 shares of repurchased shares were not cancelled yet and were subsequent cancelled on February 5, 2024.

(d) Nature and purpose of reserves

(i) Other reserve

Other reserve primarily represented: (i) the paid-in capital of Simcere Pharmaceutical and Hainan Simcere prior to the transactions in June and August 2017 respectively, during the course of the reorganization under common control; (ii) the difference between the carrying value of the net assets acquired and the consideration paid for the acquisition of subsidiaries and non-controlling interests prior to the January 1, 2017 and during the course of the reorganization under common control; (iii) the accumulated share based compensation for the unexercised share options, which were cancelled upon the privatization of the former holding company of the Group's substantial operating business, Excel Investments Group Limited (formerly known as Simcere Investments Group); (iv) the portion of the grant date fair value of restricted shares granted by Simcere Pharmaceutical Holding Limited ("SPHL") to the directors of the Company and employees of the Group; (v) the accumulated share based payments for the unvested restricted shares granted under 2021 RSU Scheme, which are expected to vest, that has been recognized in accordance with the accounting policy adopted for share-based payments in Note 2(r)(ii); and (vi) the differences between the consideration payable by the Group and the share capital of the entities acquired under common control.

35 CAPITAL, RESERVES AND DIVIDENDS - *continued*

(d) Nature and purpose of reserves - *continued*

(ii) PRC statutory reserve

Statutory reserve is established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC.

In accordance with the PRC Company Law, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory reserves until the reserves reach 50% of their respective registered capital. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance of the reserve after such conversion is not less than 25% of the entity's registered capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy as set out in Note 2(v).

(iv) Fair value reserves (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see Note 2(g)(ii)).

35 CAPITAL, RESERVES AND DIVIDENDS - *continued*

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintaining a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes bank loans and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

The Group's adjusted net debt to capital ratio are as follows:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Current liabilities:		
Bank loans	1,015,133	1,292,067
Lease liabilities	79,848	58,756
	1,094,981	1,350,823
Non-current liabilities:		
Bank loans	205,846	–
Lease liabilities	128,397	155,921
	334,243	155,921
Total debt	1,429,224	1,506,744
Add: Proposed dividends	413,213	418,899
Less: Cash and cash equivalents	(2,007,162)	(1,658,312)
Adjusted net (asset)/debt	(164,725)	267,331
Total equity	7,222,736	7,147,772
Less: Proposed dividends	(413,213)	(418,899)
Adjusted capital	6,809,523	6,728,873
Adjusted net debt to capital ratio	N/A	4.0%

36 CAPITAL COMMITMENTS

Capital commitments outstanding at the respective year end not provided for in the consolidated financial statements are as follows:

	2023 RMB'000	2022 RMB'000
Contracted for	586,333	281,749
Represented by:		
Construction of plant and buildings	571,872	209,634
Acquisition of machinery and equipment	14,461	72,115
	586,333	281,749

37 MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9 is as follows:

	2023 RMB'000	2022 RMB'000
Short-term employee benefits	32,266	71,104
Contributions to defined contribution retirement plans	558	745
Equity settled share-based payment expenses	(1,850)	34,098
	30,974	105,947

Total remuneration is included in "staff costs" (see Note 6(b)).

37 MATERIAL RELATED PARTY TRANSACTIONS - *continued*

(b) Names and relationships of the related parties that had other material transactions with the Group:

Name of related party	Relationship
Mr. Ren Jinsheng	Ultimate controlling shareholder of the Group
Beijing Simcere Sanroad Biological Products Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Yoai Technology Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
BioSciKin Precision Medical Holding Group Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Medway Culture Media Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing BioSciKin Asset Management Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Simcere Medical Diagnostics Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Beijing Simcere Medical Inspection Laboratory Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Hainan Vision Baihui Biotechnology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Jiangsu Xianhui Pharmaceutical Research and Development Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Simcere Medical Inspection Laboratory Co., Ltd.	Controlled by a close family member of the ultimate controlling shareholder of the Group
Shanghai Xianbo Biological Technology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Simcere Innovation Inc.	Controlled by the ultimate controlling shareholder of the Group
Nanjing Xuanwu Youai Clinic Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group
Xianwei (Hainan) Biotechnology Co., Ltd.	Controlled by the ultimate controlling shareholder of the Group

37 MATERIAL RELATED PARTY TRANSACTIONS - *continued*

(c) Other significant related party transactions

The Group had following transactions with related parties:

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Purchase of goods		
Jiangsu Yoai Technology Co., Ltd.	42	154
Purchase of services		
Beijing Simcere Medical Inspection Laboratory Co., Ltd.	148	–
Nanjing Medway Culture Media Co., Ltd.	2,646	1,318
Nanjing Simcere Medical Inspection Laboratory Co., Ltd.	1,302	1,453
Jiangsu Simcere Medical Diagnostics Co., Ltd.	14	–
Nanjing Xuanwu Youai Clinic Co., Ltd.	425	84
	4,535	2,855
Acquisition of interests in subsidiaries under common control		
Jiangsu Xianhui Pharmaceutical Research and Development Co., Ltd.	5,023	–
Sales of goods		
BioSciKin Precision Medical Holding Group Co., Ltd.	15	1
Beijing Simcere Sanroad Biological Products Co., Ltd.	–	4
	15	5

37 MATERIAL RELATED PARTY TRANSACTIONS - *continued*

(c) Other significant related party transactions - *continued*

	2023 RMB'000	2022 RMB'000 (restated) (Note 39)
Rendering of services		
Beijing Simcere Sanroad Biological Products Co., Ltd.	40	5
Jiangsu Simcere Medical Diagnostics Co., Ltd.	109	136
BioSciKin Precision Medical Holding Group Co., Ltd.	69	–
	218	141
Receiving rental, property management and other related services		
BioSciKin Precision Medical Holding Group Co., Ltd.	22,540	48,552
Nanjing BioSciKin Asset Management Co., Ltd.	2,478	2,400
	25,018	50,952
Providing rental, property management and other related services		
Xianwei (Hainan) Biotechnology Co., Ltd.	2,071	1,303
Beijing Simcere Sanroad Biological Products Co., Ltd.	246	–
Shanghai Xianbo Biological Technology Co., Ltd.	4,083	8,120
	6,400	9,423
Payments made on behalf of the Group		
Simcere Innovation Inc.	–	3,578
BioSciKin Precision Medical Holding Group Co., Ltd.	605	702
	605	4,280
Payments made on behalf of related parties		
Shanghai Xianbo Biological Technology Co., Ltd.	–	3,496
Jiangsu Xianhui Pharmaceutical Research and Development Co., Ltd.	–	1
	–	3,497

37 MATERIAL RELATED PARTY TRANSACTIONS - *continued*

(d) Significant related party balances

The Group had following trade in nature balances with related parties:

Trade in nature:	**2023 RMB'000**	2022 RMB'000 (restated) (Note 39)
Prepayments, deposits and other receivables		
Xianwei (Hainan) Biotechnology Co., Ltd.	–	1,003
Jiangsu Simcere Medical Diagnostics Co., Ltd.	48	22
Jiangsu Yoai Technology Co., Ltd.	–	124
Nanjing Medway Culture Media Co. Ltd.	25	–
Hainan Vision Baihui Biotechnology Co., Ltd.	–	50
Shanghai Xianbo Biological Technology Co., Ltd.	–	5,172
	73	6,371
Other payables and accruals		
Nanjing Simcere Medical Inspection Laboratory Co., Ltd.	–	384
Nanjing Xuanwu Youai Clinic Co., Ltd.	–	18
BioSciKin Precision Medical Holding Group Co., Ltd.	1,398	1,213
Jiangsu Yoai Technology Co., Ltd.	11	–
Jiangsu Xianhui Pharmaceutical Research and Development Co., Ltd.	5,023	–
Beijing Simcere Sanroad Biological Products Co., Ltd.	–	432
	6,432	2,047

The Group had following non-trade in nature balances with related parties:

Non-trade in nature:	**2023 RMB'000**	2022 RMB'000
Other payables:		
Simcere Innovation Inc.	–	3,578
Other receivables:		
Shanghai Xianbo Biological Technology Co., Ltd.	–	3,496

37 MATERIAL RELATED PARTY TRANSACTIONS - *continued*

(e) Leasing arrangements

In 2023, the Group newly entered into lease contracts with a related party in respect of leasehold property for research and development activities or office use, with lease term of two years. The monthly rental payment by the Group under these leases is RMB1,169,000, which was determined with reference to amounts charged by the related party to third parties. At the commencement date of the lease, the Group recognized a right-of-use asset and a lease liability of RMB24,425,000. As at December 31, 2023, the balance of right-of-use assets and lease liabilities for lease contracts with related parties amounted to RMB34,088,000 and RMB34,481,000, respectively.

In 2022, the Group newly entered into lease contracts with a related party in respect of leasehold property for research and development activities or office use, with lease term of three years. The monthly rental payment by the Group under these leases is RMB797,000, which was determined with reference to amounts charged by the related party to third parties. At the commencement date of the lease, the Group recognized a right-of-use asset and a lease liability of RMB27,566,000. As at December 31, 2022, the balance of right-of-use assets and lease liabilities for lease contracts with related parties amounted to RMB67,139,000 and RMB70,148,000, respectively.

(f) Applicability of the Listing Rules relating to connected transactions

The related party transactions during the year ended December 31, 2023 in respect of receiving rental, property management and other related services, providing rental, property management and other related services to Shanghai Xianbo Biological Technology Co., Ltd. and purchasing service from Jiangsu Simcere Medical Diagnostics Co., Ltd., Nanjing Simcere Medical Inspection Laboratory Co., Ltd. and Beijing Simcere Medical Inspection Laboratory Co., Ltd., constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section Continuing Connected Transactions of the Directors' Report.

The related party transactions in respect of acquisition of interests in subsidiaries under common control, purchasing of goods, sales of goods, purchasing service from Nanjing Medway Culture Media Co., Ltd. and Nanjing Xuanwu Youai Clinic Co., Ltd., providing rental, property management and other related services to Xianwei (Hainan) Biotechnology Co., Ltd and Beijing Simcere Sanroad Biological Products Co., Ltd., rendering of service, and payments made on behalf of the Group. Constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. However those continuing connected transactions are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1) or they are sharing of administrative services under Rule 14A.98.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and financial risk management policies and practices used by the Group to manage these risks are described below:

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents, pledged deposits, restricted deposits, time deposits and bills receivable is limited because the counterparties are reputable financial institutions with high credit standing, for which the Group considers to have low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2023, 1% (2022: 1%) of trade receivables were due from the Group's largest customer and 15% (2022: 15%) of trade receivables were due from the Group's five largest customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

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

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(a) Credit risk - *continued*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables at the end of each reporting period:

	At December 31, 2023		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current (not past due)	**0.3%**	**1,370,684**	**3,791**
Less than 3 months past due	**0.6%**	**543,447**	**3,260**
More than 3 months but less than 6 months past due	**7.1%**	**66,677**	**4,737**
More than 6 months but less than 9 months past due	**32.1%**	**5,847**	**1,875**
More than 9 months but less than 12 months past due	**92.6%**	**1,055**	**977**
More than 12 months past due	**100.0%**	**8,535**	**8,535**
		1,996,245	**23,175**

	At December 31, 2022		
	Expected loss rate %	Gross carrying amount RMB'000 (restated) (Note 39)	Loss allowance RMB'000 (restated) (Note 39)
Current (not past due)	0.6%	1,368,512	8,764
Less than 3 months past due	1.0%	482,705	4,946
More than 3 months but less than 6 months past due	1.4%	8,567	118
More than 6 months but less than 9 months past due	6.4%	1,448	92
More than 9 months but less than 12 months past due	83.0%	1,206	1,001
More than 12 months past due	95.0%	10,263	9,754
		1,872,701	24,675

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(a) Credit risk - *continued*

Movement in the loss allowance in respect of trade receivables is as follows:

	2023 RMB'000	2022 RMB'000
At the beginning of the year	24,675	38,188
Impairment loss reversed	(1,500)	(13,513)
At the end of the year	23,175	24,675

The following significant changes in the gross carrying amounts of trade receivables contributed to the change in the loss allowance:

- origination of new trade receivables net of those settled resulted in a decrease in loss allowance of RMB4,973,000 (2022: an increase of RMB612,000); and
- change in past due trade receivables resulted in an increase in loss allowance of RMB3,473,000 (2022: a decrease of RMB14,125,000).

Credit risk arising from loan to a third party

The loan to a third party are fully secured by machinery held by the third party. The maximum exposure to credit risk in respect of the loan at the end of the reporting period, without taking into account the collateral, and the key terms of the loans are disclosed in Note 20.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(b) Liquidity risk - *continued*

The following tables show the remaining contractual maturities at the end of each reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay:

	At December 31, 2023					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at December 31, 2023 RMB'000
Bank loans	1,034,100	198,814	2,117	6,783	1,241,814	1,220,979
Lease liabilities	86,332	56,914	61,636	17,044	221,926	208,245
Trade and bills payables	317,218	-	-	-	317,218	317,218
Other payables and accruals	1,229,812	-	-	-	1,229,812	1,229,812
	2,667,462	255,728	63,753	23,827	3,010,770	2,976,254

	At December 31, 2022 (restated)					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amount at December 31, 2022 RMB'000
Bank loans	1,298,619	-	-	-	1,298,619	1,292,067
Lease liabilities	64,396	61,195	89,013	16,654	231,258	214,677
Trade and bills payables	335,433	-	-	-	335,433	335,433
Other payables and accruals	1,269,800	-	-	-	1,269,800	1,269,800
	2,968,248	61,195	89,013	16,654	3,135,110	3,111,977

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from short-term and long-term borrowings and time deposits. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below:

(i) Interest rate profile

The following table details the interest rate profile of the Group's total borrowings and time deposits as at the end of each reporting period:

	2023		2022	
	Effective Interest rate %	Amount RMB'000	Effective Interest rate %	Amount RMB'000
Fixed rate financial instruments:				
Financial assets				
– Time deposits (current portion)	3.85%	11,137	1.55%~3.65%	964,226
– Time deposits (non-current portion)	2.90%	673	3.85%	10,752
– Loan to a third party	3.45%	100,326	–	–
Financial liabilities:				
– Bank loans	0.85%~2.70%	(1,220,979)	1.0%~2.73%	(1,193,067)
Total		(1,108,843)		(218,089)
Variable rate instruments:				
Financial liabilities:				
– Bank loans	–	–	LPR~0.9%	(99,000)
Total		–		(99,000)

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(c) Interest rate risk - *continued*

(ii) Sensitivity analysis

As the Group accounts for the above fixed rate financial instruments at amortized cost, change in interest rates would have no impact on the Group's financial statements. For the variable rate instruments, at December 31, 2023, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMBnil (2022: RMB841,000).

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualized impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis as 2022.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and borrowings which give rise to cash balances and bank loans that are denominated in a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily USD, EUR, GBP and RMB.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(d) Currency risk - *continued*

(i) Exposure to currency risk

The following table details the Group's exposure as at December 31, 2023 to currency risk arising from the recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purpose, the amounts of exposure are shown in RMB translated using the spot rate of the end of each reporting period. Differences resulting from the translation of the financial statements of the Group's subsidiaries with functional currency other than RMB into the Group's presentation currency are excluded.

	2023 RMB'000	2022 RMB'000
USD		
Cash and cash equivalents	20,800	229,311
Trade and other receivables	173	13,755
Trade and other payables	(159,483)	(199,321)
Net exposure	(138,510)	43,745

	2023 RMB'000	2022 RMB'000
EUR		
Cash and cash equivalents	25	23
Bank loans	–	(359,788)
Net exposure	25	(359,765)

	2023 RMB'000	2022 RMB'000
GBP		
Cash and cash equivalents	26,997	55
Trade and other receivables	14,064	–
Net exposure	41,061	55

	2023 RMB'000	2022 RMB'000
RMB		
Cash and cash equivalents	7,781	57,751
Time deposits	–	500,000
Trade and other receivables	–	78,596
Trade and other payables	(505,817)	(201,297)
Net exposure	(498,036)	435,050

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(d) Currency risk - *continued*

(ii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) that would arise if foreign exchange rates to which the Group has significant exposure at the end of each reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

	2023		2022	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
USD	5%	(5,427)	5%	609
	(5%)	5,427	(5%)	(609)
EUR	5%	1	5%	(14,545)
	(5%)	(1)	(5%)	14,545
GBP	5%	1,644	5%	–
	(5%)	(1,644)	(5%)	–
RMB	5%	(19,803)	5%	16,859
	(5%)	19,803	(5%)	(16,859)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group subsidiaries' profit after tax and equity measured in the respective functional currencies, and then translated into RMB at the exchange rate ruling at the end of each reporting period for presentation purpose.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of entities whose functional currency is not RMB. The analysis is performed on the same basis for 2022.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(e) Fair value measurement

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of each reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date;

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available;

— Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group has a team headed by the finance manager performing valuations for the financial instruments, including, unlisted investments and unlisted units in investment funds which are categorized into Level 3 of the fair value hierarchy. The team reports directly to the chief financial officer. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the chief financial officer. Discussion of the valuation process and results with the chief financial officer is held twice a year, to coincide with the reporting dates.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(e) Fair value measurement - *continued*

Fair value hierarchy - continued

	Fair value at December 31, 2023 RMB'000	Fair value measurement at December 31, 2023 categorized into Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	10,714	10,714	–	–
– Unlisted equity securities	163,553	–	163,553	–
Financial assets at FVPL				
– Listed equity security	159,540	159,540	–	–
– Unlisted investments	563,077	–	124,095	438,982
– Unlisted units in investment funds	531,714	–	–	531,714
Interest in associates	40,000	–	40,000	–

	Fair value at December 31, 2022 RMB'000	Fair value measurement at December 31, 2022 categorized into Level 1	Level 2	Level 3
Recurring fair value measurement				
Financial assets at FVOCI				
– Listed equity securities	23,414	23,414	–	–
– Unlisted equity securities	114,360	–	114,360	–
Financial assets at FVPL				
– Listed equity security	876,263	876,263	–	–
– Unlisted investments	517,555	–	293,176	224,379
– Unlisted units in investment funds	662,882	–	–	662,882

During the year ended December 31, 2023, there were no transfers between Level 1 and Level 2. During the year ended December 31, 2023, there were transfers of amount of RMB192,178,000 (2022: RMB174,532,000) from level 2 to level 3 due to significant unobservable inputs in 2023. During the year ended December 31, 2023, there were transfers of amount of RMB186,547,000 (2022: RMB6,797,000) from Level 3 to Level 2 due to the available recently comparable transaction not using significant unobservable inputs in 2023. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(Expressed in Renminbi)

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(e) Fair value measurement - *continued*

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of unlisted equity securities and certain unlisted investments in Level 2 is determined by recent comparable transaction price on the market. These investments were either acquired, re-invested by the Group recently or newly financed on the market.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Unlisted investments	Comparable transactions adjusted approach (Note i)	Changing trend of medium market multiples of comparable companies
Unlisted units in investment funds	Net asset value (Note ii)	Net asset value of underlying investments

Notes:

(i) The fair value of certain unlisted investments is determined using comparable transactions adjusted approach adjusted for changing trend of medium market multiples of comparable companies or medium market multiples of comparable companies. The fair value measurement is positively correlated to the changing trend of medium market multiples of comparable companies. As at December 31, 2023, it is estimated that with all other variables held constant, an increase/decrease in change of medium market multiples of comparable companies by 5% would have increased/decreased the Group's profit for the year by RMB24,921,000 (2022: RMB9,451,000).

(ii) The fair value of unlisted units in investment funds is determined referencing net asset value of underlying investments. The fair value measurement is positively correlated to net asset value of underlying investments. As at December 31, 2023, it is estimated that with all other variables held constant, an increase/decrease in net asset value of underlying investments by 5% would have increased/decreased the Group's profit for the year by RMB16,842,000 (2022: RMB27,116,000).

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(e) Fair value measurement - *continued*

Information about Level 3 fair value measurements - continued

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level 3 of the fair value hierarchy:

	At December 31, 2023 RMB'000	At December 31, 2022 RMB'000
Financial assets at FVPL		
At January 1	887,261	1,669,780
Net realized and unrealized losses on financial assets at fair value through profit or loss	(51,525)	(604,284)
Purchases	123,367	61,804
Sales and settlements	(3,162)	(52,728)
Exchange difference	9,124	68,895
Transfer into Level 1	–	(423,941)
Transfer into Level 2	(186,547)	(6,797)
Transfer from Level 2	192,178	174,532
At December 31	970,696	887,261

All financial instruments carried at cost or amortized cost are at amounts not materially different from their values as at December 31, 2023.

(f) Equity price risk

The Group is exposed to equity price changes arising from financial assets measured as FVPL or FVOCI (see Notes 18 and 19).

The Group's listed investments are listed on the NASDAQ or Hong Kong Stock Exchange. Their performance is assessed at least semi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

38 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS - *continued*

(f) Equity price risk - *continued*

As at December 31, 2023, it is estimated that an increase/(decrease) of 1% (2022: 1%) in the equity prices of the respective instruments, with all other variables held constant, would have increased/decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

		2023		2022	
		Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
Change in the equity price					
Increase	1%	1,332	91	7,317	199
Decrease	(1%)	(1,332)	(91)	(7,317)	(199)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2022.

39 BUSINESS COMBINATION UNDER COMMON CONTROL

As mentioned in Note 2(b) to these consolidated financial statements, the acquisition of Nanjing Jiayuantang Group has been accounted for in accordance with the principles of merger accounting.

The financial position previously reported by the Group as December 31, 2022 has been restated to include the assets and liabilities of the combining entities recognized at the carrying value based on the ultimate controlling party's financial statements as set out below:

	The Group RMB'000 (as previously reported)	Nanjing Jiayuantang Group RMB'000	Inter-company elimination RMB'000	The Group RMB'000 (as restated)
Non-current assets				
Property, plant and equipment	2,135,781	3,171	–	2,138,952
Intangible assets	379,896	–	–	379,896
Goodwill	172,788	–	–	172,788
Interest in associates	4,978	–	–	4,978
Interest in joint ventures	4,477	–	–	4,477
Prepayments, deposits and other receivables	97,470	–	–	97,470
Financial assets at fair value through other comprehensive income	137,774	–	–	137,774
Financial assets at fair value through profit or loss	2,056,700	–	–	2,056,700
Time deposits	10,752	–	–	10,752
Deferred tax assets	326,713	–	–	326,713
	5,327,329	3,171	–	5,330,500
Current assets				
Inventories	302,373	2,407	–	304,780
Trade and bills receivables	2,337,443	1,721	(334)	2,338,830
Prepayments, deposits and other receivables	165,698	162	–	165,860
Taxation recoverable	6,506	–	–	6,506
Pledged deposits	560	–	–	560
Restricted deposits	19,378	–	–	19,378
Time deposits	964,226	–	–	964,226
Cash and cash equivalents	1,657,600	712	–	1,658,312
	5,453,784	5,002	(334)	5,458,452

39 BUSINESS COMBINATION UNDER COMMON CONTROL - *continued*

	The Group RMB'000 (as previously reported)	Nanjing Jiayuantang Group RMB'000	Inter-company elimination RMB'000	The Group RMB'000 (as restated)
Current liabilities				
Bank loans	1,292,067	–	–	1,292,067
Lease liabilities	58,756	–	–	58,756
Trade and bills payables	334,444	989	–	335,433
Other payables and accruals	1,267,899	2,235	(334)	1,269,800
Taxation payable	10,562	–	–	10,562
	2,963,728	3,224	(334)	2,966,618
Net current assets	2,490,056	1,778	–	2,491,834
Total assets less current liabilities	7,817,385	4,949	–	7,822,334
Non-current liabilities				
Lease liabilities	155,921	–	–	155,921
Deferred income	403,350	–	–	403,350
Deferred tax liabilities	115,291	–	–	115,291
	674,562	–	–	674,562
NET ASSETS	7,142,823	4,949	–	7,147,772
CAPITAL AND RESERVES				
Share capital	3,081,131	9,730	(9,730)	3,081,131
Reserves	4,045,630	(4,781)	9,730	4,050,579
Total equity attributable to equity shareholders of the Company	7,126,761	4,949	–	7,131,710
Non-controlling interest	16,062	–	–	16,062
TOTAL EQUITY	7,142,823	4,949	–	7,147,772

39 BUSINESS COMBINATION UNDER COMMON CONTROL - *continued*

The financial performance previously reported by the Group for the year ended December 31, 2022 have been restated to include the operating results of the combining entities from the earliest date presented or since the date when combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination, as set out below:

	The Group RMB'000 (as previously reported)	Nanjing Jiayuantang Group RMB'000	Inter-company elimination RMB'000	The Group RMB'000 (as restated)
Revenue	6,319,096	6,318	(1,332)	6,324,082
Cost of sales	(1,322,246)	(6,375)	1,217	(1,327,404)
Gross profit	4,996,850	(57)	(115)	4,996,678
Other income	172,260	554	–	172,814
Other net gain	254,264	–	–	254,264
Research and development costs	(1,728,269)	(15)	1	(1,728,283)
Selling and distribution expenses	(2,402,371)	(503)	110	(2,402,764)
Administrative and other operating expenses	(444,201)	(1,879)	4	(446,076)
Reversal of impairment loss on trade and other receivables	13,972	–	–	13,972
Profit from operations	862,505	(1,900)	–	860,605
Finance income	59,867	–	–	59,867
Finance costs	(34,408)	–	–	(34,408)
Net finance income	25,459	–	–	25,459
Share of profits of associates	115	–	–	115
Share of profits of a joint venture	75	–	–	75
Profit before taxation	888,154	(1,900)	–	886,254
Income tax	40,478	–	–	40,478
Profit for the year	928,632	(1,900)	–	926,732

39 BUSINESS COMBINATION UNDER COMMON CONTROL - *continued*

	The Group RMB'000 (as previously reported)	Nanjing Jiayuantang Group RMB'000	Inter-company elimination RMB'000	The Group RMB'000 (as restated)
Attributable to:				
Equity shareholders of the Company	932,768	(1,900)	–	930,868
Non-controlling interest	(4,136)	–	–	(4,136)
Profit for the year	928,632	(1,900)	–	926,732
Earnings per share				
– Basic (RMB)	0.36			0.36
– Diluted (RMB)	0.36			0.36
Profit for the year	928,632	(1,900)	–	926,732
Other comprehensive income for the year (after tax)				
Item that will not be reclassified to profit or loss:				
Financial assets at fair value through other comprehensive income (FVOCI) - net movement in fair value reserves (non-recycling), net of tax	(156,346)	–	–	(156,346)
Exchange difference on translation of financial statements	176,813	–	–	176,813
Other comprehensive income for the year	20,467	–	–	20,467
Total comprehensive income for the year	949,099	(1,900)	–	947,199
Attributable to:				
Equity shareholders of the Company	953,235	(1,900)	–	951,335
Non-controlling interest	(4,136)	–	–	(4,136)
Total comprehensive income for the year	949,099	(1,900)	–	947,199

39 BUSINESS COMBINATION UNDER COMMON CONTROL - *continued*

The cash flows previously reported by the Group for the year ended December 31, 2022 have been restated to include the cash flows of the combining entities from the earliest date presented or since the date when combining entities first came under common control, where this is a shorter period, regardless of the date of the common control combination, as set out below:

	The Group RMB'000 (as previously reported)	Nanjing Jiayuantang Group RMB'000	Inter-company elimination RMB'000	The Group RMB'000 (as restated)
Net cash generated from operating activities	1,354,712	(613)	–	1,354,099
Net cash generated from investing activities	68,306	–	–	68,306
Net cash used in financing activities	(753,681)	–	–	(753,681)
Net increase in cash and cash equivalents	669,337	(613)	–	668,724
Cash and cash equivalents as at January 1, 2022	973,139	1,325	–	974,464
Effect of foreign exchange rate changes	15,124	–	–	15,124
Cash and cash equivalents as at December 31, 2022	1,657,600	712	–	1,658,312

40 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2023 RMB'000	2022 RMB'000
Non-current assets		
Property, plant and equipment	2,549	12
Interest in subsidiaries	5,001,014	3,953,928
Financial assets at fair value through profit or loss	541,977	1,400,451
	5,545,540	5,354,391
Current assets		
Other receivables	549	166
Amount due from subsidiaries	800,006	175,860
Loans to subsidiaries	16,759	14,179
Restricted deposits	10,232	–
Time deposits	–	512,506
Cash and cash equivalents	74,024	80,859
	901,570	783,570
Current liabilities		
Loans from subsidiaries	649,989	373,671
Other payables	4,054	5,609
Taxation payable	10,417	10,417
	664,460	389,697
Net current assets	237,110	393,873
Total assets less current liabilities	5,782,650	5,748,264
NET ASSETS	5,782,650	5,748,264

40 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION - *continued*

	2023 RMB'000	2022 RMB'000
CAPITAL AND RESERVES		
Share capital	**3,173,805**	3,081,131
Reserves	**2,608,845**	2,667,133
TOTAL EQUITY	**5,782,650**	5,748,264

Approved and authorised for issue by the board of directors on March 20, 2024.

Ren Jinsheng

Wan Yushan

Directors

41 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) On January 1, 2024, Simcere Biological, an indirectly wholly-owned subsidiary of the Group, entered into the equity transfer agreement with a related party Jiangsu Simcere Diagnostics Technology Co., Ltd., pursuant to which Simcere Biological has agreed to acquire, the entire equity interest in Nanjing BioSciKin Innovative Medical Technology Co., Ltd. ("**BioSciKin Innovative**") at a cash consideration of RMB42,306,500. BioSciKin Innovative is a limited liability company incorporated in the PRC and has no actual business operations. The major assets of BioSciKin Innovative include the land use right and pharmaceutical production facility. Upon the completion of the acquisition, BioSciKin Innovation became a subsidiary of the Group in January 31, 2024.

(b) On February 24, 2024, the Company, Simcere Shandong, Hainan Simcere, Simcere Zaiming and certain third party investors entered into a capital contribution agreement for Simcere Zaiming. Pursuant to the agreement, the investors have conditionally agreed to make capital contribution, by way of cash, to Simcere Zaiming in the aggregate amount of RMB970 million in return for approximately 11.45% of the enlarged issued share capital of Simcere Zaiming in aggregate.

(c) After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in Note 35(b).

42 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2023, the directors of the Company consider the immediate parent of the Group is SPHL, a company incorporated in Cayman Islands. The ultimate controlling party of the Group is Mr. Ren Jinsheng, Chairman of the Group. SPHL does not produce financial statements available for public use.

(Expressed in Renminbi)

43 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED DECEMBER 31, 2023

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standard, which are not yet effective for the year ended December 31, 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")*	January 1, 2024
Amendments to HKAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")*	January 1, 2024
Amendments to HKFRS 16, *Leases: Lease liability in a sale and leaseback*	January 1, 2024
Amendments to HKAS 7, *Statement of cash flows and HKFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements*	January 1, 2024
Amendments to HKAS 21, *The effects of changes in foreign exchange rates: Lack of exchangeability*	January 1, 2025

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

RESULTS

	2023 RMB'000	2022 RMB'000 (restated)	2021 RMB'000 (restated)	2020 RMB'000 (restated)	2019 RMB'000 (restated)
Revenue	**6,607,805**	6,324,082	5,006,643	4,519,650	5,038,323
Gross Profit	**4,984,153**	4,996,678	3,921,503	3,611,614	4,148,265
Research and development costs	**(1,563,138)**	(1,728,283)	(1,416,746)	(1,141,996)	(716,412)
Profit before taxation	**740,038**	886,254	1,401,125	805,212	1,079,482
Profit for the year	**713,950**	926,732	1,498,249	664,411	1,001,291
Profit attributable to equity shareholders of the Company	**714,761**	930,868	1,506,424	669,658	1,001,291

ASSETS AND LIABILITIES

	2023 RMB'000	2022 RMB'000 (restated)	2021 RMB'000 (restated)	2020 RMB'000 (restated)	2019 RMB'000 (restated)
Non-current assets	**5,214,723**	5,330,500	5,185,484	4,481,186	3,873,169
Current assets	**5,638,944**	5,458,452	4,984,493	6,471,040	2,900,665
Total assets	**10,853,667**	10,788,952	10,169,977	10,952,226	6,773,834
Non-current liabilities	**(945,031)**	(674,562)	(634,623)	(2,110,525)	(1,857,901)
Current liabilities	**(2,685,900)**	(2,966,618)	(3,065,748)	(3,498,455)	(3,437,802)
Total liabilities	**(3,630,931)**	(3,641,180)	(3,700,371)	(5,608,980)	(5,295,703)
Total equity	**(7,222,736)**	(7,147,772)	(6,469,606)	(5,343,246)	(1,478,131)

As set out in note 2(B) to the financial statements, Simcere Pharmaceutical Group Limited and its subsidiaries has applied AG5 to account for business combination under common control in current year and retrospective adjustments have been made.