

The following is the text of a report set out on pages I-1 to I-[56], received from the Company’s reporting accountants Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



ACCOUNTANTS’ REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SUNHO BIOLOGICS, INC. (盛禾生物控股有限公司) AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Sunho Biologics, Inc. (盛禾生物控股有限公司) (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages I-[4] to I-[56], which comprises the consolidated statements of financial position of the Group as at December 31, 2022 and 2023, the statements of financial position of the Company as at December 31, 2022 and 2023 and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the two years ended December 31, 2023 (the “Track Record Period”) and material accounting policy information and other explanatory information (together, the “Historical Financial Information”). The Historical Financial Information set out on pages I-[4] to I-[56] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [Date] (the “Document”) in connection with the initial [REDACTED] of shares of the Company on the [REDACTED] of [REDACTED].

Directors’ responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

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

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's and the Company's financial position as at December 31, 2022 and 2023, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in note 2 to the Historical Financial Information.

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

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-[4] have been made.

Dividends

We refer to note 15 to the Historical Financial Information which states that no dividend was declared or paid by the Company in respect of the Track Record Period.

[Deloitte Touche Tohmatsu]

Certified Public Accountants

Hong Kong

[Date]

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards (“IFRSs”) issued by International Accounting Standards Board (“IASB”) and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (“Underlying Financial Statements”).

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

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<i>Notes</i>	Year ended December 31,	
		2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>
Other income	7A	13,795	21,005
Other expenses	7B	(1,258)	(70)
Other gains and losses, net	8	97	(49,615)
Research and development expenses	10	(53,171)	(43,041)
Administrative expenses		(5,558)	(40,701)
[REDACTED]		[REDACTED]	[REDACTED]
Finance costs	9	<u>(5,074)</u>	<u>(692)</u>
Loss before tax	11	(51,988)	(132,701)
Income tax expense	12	<u>—</u>	<u>—</u>
Loss and total comprehensive expense for the year		<u>(51,988)</u>	<u>(132,701)</u>
Loss per share			
– Basic and diluted (RMB)	14	<u>(0.57)</u>	<u>(1.43)</u>

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	<i>Notes</i>	As at December 31,	
		2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>
Non-current assets			
Property and equipment	<i>16</i>	45,500	41,119
Right-of-use assets	<i>18</i>	551	9,587
Intangible asset	<i>17</i>	10,000	10,000
Prepayments for acquisition of equipment		178	103
Refundable fulfillment deposits	<i>21</i>	–	2,500
		<u>56,229</u>	<u>63,309</u>
Current assets			
Inventories	<i>22</i>	881	818
Deposits, prepayments and other receivables	<i>21</i>	11,613	16,256
Amounts due from shareholders	<i>23</i>	317	–
Other financial assets	<i>24</i>	–	49,579
Time deposits	<i>25</i>	–	35,414
Cash and cash equivalents	<i>25</i>	1,821	125,074
		<u>14,632</u>	<u>227,141</u>
Current liabilities			
Trade and other payables	<i>26</i>	8,779	73,960
Amounts due to a related party	<i>23</i>	57,375	–
Lease liabilities	<i>27</i>	–	2,178
Financial liabilities at fair value through profit or loss (“FVTPL”)	<i>28</i>	–	311,525
		<u>66,154</u>	<u>387,663</u>
Net current liabilities		<u>(51,522)</u>	<u>(160,522)</u>
Total assets less current liabilities		<u>4,707</u>	<u>(97,213)</u>
Non-current liabilities			
Lease liabilities	<i>27</i>	–	6,896
Amounts due to a related party	<i>23</i>	6,206	–
		<u>6,206</u>	<u>6,896</u>
Net liabilities		<u>(1,499)</u>	<u>(104,109)</u>
Capital and reserves			
Share capital	<i>29A</i>	322	322
Treasury stock	<i>29A</i>	(29)	(19)
Reserves		(1,792)	(104,412)
Total deficit		<u>(1,499)</u>	<u>(104,109)</u>

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STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

		As at December 31,	
	<i>Notes</i>	2022	2023
		<i>RMB’000</i>	<i>RMB’000</i>
Non-current asset			
Investment in a subsidiary	20	10,339	192,037
		<u>10,339</u>	<u>192,037</u>
Current assets			
Deposits, prepayments and other receivables	21	1,192	6,356
Amounts due from shareholders	23	346	–
Time deposits	25	–	35,414
Cash and cash equivalents	25	–	72,854
		<u>1,538</u>	<u>114,624</u>
Current liabilities			
Other payables	26	186	6,284
Amounts due to a subsidiary	23	1,825	16,012
Financial liabilities at FVTPL	28	–	311,525
		<u>2,011</u>	<u>333,821</u>
Net current liabilities		<u>(473)</u>	<u>(219,197)</u>
Total assets less current liabilities		<u>9,866</u>	<u>(27,160)</u>
Net assets (liabilities)		<u><u>9,866</u></u>	<u><u>(27,160)</u></u>
Capital and reserves			
Share capital	29A	322	322
Reserves	29B	9,544	(27,482)
Total equity (deficit)		<u><u>9,866</u></u>	<u><u>(27,160)</u></u>

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Reserves					Total RMB’000
	Share capital RMB’000	Treasury stock RMB’000	Capital reserve RMB’000	Share-based payment reserve RMB’000	Accumulated losses RMB’000	
As at January 1, 2022	322	(29)	8,940	2,644	(143,427)	(131,550)
Loss and total comprehensive expense for the year	–	–	–	–	(51,988)	(51,988)
Recognition of equity-settled share-based payments expenses (note 30)	–	–	–	2,039	–	2,039
Reclassification of vested equity-settled share-based payments	–	–	2,720	(2,720)	–	–
Loan waived by Nanjing Bode Biological Pharmaceutical Co., Ltd * (南京博德生物 製藥有限公司) (“Nanjing Bode”) (note 23(b)(i))	–	–	180,000	–	–	180,000

* English name for identification purpose only

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	Reserves					Total RMB'000
	Share capital RMB'000	Treasury stock RMB'000	Capital reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	
As at December 31, 2022	322	(29)	191,660	1,963	(195,415)	(1,499)
Loss and total comprehensive expense for the year	-	-	-	-	(132,701)	(132,701)
Recognition of equity-settled share-based payments expenses (note 30)	-	-	-	30,081	-	30,081
Reclassification of vested equity-settled share-based payments	-	10	32,044	(32,044)	-	10
As at December 31, 2023	322	(19)	223,704	-	(328,116)	(104,109)

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
OPERATING ACTIVITIES		
Loss before tax	(51,988)	(132,701)
Adjustments for:		
Finance costs	5,074	692
Interest income	(15)	(3,471)
Net foreign exchange (gain) loss	(27)	8,290
Share-based payment expenses	2,039	30,081
Realized gain on other financial assets at FVTPL	(62)	–
Loss from changes in fair value of financial liabilities at FVTPL	–	41,345
Depreciation of property and equipment	6,602	6,402
Depreciation of right-of-use assets	2,206	2,238
	<u> </u>	<u> </u>
Operating cash flow before movements in working capital	(36,171)	(47,124)
Decrease in inventories	292	63
Decrease (increase) in deposits, prepayments and other receivables	2,740	(2,923)
(Decrease) increase in trade and other payables	(1,447)	9,331
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(34,586)</u>	<u>(40,653)</u>
INVESTING ACTIVITIES		
Interest received from banks	15	2,742
Acquisition of property and equipment	(1,439)	(1,030)
Acquisition of intangible asset	–	–
Purchase of financial assets at FVTPL	(17,500)	–
Purchase of other financial assets	–	(49,701)
Redemption of financial assets at FVTPL	17,562	–
Placement of time deposits with maturity of more than three months	–	(35,899)
	<u> </u>	<u> </u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,362)</u>	<u>(83,888)</u>

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	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
FINANCING ACTIVITIES		
Borrowings from Nanjing Bode	42,700	23,000
Repayments to Nanjing Bode	(15,140)	(34,515)
Proceeds from issuance of shares by the Company	–	270,517
Payment of lease liabilities	–	(23)
[REDACTED] paid	<u>[REDACTED]</u>	<u>[REDACTED]</u>
 NET CASH FROM FINANCING ACTIVITIES	 <u>27,104</u>	 <u>255,497</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (8,844)	 130,956
 CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	 10,665	 1,821
 Effect of foreign exchange rate changes	 <u>–</u>	 <u>(7,703)</u>
 CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	 <u><u>1,821</u></u>	 <u><u>125,074</u></u>

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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company registered under the Company Laws of the Cayman Islands on May 14, 2021. The addresses of the registered office and principal place of business of the Company are disclosed in the section “Corporate Information” of the Document.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are mainly committed to the develop regulate immune microenvironment by directly modulating both the innate and adaptive immune systems. Particulars and principal activities of the subsidiaries are disclosed in note 36.

The immediate and ultimate parent of the Company is Sunho Wisdom Investments Limited (“Sunho Wisdom”), which is incorporated in the British Virgin Islands (the “BVI”) with limited liability, and wholly owned and controlled by Mr. Zhang Feng (“Mr. Zhang”).

The functional currency of the Company is RMB, which is the same as the presentation currency of the Historical Financial Information.

2. BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared based on the accounting policies which conform with IFRSs issued by the IASB.

In preparing the Historical Financial Information, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that as at December 31, 2023, its current liabilities exceeded its current assets by approximately RMB[160,522,000], its liabilities exceeded its assets by approximately RMB[104,109,000] and capital commitments of approximately RMB16,110,000 (note 32). Taking into account of conversion of Series A Preferred Shares (defined in note 28) into ordinary shares upon [REDACTED], such that immediately after the conversion, the Group will no longer in net liability position. In addition, considering the Group’s historical performance and management’s operating and financing plans, the directors believe that the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due for not less than next twelve months after December 31, 2023. Consequently, the Historical Financial Information has been prepared on a going concern basis, which contemplates the realisation of assets and settlement of liabilities in the normal course of business.

No audited statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies which conform with IFRSs, which are effective for the accounting period beginning on January 1, 2023 throughout the Track Record Period.

New and amendments to IFRSs in issue but not yet effective

At the date of this report, the following new and amendments to IFRSs have been issued which are not yet effective:

Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback ²
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ²
Amendments to IAS 1	Non-current Liabilities with Covenants ²
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ²
Amendments to IAS 21	Lack of Exchangeability ³
IFRS 18	Presentation and Disclosure in Financial Statements ⁴

¹ Effective for annual periods beginning on or after a date to be determined.

² Effective for annual periods beginning on or after January 1, 2024.

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³ Effective for annual periods beginning on or after January 1, 2025.

⁴ Effective for annual periods beginning on or after January 1, 2027.

The directors of the Company anticipate that the application of these new and amendments to IFRSs will have no material impact on the Historical Financial Information in the foreseeable future.

4. MATERIAL ACCOUNTING POLICY INFORMATION

The Historical Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of the Historical Financial Information, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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

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

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

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

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Financial assets

Classification and subsequent measurement of financial assets

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

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

All other financial assets the Group hold are subsequently measured at FVTPL.

(i) Amortized cost and interest income

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

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or fair value through other comprehensive income (“FVTOCI”) or designated as FVTOCI are measured at FVTPL.

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

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including other financial assets, amounts due from shareholders, other receivables and refundable fulfillment deposits which are subject to impairment assessment under IFRS 9). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

For all the financial assets, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL.

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

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

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The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of financial assets at amortized cost, amounts due from shareholders, other receivables and refundable fulfillment deposits where the corresponding adjustment is recognized through a loss allowance account.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the ‘Other gains and losses, net’ line item (note 8) as part of the net foreign exchange (losses) gains.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the assets expire.

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

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to financial liability’s credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to accumulated losses upon derecognition of the financial liability.

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Financial liabilities at amortized cost

Financial liabilities including trade and other payables, amounts due to a related party and amounts due to a subsidiary are subsequently measured at amortized cost, using the effective interest method.

Foreign exchange gains and losses

The carrying amount of financial liabilities that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the "Other gains and losses" line item (note 8) as part of the net foreign exchange (losses) gains.

Derecognition of financial liabilities

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives, which are acquired separately, are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives when the assets are available for use. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internally-generated intangible assets – research and development expenditure

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

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

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

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

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

Employee benefits

Retirement benefit costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its staff’s wages as contributions to the plans. Payments to such retirement benefit schemes are recognized as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

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

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

Share-based payments

Equity-settled share-based payment transactions

Restricted share units (“RSU”) granted to employees and other share incentive plan

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

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

When RSU are vested, the amount previously recognized in share-based payments reserve will be transferred to capital reserve.

Shares granted to non-employees

Equity-settled share-based payments transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

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Leases

Definition of a lease

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

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

The Group as a lessee

Allocation of consideration to components of a contract

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

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases

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

Right-of-use assets

The cost of right-of-use assets includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

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

Refundable rental deposits

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

Lease liabilities

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

The lease payments are fixed payments (including in-substance fixed payments) less any lease incentives receivable.

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

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

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

Lease modifications

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

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

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

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

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

Property and equipment

Property and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes other than construction in progress as described below are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties and equipment in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets are functioning properly and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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Impairment on property and equipment, right-of-use assets and intangible assets

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

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognized in profit or loss in the period in which they are incurred.

Government grants

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

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

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

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Inventories

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

Cash and cash equivalents

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

- (a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and
- (b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability and it is not recognized in the Historical Financial Information.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the Historical Financial Information in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

Taxation

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

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary difference.

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the lease liabilities, and the related assets separately. The Group recognizes a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized and a deferred tax liability for all taxable temporary differences.

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

Current and deferred tax are recognized in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going 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.

Critical judgments in applying accounting policies

The following is the critical judgment, that the directors of the Company have made in the process of applying the Group's accounting policies and that has the most significant effect on the amounts recognized in the Historical Financial Information.

Research and development expenses

Development expenses incurred on the Group's drug product pipelines are capitalized and deferred only when the Group can demonstrate (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the Group's intention to complete and the Group's ability to use or sell the asset; (iii) how the asset will generate future economic benefits; (iv) the availability of resources to complete the pipeline; and (v) the ability to measure reliably the expenditure during the development. Research and development expenses which do not meet these criteria are expensed when incurred. Management assesses the progress of each of the research and development projects and determine whether the criteria are met for capitalization. During the Track Record Period, all research and development costs are expensed when incurred.

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Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting periods, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the coming twelve months, are described below.

Fair value of other financial liabilities

The Company has issued several series of financial liabilities to certain investors in 2023 as set out in Note 28. The financial liabilities at FVTPL are measured at fair value for which no quoted prices in an active market exist. The fair value of the financial liabilities at FVTPL is established by using valuation techniques, which include discounted cash flows (“DCF”) method and equity allocation model involving various parameters and inputs. Valuation techniques are certified by an independent qualified professional valuer before being implemented for valuation and are calibrated to ensure that outputs reflect market conditions. However, some inputs, such as volatility, possibilities under different scenarios such as [REDACTED] and liquidation, discount rate, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions changed, it may lead to a change in the fair value of the financial liabilities at FVTPL which may be charged into profit or loss. The fair value of the financial liabilities at FVTPL of the Group as at December 31, 2022 and 2023 are nil and RMB311,525,000 respectively.

Useful lives of property and equipment

The management of the Group determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property and equipment. This estimate is reference to the useful lives of property and equipment of similar nature and functions in the industry. Management will increase the depreciation charge where useful lives are expected to be shorter than expected or will write off or write down obsolete assets that have been abandoned or sold.

6. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (“CODM”), which is also identified as the chief executive officer of the Group, in order to allocate resources and to assess the performance.

During the Trade Record Period, the CODM reviews the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single segment and no further analysis of the single segment is presented.

Geographical information

The Group has not generated any revenue during the Track Record Period.

As at December 31, 2022 and 2023, all non-current assets are located in the People’s Republic of China (“PRC”).

7A. OTHER INCOME

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Relocation incentive (<i>note i</i>)	11,930	–
Government grants (<i>note ii</i>)	119	17,326
Sales income from contract manufacturing services (<i>note iii</i>)	1,731	208
Interest income from financial institutions	15	3,471
	13,795	21,005
	13,795	21,005

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Notes:

- i. The amount represents incentive received from Nanjing Economic Development Zone Management Committee* (南京經濟技術開發區管理委員會) as incentive for the Group’s relocation. The incentive was conditional and was recognized when condition met.
- ii. The amount represents subsidies granted by the PRC local government authorities as incentives for the Group’s research and development activities. The government grants including unconditional and conditional, and had been approved by the PRC local government authorities. The unconditional government grants are recognized when payments were received. The conditional government grants are recognized when condition met and the corresponding grants are received.
- iii. Contract manufacturing services income was primarily related to production and sales of clinical samples on contract manufacturing basis under customer’s specific order. It is recognized when the goods have been delivered, which is the point of time being when the goods are accepted by customers. The credit term is 5 to 15 days upon delivered. The Group applies the practical expedient of not disclosing the transaction price allocated to performance obligations that were unsatisfied in respect of contract manufacturing services income as the related contracts have an original expected duration of less than one year.

* English name for identification purpose only

7B. OTHER EXPENSES

The amount represented the raw materials, labor costs, depreciation and other production costs attributable to contract manufacturing services.

8. OTHER GAINS AND LOSSES, NET

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Realized gain on other financial assets measured at FVTPL	62	–
Loss from fair value change of financial liabilities at FVTPL	–	(41,345)
Net foreign exchange gains (losses)	27	(8,290)
Others	8	20
	97	(49,615)
	97	(49,615)

9. FINANCE COSTS

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Interest expenses on borrowing from Nanjing Bode	5,055	491
Interest expenses on lease liabilities	19	201
	5,074	692
	5,074	692

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10. RESEARCH AND DEVELOPMENT EXPENSES

	Year ended December 31,	
	2022	2023
	RMB’000	RMB’000
Contract research expenses	19,273	11,263
Staff costs	16,089	15,231
Materials consumed	4,317	3,239
Depreciation and amortization expenses	7,694	8,005
Share-based compensation	2,039	756
Application fees	1,330	1,180
Others	2,429	3,367
	<u>53,171</u>	<u>43,041</u>

11. LOSS BEFORE TAX

	Year ended December 31,	
	2022	2023
	RMB’000	RMB’000
Loss before tax for the year has been arrived at after charging:		
Depreciation of property and equipment	6,602	6,402
Depreciation of right-of-use assets	2,206	2,238
	<u>8,808</u>	<u>8,640</u>
Auditors’ remuneration	–	2,573
[REDACTED]	[REDACTED]	[REDACTED]
Directors’ emoluments (note 13(a))	4,159	32,032
Other staff costs:		
– salaries and other benefits	15,343	14,930
– retirement benefit scheme contributions	1,263	1,240
– share-based payments	–	–
	<u>20,765</u>	<u>48,202</u>

12. INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands and Sunho bio Investments was incorporated in the BVI that are tax exempted.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the Track Record Period.

No Hong Kong profits tax was provided as there was no assessable profit that was subjected to Hong Kong Profits Tax during the Track Record Period.

Pursuant to Caishui 2018 circular No. 99, Caishui 2022 circular No. 28 and Caishui 2023 circular No. 7, 盛禾(中國)生物製藥有限公司 Sunho (China) Biopharmaceutical Co., Ltd.* (“Sunho (China) Biopharmaceutical”) enjoyed super deduction of 175% on qualified research and development expenditures for the nine months ended September 30, 2022. In addition, Sunho (China) Biopharmaceutical enjoyed super deduction of 200% on qualified research and development expenditures during the three months from October 1, 2022 to December 31, 2022 and the year ended December 31, 2023.

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The income tax expense for the Track Record Period can be reconciled to the loss before tax per the consolidated statements of profit or loss and other comprehensive expense as follows:

	Year ended December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Loss before tax	(51,988)	(132,701)
Tax at the applicable PRC income tax rate of 25%	(12,997)	(33,175)
Tax effect of expenses that are not deductible for tax purpose	762	24,166
Tax effect of deductible temporary differences not recognized	1,799	613
Utilization of deductible temporary differences previously not recognized	(1,324)	(2,212)
Tax effect of additional deductible research and development expenses	(9,771)	(9,686)
Tax effect of tax losses not recognized	–	20,294
Tax effect of loan waived by Nanjing Bode that is regarded as taxable income (<i>note 23(b)(i)</i>)	45,000	–
Utilization of tax losses previously not recognized	(23,469)	–
Income tax expense	<u>–</u>	<u>–</u>

As at December 31, 2022 and 2023, the Group has unused tax losses of approximately RMB93,183,000 and RMB174,358,000 respectively. No deferred tax asset has been recognized in respect of the tax losses due to the unpredictability of future profit streams.

As at December 31, 2022 and 2023, the Group has deductible temporary differences of approximately RMB7,330,000 and RMB934,000, respectively. No deferred tax asset has been recognized in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The unused tax losses will be carried forward and expire in years as follows:

	At December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
2023	–	–
2024	–	–
2025	–	–
2026	93,183	93,183
2027	–*	–*
2028	–	81,175
	<u>93,183</u>	<u>174,358</u>

* Amount less than RMB1,000

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13. DIRECTORS’ AND CHIEF EXECUTIVE OFFICER’S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments paid or payable to the individuals who were appointed as directors and the chief executive officer (“CEO”) of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) during the Track Record Period are as follows:

(a) Executive and non-executive directors

	Date of appointment	Director’s fee RMB’000	Salaries and other benefits RMB’000	Retirement benefit scheme contributions RMB’000	Discretionary bonus RMB’000	Share-based payments RMB’000	Total RMB’000
For the year ended December 31, 2022							
<i>Executive directors:</i>							
	Mr. Zhang	May 14, 2021	–	–	–	–	–
	Dr. Yin	July 21, 2023	–	1,501	38	2,039	3,578
	Ms. Jiang Xiaoling	July 21, 2023	–	299	8	274	581
<i>Non-executive director:</i>							
	Mr. Fan Rongkui	July 21, 2023	–	–	–	–	–
<i>Independent non-executive directors:</i>							
	Mr. Chan Heung Wing Anthony	(note vi)	–	–	–	–	–
	Ms. Feng Lan	(note vi)	–	–	–	–	–
	Mr. Shi Luwen	(note vi)	–	–	–	–	–
			–	1,800	46	274	2,039
							4,159

	Date of appointment	Director’s fee RMB’000	Salaries and other benefits RMB’000	Retirement benefit scheme contributions RMB’000	Discretionary bonus RMB’000	Share-based payments RMB’000	Total RMB’000
For the year ended December 31, 2023							
<i>Executive directors:</i>							
	Mr. Zhang	May 14, 2021	–	–	–	29,325	29,325
	Dr. Yin	July 21, 2023	–	1,498	38	756	2,292
	Ms. Jiang Xiaoling	July 21, 2023	–	297	9	109	415
<i>Non-executive director:</i>							
	Mr. Fan Rongkui	July 21, 2023	–	–	–	–	–
<i>Independent non-executive directors:</i>							
	Mr. Chan Heung Wing Anthony	(note vi)	–	–	–	–	–
	Ms. Feng Lan	(note vi)	–	–	–	–	–
	Mr. Shi Luwen	(note vi)	–	–	–	–	–
			–	1,795	47	109	30,081
							32,032

Notes:

- i. None of the directors of the Company waived or agreed to waive any emoluments during the Track Record Period.
- ii. The executive directors’ emoluments shown above were for their services in connection with the management of the affairs of the Group and the Company, respectively.

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- iii. The discretionary bonuses were determined with reference to their duties and responsibilities of the relevant individuals within the Group and the Group’s performance.
- iv. Dr. Yin was appointed as CEO of the Company on July 22, 2023.
- v. Dr. Yin and Mr. Zhang were granted RSU, in respect of their service and contribution to the Group. Details of the Employee Share Incentive Plan are set out in note 30 to the Historical Financial Information.
- vi. The appointment of independent non-executive directors will be effective from the date of [REDACTED].

(b) Five highest paid employees

The five highest paid employees of the Group during the years ended December 31, 2022 and 2023 included two and two directors, respectively, details of whose remuneration are set out above. Details of the remuneration for the remaining three, three and three highest paid employees for the years ended December 31, 2022 and 2023, respectively, are as follows:

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Salaries and other benefits	619	717
Discretionary bonus	356	805
Retirement benefit scheme contributions	48	38
	1,023	1,560
	1,023	1,560

The emoluments of these employees (including the directors) are within the following bands:

	Number of individuals	
	Year ended December 31,	
	2022	2023
Hong Kong Dollars (“HK\$”)		
1 to HK\$500,000	3	1
HK\$500,001 to HK\$1,000,000	1	2
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$32,500,001 to HK\$33,000,000	–	1
	5	5
	5	5

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

(c) Transactions, arrangements or contracts in which directors of the Company have material interests

Save as disclosed in note 23 and note 31, no significant transactions, arrangements and contracts in relation to the Group’s business to which the Group was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Track Record Period or at any time during the Track Record Period.

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14. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	Year ended December 31,	
	2022	2023
Loss for the year (RMB’000)		
Loss for the year attributable to the owners of the Company for the purpose of calculating basic and diluted loss per share	<u>(51,988)</u>	<u>(132,701)</u>
Number of shares (’000)		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	<u>91,000</u>	<u>92,882</u>

The basic loss per share is calculated based on the loss attributable to the owners of the Company and the weighted average number of ordinary shares excluded shares of treasury stock under the employee incentive schemes (note 29A) on the assumption that the subdivision of each Shares with a par value of US\$1.00 in the Company into 2,000 Shares with a par value of US\$0.0005 each (“Share Subdivision”) has been effective on January 1, 2022.

No diluted loss per share for the year ended December 31, 2022 was presented as there were no potential ordinary shares in issue for this year.

The computation of diluted loss per share for the year ended December 31, 2023 does not assume the conversion of the Series A Preferred Shares (as defined in note 28) and the vesting of share-based awards granted to employees (note 30) since their assumed conversion or vesting would result in a decrease in loss per share.

15. DIVIDENDS

No dividend was declared or paid by the Company during the Track Record Period.

16. PROPERTY AND EQUIPMENT

The Group

	Machinery and equipment RMB’000	Furniture and office equipment RMB’000	Leasehold improvements RMB’000	Construction in progress RMB’000	Total RMB’000
COST					
As at January 1, 2022	51,730	797	489	721	53,737
Additions	<u>167</u>	<u>11</u>	<u>–</u>	<u>2,107</u>	<u>2,285</u>
As at December 31, 2022	51,897	808	489	2,828	56,022
Additions	1,867	12	–	142	2,021
Transfers	<u>1,922</u>	<u>–</u>	<u>–</u>	<u>(1,922)</u>	<u>–</u>
As at December 31, 2023	<u>55,686</u>	<u>820</u>	<u>489</u>	<u>1,048</u>	<u>58,043</u>

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	Machinery and equipment <i>RMB’000</i>	Furniture and office equipment <i>RMB’000</i>	Leasehold improvements <i>RMB’000</i>	Construction in progress <i>RMB’000</i>	Total <i>RMB’000</i>
DEPRECIATION					
As at January 1, 2022	3,675	227	18	–	3,920
Provided for the year	6,404	103	95	–	6,602
As at December 31, 2022	10,079	330	113	–	10,522
Provided for the year	6,207	100	95	–	6,402
As at December 31, 2023	16,286	430	208	–	16,924
CARRYING AMOUNT					
As at December 31, 2022	41,818	478	376	2,828	45,500
As at December 31, 2023	39,400	390	281	1,048	41,119

The above items of property and equipment, other than construction in progress, are depreciated on a straight-line basis, after taking into account of the residual value, over the following period:

Machinery and equipment	5-8 years
Furniture and office equipment	5-8 years
Leasehold improvements	Over the shorter of the relevant lease terms or 5 years

17. INTANGIBLE ASSET

The Group

**In process research
and development
project (“IPR&D”)**
RMB’000

COST AND CARRYING AMOUNT

As at January 1, 2022, December 31, 2022 and December 31, 2023 10,000

The above IPR&D will be amortized on a straight-line basis over the following periods:

IPR&D	Over the residual useful life when ready for use
-------	--

(i) IPR&D

In 2019, the Group entered into an in-license agreement with an independent third party under which the Group was granted all of IBC0966’s rights and interest in Mainland China, Hong Kong, Macau and Taiwan, for the purpose of conducting preclinical development, clinical research and commercialization of certain drug. In exchange of such rights aforementioned, the Group obligated to pay RMB20,000,000 assignment fee by installments and sales royalties based on annual sales. As at December 31, 2022 and 2023, the Group had paid an upfront payment of RMB10,000,000 and such payment was capitalized as intangible asset. Once the new drug certificate of IBC0966 have been granted, the Group shall pay the rest RMB10,000,000 within 10 working days.

As the intangible asset is not ready for use up to December 31, 2023 and the date of this report, the management of the Group performed impairment testing annually, which was further disclosed in note 19. In the opinion of directors of the Company, no impairment loss was recognized in profit or loss during the Track Record Period.

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18. RIGHT-OF-USE ASSETS

The Group

	Leased property RMB’000	Leased machinery and equipment RMB’000	Total RMB’000
As at December 31, 2022			
Carrying amount	551	–	551
As at December 31, 2023			
Carrying amount	9,587	–	9,587
For the year ended December 31, 2022			
Depreciation for the year	2,206	–	2,206
For the year ended December 31, 2023			
Depreciation for the year	2,238	–	2,238

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Expenses relating to short-term leases	63	76
Total cash outflow for leases	63	99
Additions to right-of-use assets	–	11,274

During the Track Record Period, the Group leases property and equipment for its operations. Lease contracts are entered into for fixed term of 5 to 10 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. There were no extension options in the lease contracts. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

Save for disclosed hereinabove, there was no other outstanding lease commitments relating to offices and equipment.

Restrictions or covenants on leases

As at December 31, 2022 and 2023, the Group’s lease liabilities of nil and RMB9,074,000 are recognized with related right-of-use assets of RMB551,000 and RMB9,587,000 respectively. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Rental concessions

During the Track Record Period, no rental concessions provided by the lessor.

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19. IMPAIRMENT TESTING ON INTANGIBLE ASSETS NOT READY FOR USE

Impairment test

IPR&D, which is intangible assets not yet ready for use, is tested impairment annually based on the recoverable amount of the cash-generating unit to which the intangible asset is related. The appropriate cash-generating unit is at the pipeline level.

Impairment review on the IPR&D of the Group has been conducted by the management of the Group by engaging an independent qualified professional valuer, 藍策亞洲(北京)企業管理諮詢有限公司 Valuelink Asia (Beijing) Enterprise Management Consulting Co., Ltd.* (“ValueLink”), to estimate the recoverable amount of the cash-generating unit at the end of each year. The address of ValueLink is Room 511, Jiasheng Center, No. A19, Dongsanhuan Road, Chaoyang District, Beijing, the PRC. For the purpose of impairment review, the recoverable amount of the cash-generating unit is determined based on value in use by using the discounted cash flow approach.

With the assistance of ValueLink, the management determined the recoverable amount of the above cash-generating unit based on the following approach and the key assumptions:

- The cash-generating unit will generate cash inflows starting from year 2027 based on the timing of clinical development and regulatory approval, commercial ramp up to reach expected peak revenue potential till year 2032, and up to the end of the exclusivity for the product; The management considers the length forecast period is appropriate because it generally takes longer for a biopharma company to generate positive cash flows, compared to companies in other industries, especially when the related products are under clinical trial. Hence, the management believes that a forecast period for the cash generating unit longer than five years is justifiable and consistent with industry practice;
- The expected market penetration rate was based on the expected selling conditions considering the features of marketing and technology development;
- The discount rate used is pre-tax and reflect specific risks relating to the relevant products that would be considered by market participants; and
- The expected success rate of commercialization by reference to practices of pharmaceutical industries, development of technologies and related regulations from administrations.

The key parameters used for recoverable amount calculations are as follows:

	As at December 31,	
	2022	2023
Expected annual growth rates till 2032	18%~516%	18~516%
Expected market penetration rate	0.6%~11.7%	0.6%~11.7%
Pre-tax discount rate	21.76%	21.05%
Expected success rate of commercialization	13.0%	16.22%

The revenue growth rate for the forecast period and budgeted gross margin were determined by the management based on their expectation for market and product development.

Taking into account that the marketing features and technological advancements related to the indication have remained materially unchanged throughout the Track Record Period, and given that the R&D process of IBC0966 has proceeded as planned, the directors of the Company anticipate that both the “Expected annual growth rates until 2032” and the “Expected market penetration rate” remained consistent throughout the Track Record Period.

Based on the result of the IPR&D impairment testing, the recoverable amount of the cash-generating unit exceeded its carrying amount as at December 31, 2022 and 2023. Thus, no impairment is noted.

* English name for identification purpose only.

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Impairment test – sensitivity analysis

The Company performed sensitivity test by increasing 1% of discount rate or decreasing of 5% revenue growth rate, which are the key assumptions determine 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:

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Headroom	14,900	18,300
Impact by increasing discount rate	(3,800)	(4,700)
Impact by decreasing annual revenue growth rate	(5,900)	(9,000)

If the pre-tax discount rate used as at December 31, 2022 and 2023 was changed to 27.4% and 25.6% respectively, while other parameters remain constant, the recoverable amount of the cash-generating unit would equal its carrying amount. If the annual revenue growth rate used as at December 31, 2022 and 2023 was decreased by 10.1% and 8.0% respectively, while other parameters remain constant, the recoverable amount of the cash-generating unit would equal its carrying amount. Management believes that any reasonably possible changes in key assumptions would not lead to impairment as of December 31, 2022 and 2023.

20. INVESTMENT IN A SUBSIDIARY

The Company

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Cost of investment	<u>10,339</u>	<u>192,037</u>

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

The Group

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Value-added tax recoverable	685	999
Prepayments for research and development costs	6,733	8,303
Relocation incentive (<i>note 7A (i)</i>)	2,380	–
Prepayments for [REDACTED]	[REDACTED]	[REDACTED]
Deferred [REDACTED]	[REDACTED]	[REDACTED]
Refundable fulfillment deposits	–	2,500
Others	<u>623</u>	<u>1,288</u>
	<u>11,613</u>	<u>18,756</u>
Analyzed as:		
Non-current	–	2,500
Current	<u>11,613</u>	<u>16,256</u>
	<u>11,613</u>	<u>18,756</u>

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The Company

	As at December 31,	
	2022	2023
	RMB’000	RMB’000
Prepayments for [REDACTED]	[REDACTED]	[REDACTED]
Deferred [REDACTED]	[REDACTED]	[REDACTED]
Others	–	690
	<u>1,192</u>	<u>6,356</u>
Analyzed as:		
Current	<u>1,192</u>	<u>6,356</u>

22. INVENTORIES

The Group

	As at December 31,	
	2022	2023
	RMB’000	RMB’000
Raw materials and consumables	<u>881</u>	<u>818</u>

23. AMOUNTS DUE FROM SHAREHOLDERS/AMOUNTS DUE TO A RELATED PARTY/AMOUNTS DUE TO A SUBSIDIARY

The Group

(a) Amounts due from shareholders

The amounts due from shareholders were non-trade in nature, interest free, unsecured, repayable on demand and were settled on August 3, 2023.

(b) Amounts due to a related party

	As at December 31,	
	2022	2023
	RMB’000	RMB’000
Non-trade and unsecured		
Loans from Nanjing Bode (<i>note i</i>)	11,025	–
Amounts due to Nanjing Bode (<i>note ii</i>)	<u>52,556</u>	<u>–</u>
	<u>63,581</u>	<u>–</u>
Analyzed as:		
Non-current	6,206	–
Current	<u>57,375</u>	<u>–</u>
	<u>63,581</u>	<u>–</u>

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	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Loans from Nanjing Bode analyzed as:		
Within one year	4,819	–
Within a period of more than one year but not exceeding two years	3,255	–
Within a period of more than two years but not exceeding five years	2,951	–
	11,025	–
	11,025	–

Notes:

- i. On July 1, 2020, December 31, 2020 and December 31, 2021, Sunho (China) Biopharmaceutical and Nanjing Bode entered into three loan agreements, pursuant to which Nanjing Bode agreed to make available a revolving loan facility at a maximum daily balance (excluding the accrued interests) of RMB100,000,000 each, with a term of three years at a fixed interest rate of 3% per annum. On December 31, 2022, the Group entered into an irrevocable and unconditional loan waiver agreement with Nanjing Bode for the loan amount of RMB180,000,000. In December 2023, loans from Nanjing Bode and interests had been fully settled. The maximum amount outstanding during years ended December 31, 2022 and 2023 was RMB191,025,000 and RMB34,515,000, respectively.
- ii. The amounts due to Nanjing Bode were non-trade in nature, interest free, repayable on demand and unsecured. On July 6, 2023, Mr. Zhang transferred his entire equity interests in Nanjing Bode to an independent third party. As a result, Nanjing Bode ceased to be a related party to the Group since July 2023, the balance of amounts due to Nanjing Bode had been reclassified to other payables (note 26). These amounts will be settled before [REDACTED].

The Company

(a) Amounts due from shareholders

The amounts due from shareholders were non-trade in nature, interest free, unsecured, repayable on demand and were settled on August 3, 2023.

(b) Amounts due to a subsidiary

The amounts due to a subsidiary were non-trade in nature, interest free, unsecured and repayable on demand.

24. OTHER FINANCIAL ASSETS

Other financial assets represented a principal protected short-term investment with an original maturity of three months which carry interest at 5.65% per annum and were issued by an asset management company.

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25. CASH AND CASH EQUIVALENTS/TIME DEPOSITS

Cash and cash equivalents include demand deposits and short term deposits for the purpose of meeting the Group’s short term cash commitments, which carry interest at market rates range from 0.05% to 5.53%.

Cash and cash equivalents that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
USD	–	120,181
	<u> </u>	<u> </u>

Time deposit is denominated in USD and carry fixed rates of 5.7% per annum with original maturity of six months.

26. TRADE AND OTHER PAYABLES

The Group

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Payables for research and development costs	3,562	1,305
Accrued research and development costs	1,688	1,833
Accrued staff costs and benefits	2,908	2,561
Accrued [REDACTED] and [REDACTED]	[REDACTED]	[REDACTED]
Other payables:		
Payable for equipment	221	1,137
Other payables to Nanjing Bode (<i>note</i>)	–	60,285
Others	153	578
Other tax payables	61	53
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
Analyzed as:		
Current	8,779	73,960
	<u> </u>	<u> </u>

The average credit period on purchases of materials and services of the Group is 10-60 days.

Note: The other payables to Nanjing Bode were non-trade in nature, interest free, unsecured and repayable on demand, and will be settled before [REDACTED].

The following is an aging analysis of payables for payables for research and development costs, presented based on the invoice dates at the end of each reporting period:

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
0 - 30 days	–	140
31 - 60 days	73	–
61 - 90 days	19	–
Over 90 days	3,470	1,165
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

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The Company

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Other payables [REDACTED] and [REDACTED]	[REDACTED]	[REDACTED]
Others	—	76
	<u>186</u>	<u>6,284</u>
Analyzed as:		
Current	<u>186</u>	<u>6,284</u>

27. LEASE LIABILITIES

The Group

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Lease liabilities payable:		
Within one year	—	2,178
Within a period of more than one year but not exceeding two years	—	2,245
Within a period of more than two years but not exceeding five years	—	4,651
	<u>—</u>	<u>9,074</u>
Less: Amounts due for settlement with 12 months shown under current liabilities	—	2,178
Amounts due for settlement after 12 months shown under non-current liabilities	—	6,896
	<u>—</u>	<u>6,896</u>

The weighted average incremental borrowing rates applied to the lease liabilities was 3.00% per annum for the years ended December 31, 2022 and 2023.

28. FINANCIAL LIABILITIES AT FVTPL

On May 31, 2023, the Company entered into a convertible non-redeemable preferred shares (“Series A Preferred Shares”) subscription agreement with two independent investors, pursuant to which the investors made a total investment of RMB210,000,000 in USD equivalent in the Company as consideration for subscription of the Company’s 17,500,000 Series A Preferred Shares (“Series A Financing”). In July and August, 2023, the total consideration had been fully settled.

On August 30, 2023, the Company entered into an investment agreement with an independent investor, pursuant to which the investor will subscribe for 5,015,000 Series A Preferred Shares at a total consideration of RMB60,180,000 in USD equivalent (“Series A+ Financing”, collectively with “Series A Financing” as “Pre-[REDACTED] Investments”). On September 27, 2023, the total consideration had been fully settled.

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The key terms of the Pre-[REDACTED] Investments are summarized as follows:

Conversion rights

The number of ordinary shares to which a holder shall be entitled upon conversion of each Series A Preferred Share shall be the quotient of the issue price divided by the then effective conversion price, which shall initially be the conversion price resulting in an initial conversion ratio for Series A Preferred Shares of 1:1 subject to adjustment for conversion price.

Any Series A Preferred Share may, at the option of the holder thereof, be converted at any time after the date of issuance of such shares, without the payment of any additional consideration, into fully-paid ordinary shares based on the then-effective conversion price.

Each Series A Preferred Share shall automatically be converted, based on the then-effective conversion price, without the payment of any additional consideration, into fully-paid and non assessable ordinary shares upon the earlier of (i) the [REDACTED] or (ii) the date specified by written consent or agreement of the holders representing at least 51% of the then outstanding Series A Preferred Shares.

Liquidation preferences

In the event of any liquidation including deemed liquidation, dissolution or winding up of the Company (the “Liquidation Event”), each holder of Pre-[REDACTED] Investments shall be entitled to receive the amount equal to higher of (i) the investment cost; and (ii) the pro rata share of liquidation assets.

Anti-dilution rights

If the Company increases its share capital at a price lower than the price paid by the investors of Pre-[REDACTED] Investments on a per share capital basis, the investors have a right to require the Company to issue more new share capital for nil consideration to the investors.

Presentation and classification

The Company elected to designate the Series A Preferred Shares as financial liabilities at FVTPL. The fair value change of the Series A Preferred Shares is charged to fair value change of Series A Preferred Shares in profit or loss except for the portion attributable to credit risk change which shall be charged to other comprehensive income, if any. The management considered that there is no credit risk change on the financial liabilities that drives the fair value change of the Series A Preferred Shares during the Track Record Period.

The fair value of the Pre-[REDACTED] Investments at the end of each reporting period is as follows:

	Series A Preferred Share RMB’000
As at January 1, 2022 and 2023	–
Recognition of financial liabilities from Series A Financing	210,000
Recognition of financial liabilities from Series A+ Financing	60,180
Change in fair value	41,345
	<hr/>
As at December 31, 2023	311,525
	<hr/> <hr/>

29A. PAID-IN/SHARE CAPITAL

The Company was incorporated in the Cayman Islands on May 14, 2021, with authorized share capital of United States dollars (“USD”) 100,000 divided into 100,000 shares with a par value of USD1.00 each. On the same date, 45,500 shares of the Company with nominal value of USD45,500 (equivalent to approximately RMB293,000) had been issued to the Company’s shareholders.

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As at August 30, 2023, the authorized share capital of the Company was re-designated and subdivided from US\$100,000 divided into 100,000 Shares with a par value of US\$1.00 each to US\$100,000 divided into 177,485,000 Shares with a par value of US\$0.0005 each and 22,515,000 Series A Preferred Shares with a par value of US\$0.0005 each.

	Number of shares	Par value USD	Share capital USD'000
Authorized			
As at January 1, 2022 and 2023	100,000	1	100
Subdivision on August 30, 2023	200,000,000	0.0005	100
Re-designated to Series A Preferred Shares	(22,515,000)	0.0005	(11)
As at December 31, 2023	177,485,000	0.0005	89

	Number of shares	Par value USD	Amount USD'000	Equivalent amount of ordinary shares RMB'000
Issued and fully paid				
As at January 1, 2022 and 2023	50,000	1	50	322
As at date of Subdivision (August 30, 2023) and December 31, 2023	100,000,000	0.0005	50	322

29B. RESERVES OF THE COMPANY

	Capital reserve RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at January 1, 2022	6,940	1,360	(3)	8,297
Loss and total comprehensive expense for the year	–	–	(792)	(792)
Recognition of equity-settled share-based payments expenses	–	2,039	–	2,039
Reclassification of vested equity-settled share-based payments	2,720	(2,720)	–	–
As at December 31, 2022	9,660	679	(795)	9,544
Loss and total comprehensive expense for the year	–	–	(67,107)	(67,107)
Recognition of equity-settled share-based payments expenses	–	30,081	–	30,081
Reclassification of vested equity-settled share-based payments	30,760	(30,760)	–	–
As at December 31, 2023	40,420	–	(67,902)	(27,482)

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30. SHARE-BASED PAYMENT TRANSACTIONS

Restricted Share Unit Plan

The purpose of the Employee Share Incentive Plan (“Restricted Share Unit/RSU Plan”) was to provide incentives to employees and directors in order to promote the success of the business of the Group. To implement the RSU Plan, the Company used employee stock ownership platforms (the “Shareholding Platforms”), namely Sunho Stellar Investments Limited which was established in April 2021 to hold the Company issued 4,500 shares, representing 9% of the shares of the Company.

Under the RSU Plan, eligible employees, directors and consultants shall be nominated as the beneficiary owner of the Shareholding Platforms. No RSU has been granted under the RSU plan as at December 31, 2022.

On May 6, 2023, the employees of the Group and director of the Company were granted a total of 3,000 shares of the Shareholding Platforms, representing 6% of the shares of the Company.

For the RSUs granted to the employees of the Group and directors of the Company, 20% portion of RSUs will be vested on each of the first, second, third, fourth and fifth anniversary of the date of completion of [REDACTED] (“[REDACTED]-based RSU”).

On May 16, 2023, the Shareholding Platform transferred 1,500 Shares, representing 3% of the shares of the Company, to Sunho Wisdom, controlled by Mr. Zhang, at par value.

1,500 shares transferred to Sunho Wisdom did not attached any condition and were fully vested during the year ended December 31, 2023 (“Wisdom RSU”).

The number of RSU disclosed below has been retrospectively adjusted to reflect the Share Subdivision as described in note 29A.

Set out below are details of the movements of equity-settled share-based payment transactions during the Track Record Period:

	As at January 1, 2022 and December 31, 2022	Granted during the year	Forfeited during the year	Vested during the year	As at December 31, 2023
[REDACTED]- based RSU	–	6,000,000	–	–	6,000,000
Wisdom RSU	–	3,000,000	–	(3,000,000)	–
	<u>–</u>	<u>9,000,000</u>	<u>–</u>	<u>(3,000,000)</u>	<u>6,000,000</u>
Directors	–	3,500,000	–	(3,000,000)	500,000
Employees	–	5,500,000	–	–	5,500,000
	<u>–</u>	<u>9,000,000</u>	<u>–</u>	<u>(3,000,000)</u>	<u>6,000,000</u>
Weighted average exercise price (USD)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

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Fair value of RSUs granted

Back-solve method were used to determine the underlying equity fair value of the Company and Binomial Option Pricing Model was used to determine the fair value of the RSU granted. The fair value of shares at grant date was valued by directors of the Company with reference to valuation reports carried out by an independent qualified professional valuer, ValueLink, whose address is disclosed in note 19. The fair value of RSU at grant date was determined by taking into account of the fair value of the equity of the Company amounting to RMB9.78 per share and the purchase price of the RSU is nil. The inputs into the model were as follows:

	May 2023
Expected volatility	33.25%
Risk-free rate	2.34%
Expected dividend yield	0%
	<u> </u>

The Group recognized the total expense of RMB29,325,000 for the year ended December 31, 2023 in relation to RSUs transferred to Mr. Zhang.

As of December 31, 2023, the director of the Company believes that it is not probable that there will be a successful [REDACTED]; therefore, the number of equity instruments expected to vest is zero. As a result, no expenses recognized for the year ended December 31, 2023.

Other Share Incentive Plan

To reward Dr. Yin’s contribution, Dr. Yin had been granted 5% equity interest of Sunho (China) Biopharmaceutical in November 2020, 50% of granted shares would be vested from the first anniversary year from the grant date, 25% of granted shares would be vested from the second and third anniversary year from the grant date. The fair value of aforementioned shares at grant date was RMB10,878,000. In 2021, the equity interest granted to Dr. Yin had been replaced as the issued shares of the Company (“Share Replacement”), the Share Replacement had no material impact on neither the vesting conditions nor fair value. Discounted cash flows method was used to determine the fair value of the shares granted. The Group recognized expense of RMB2,039,000 and RMB756,000 for the years ended December 31, 2022 and 2023 in relation to shares granted.

The key parameters used in discounted cash flows method are as follows:

	As at November 30, 2020
Expected annual growth rates till 2032	3%~516%
Expected market penetration rate	0.1%~14.8%
Terminal growth rate	2%
Discount rate	17.5%
Expected success rate of commercialization	4.6%~9.2%

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31. RELATED PARTY TRANSACTIONS

Save for disclosed in note 23 and note 30, the Group has the following transactions and balances with the related parties during the Track Record Period.

(a) Names and relationships with related parties

The following companies are related parties of the Group that had transactions with the Group during the Track Record Period.

Name of related parties	Relationships
Sunho Wisdom	Shareholder of the Company
No5XJR Limited	Shareholder of the Company
Sunho Stellar Investments Limited	Shareholder of the Company
Nanjing Bode (<i>note</i>)	Controlled by Mr. Zhang

Note: As disclosed in note 23(b)(ii), Nanjing Bode ceased to be a related party to the Group since July 6, 2023. Consequently, the transactions disclosed below only shows the transactions occurred before July 6, 2023.

(b) Transactions with related parties

Details of the transactions with related parties are set out below.

	Year ended December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Loan waived by Nanjing Bode (<i>note 23(b)(i)</i>)	180,000	–
Purchase of machinery and equipment from Nanjing Bode	–	–
Interest expenses on borrowing from Nanjing Bode	5,055	164

(c) Leases with a related party

The Group entered into several leases with Nanjing Bode in previous years. For each reporting period, the Group recognized lease liabilities and interest expenses as follows:

	As at December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities of Nanjing Bode	–	–

	Year ended December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on lease liabilities of Nanjing Bode	19	44

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(d) Other outstanding balances with related parties

Save for the amounts due to a related party disclosed in note 23, details of the amounts due from shareholders are set out below.

	As at January 1, 2022 RMB’000	As at December 31, 2022 2023 RMB’000 RMB’000		Maximum amount outstanding during the year ended December 31, 2022 2023 RMB’000 RMB’000	
Amounts due from shareholders					
Sunho Wisdom	271	296	–	296	315
No5XJR Limited	19	21	–	21	22
	<u>290</u>	<u>317</u>	<u>–</u>		

The amounts due from shareholders were non-trade in nature, interest free, unsecured, repayable on demand and were settled on August 3, 2023.

(e) Compensation of key management personnel

The remuneration of the directors of the Company and key management of the Group during the Track Record Period were as follows:

	Year ended December 31,	
	2022 RMB’000	2023 RMB’000
Salaries and other benefits	2,230	2,346
Discretionary bonus (<i>note</i>)	337	360
Retirement benefit scheme contributions	87	76
Share-based payments	<u>2,039</u>	<u>30,081</u>
	<u>4,693</u>	<u>32,863</u>

Note: Discretionary bonus is determined based on their duties and responsibilities of the relevant individuals within the Group and the Group’s performance.

32. CAPITAL COMMITMENT

	As at December 31,	
	2022 RMB’000	2023 RMB’000
Capital expenditure contracted for but not provided in the Historical Financial Information:		
– Leasehold land and equipment	<u>1,015</u>	<u>18,610</u>

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to investors through the optimization of the debt and equity balance. The Group’s overall strategy remains unchanged throughout the Track Record Period.

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The capital structure of the Group consists of net debts, which includes financial liabilities at FVTPL disclosed in note 28, amounts due to Nanjing Bode disclosed in note 26, lease liabilities disclosed in note 27, net of bank balances and time deposits disclosed in note 25, other financial assets disclosed in note 24 and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	As at December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets		
Amortized cost		
Refundable fulfillment deposit (note 21)	–	2,500
Other receivables (note 21)	2,380	729
Amounts due from shareholders (note 23)	317	–
Other financial assets (note 24)	–	49,579
Time deposits (note 25)	–	35,414
Cash and cash equivalents (note 25)	1,821	125,074
	<u>1,821</u>	<u>125,074</u>
Financial liabilities		
Amortized cost		
Amounts due to a related party (note 23)	63,581	–
Trade and other payables (note 26)	3,936	63,305
	<u>3,936</u>	<u>63,305</u>
FVTPL		
Financial liabilities at FVTPL (note 28)	–	311,525
	<u>–</u>	<u>311,525</u>

The Company

	As at December 31,	
	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets		
Amortized cost		
Other receivables (note 21)	–	690
Amounts due from shareholders (note 23)	346	–
Time deposits (note 25)	–	35,414
Cash and cash equivalents (note 25)	–	72,854
	<u>–</u>	<u>72,854</u>
Financial liabilities		
Amortized cost		
Other payables (note 26)	186	–
Amounts due to a subsidiary (note 23)	1,825	16,012
	<u>1,825</u>	<u>16,012</u>
FVTPL		
Financial liabilities at FVTPL (note 28)	–	311,525
	<u>–</u>	<u>311,525</u>

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(b) Financial risk management objectives and policies

The Group’s major financial assets and liabilities include refundable fulfillment deposit, other receivables, other financial assets, time deposits, cash and cash equivalents, trade and other payables and financial liabilities at FVTPL. The Company’s major financial assets and liabilities include other receivables, time deposits, cash and cash equivalents, other payables, amounts due to a subsidiary and financial liabilities at FVTPL. Details of these financial assets and liabilities are disclosed in respective notes.

The risks associated with these financial assets and liabilities include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group’s and the Company’s activities expose it primarily to currency risk, interest rate risk and other price risk. There has been no change in the manner in which the Group and the Company manages and measures the risks.

(i) Currency risk

Certain financial assets and liabilities are denominated in foreign currency of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group’s and the Company’s foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

The Group

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Assets		
USD	317	155,595
	<u> </u>	<u> </u>
Liabilities		
USD	–	(5,869)
	<u> </u>	<u> </u>

The Company

	As at December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
Assets		
USD	346	108,258
	<u> </u>	<u> </u>
Liabilities		
USD	–*	(5,869)
	<u> </u>	<u> </u>

* Amount less than RMB1,000

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Sensitivity analysis

The following table details the Group’s and the Company’s sensitivity to a 5% increase and decrease in RMB against USD, the foreign currency with which the Group and the Company may have a material exposure. 5% represents management’s assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where RMB strengthens 5% against USD. For a 5% weakening of RMB against USD, there would be an equal and opposite impact on loss for the year.

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
<i>Impact on profit or loss</i>		
The Group		
USD	(16)	(7,486)

	Year ended December 31,	
	2022	2023
	<i>RMB’000</i>	<i>RMB’000</i>
<i>Impact on profit or loss</i>		
The Company		
USD	(17)	(5,119)

(ii) *Interest rate risk*

The Group is primarily exposed to fair value interest rate risk in relation to lease liabilities and loan from Nanjing Bode. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group considers that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant because the current market interest rates are relatively low and stable.

(iii) *Other price risk*

The Group and the Company are exposed to other price risk arising from other financial liabilities at FVTPL.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risk at the reporting date for financial liabilities at FVTPL.

If the equity value of the Company had been changed based on the 5% higher/lower:

The Group and the Company

- the post-tax loss of the Group for the year ended December 31, 2023 would increase by approximately RMB13,027,000 and decrease by approximately RMB13,249,000.

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Credit risk

The Group’s maximum exposure to credit risk which will cause a financial loss to the Group is arising from the amount of bank balances, other financial assets, refundable fulfillment deposits and other receivables disclosed in the consolidated statements of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Bank balances and other financial assets

The credit risk on bank balances and other financial assets is limited because the counterparties are reputable financial institutions. The Group assessed 12m ECL for bank balances and other financial assets by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12m ECL on bank balances and other financial assets is considered to be insignificant and therefore no loss allowance was recognized.

Refundable fulfilment deposits and other receivables

For refundable fulfilment deposits and other receivables, the management makes periodic individual assessment on the recoverability of refundable fulfilment deposits and other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the years ended December 31, 2022 and 2023, the Group assessed the ECL for refundable fulfilment deposits and other receivables are insignificant and thus no loss allowance is recognised.

Liquidity risk

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

The following table details the Group’s and the Company’s remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted Average effective interest rate	Within 1 year or on demand RMB’000	1 to 2 years RMB’000	2 to 5 years RMB’000	Total RMB’000	Carrying amount RMB’000
The Group						
As at December 31, 2022						
Trade and other payables	–	3,936	–	–	3,936	3,936
Amounts due to a related party	–	52,556	–	–	52,556	52,556
Loan from a related party	3.00%	4,819	3,255	3,794	11,868	11,025
		<u>61,311</u>	<u>3,255</u>	<u>3,794</u>	<u>68,360</u>	<u>67,517</u>
As at December 31, 2023						
Trade and other payables	–	63,305	–	–	63,305	63,305
Financial liabilities at FVTPL	–	311,525	–	–	311,525	311,525
Lease liabilities	3.00%	2,400	2,400	4,756	9,556	9,074
		<u>377,230</u>	<u>2,400</u>	<u>4,756</u>	<u>384,386</u>	<u>383,904</u>

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	Weighted Average effective interest rate	Within			Total	Carrying amount
		1 year or on demand	1 to 2 years	2 to 5 years		
		RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
The Company						
As at December 31, 2022						
Other payables	–	186	–	–	186	186
Amounts due to a subsidiary	–	1,825	–	–	1,825	1,825
		<u>2,011</u>	<u>–</u>	<u>–</u>	<u>2,011</u>	<u>2,011</u>
As at December 31, 2023						
Amounts due to a subsidiary	–	16,012	–	–	16,012	16,012
Financial liabilities at FVTPL	–	311,525	–	–	311,525	311,525
		<u>327,537</u>	<u>–</u>	<u>–</u>	<u>327,537</u>	<u>327,537</u>

(c) Fair value measurements of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with general accepted pricing models.

(i) Fair value of the Group’s financial liabilities that are measured at fair value on a recurring basis

Some of the Group’s financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of the financial liabilities are determined (in particular, the valuation techniques and inputs used).

Financial liabilities	Fair value as at		Fair value hierarchy	Valuation Techniques and key inputs	Significant Unobservable inputs	Relationship of unobservable inputs to fair value
	December 31, 2022	2023				
	RMB’000	RMB’000				
The Group						
Financial liabilities at FVTPL	–	311,525	Level 3	Discounted cash flow method – the key input is discount rate Binomial Option Pricing Model – the key inputs are: [REDACTED] probability, risk free interest rate, volatility and dividend yield.	Volatility 2023: [32.8%] Discount rate: 2023: [16.0%]	Volatility and fair value are nonlinear related; (note i) The higher the discount rate, the lower the fair value (note ii)

Notes:

- i. A 5% increase/decrease in volatility, while all other variables keep constant, would increase the carrying amount of other financial liabilities at FVTPL of the Group as at December 31, 2023 by RMB2,909,000, decrease the carrying amount as at December 31, 2023 by RMB2,898,000.
- ii. A 1% increase/decrease in discount rate, while all other variables keep constant, would decrease the carrying amount of other financial liabilities at FVTPL of the Group as at December 31, 2023 by RMB31,713,000, increase the carrying amount as at December 31, 2023 by RMB39,411,000.

There were no transfers between level 1 and level 2 during the Track Record Period.

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(ii) Fair value measurement and valuation process

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. For instruments with significant unobservable inputs under Level 3, the Group engages third party qualified valuers to perform the valuation at the end of each reporting period. The finance department of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

Of the total gains or losses for the year ended December 31, 2023 included in profit or loss, RMB41,345,000 loss relates to financial liabilities at FVTPL held during the Track Record Period. Fair value gains or losses on other financial liabilities as at FVTPL are included in ‘other gains and losses, net’.

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amount of the Group’s and the Company’s financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate to their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

35. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC are members of the state-sponsored retirement benefit scheme organized by the relevant local government authority in the PRC. The PRC entities are required to contribute, based on a certain percentage of the payroll costs of their employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are RMB1,309,000 and RMB1,287,000 for the years ended December 31, 2022 and 2023 respectively.

36. PARTICULARS OF SUBSIDIARIES

As at December 31, 2022 and 2023 and as at the date of the report, the Group’s subsidiaries are as follows:

Name of subsidiaries	Place/country and date of establishment/ incorporation/ operations	Issued share/ registered capital	Equity interest attributable to the Company		As at the date of the report	Principal activities
			As at December 31, 2022	2023		
Directly held						
Sunho bio Investments (note i)	The BVI/ June 1, 2021	USD1	100%	100%	[100%]	Investment holding
Indirectly held						
Sunho (HK) Limited (note ii)	Hong Kong/ July 9, 2021	HK\$1	100%	100%	[100%]	Investment holding
Sunho Pharmaceutical Technology (Zhejiang Anji) Co., Ltd.* (盛禾醫藥科技(浙江安吉)有限公司) (note iii)	The PRC/ December 30, 2021	RMB155,000,000	100%	100%	[100%]	Research and development of immune drugs
Sunho (China) Biopharmaceutical (note iii)	The PRC/ April 2, 2018	RMB187,682,553	100%	100%	[100%]	Research and development of immune drugs
Nanjing Sunho Medical Technology Co., Ltd.* (南京盛禾醫學技術有限公司) (note iii)	The PRC/ August 13, 2020	RMB5,000,000	100%	100%	[100%]	Research and development of immune drugs
Sunho (Zhejiang) Biopharmaceutical Co., Ltd.* (盛禾(浙江)生物製藥有限公司) (note iv)	The PRC/ March 17, 2023	RMB30,000,000	N/A	100%	[100%]	Research and development of immune drugs

* English name for identification purpose only

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All of the subsidiaries adopted December 31 as financial year end.

None of the subsidiaries has issued any debt securities as at December 31, 2022 and 2023.

Notes:

- i No statutory audited financial statements of the entity have been prepared since its date of incorporation as it is incorporated in a jurisdiction where there are no statutory audit requirements.
- ii The statutory financial statement of this subsidiary for the period from July 9, 2021 to December 31, 2022 was prepared in accordance with the Hong Kong Small and Medium-sized Entity Financial Reporting Standard and were audited by ICS CPA Limited registered in Hong Kong. The statutory financial statements of this subsidiary for the year ended December 31, 2023 has not been issued.
- iii The statutory financial statement of these subsidiaries for the year ended December 31, 2022 were prepared in accordance with China’s Accounting Standards for Smaller Business Enterprises and were audited by 江蘇蘇瑞華會計師事務所有限公司/Jiangsu Suruihua Certified Public Accountants Co., Ltd.* registered in the PRC. The statutory financial statements of these subsidiaries for the year ended December 31, 2023 have not been issued.
- iv No statutory financial statements have been prepared for this subsidiary since its respective date of establishment as it is not due or required for issue.

37. RECONCILIATION OF ASSETS AND LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group’s assets and liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group’s consolidated statement of cash flows as cash flows from financing activities.

	Amounts due from shareholders RMB’000	Amounts due to a related party RMB’000	Financial liabilities at FVTPL RMB’000	Deferred [REDACTED] RMB’000	Other payables RMB’000	Lease liabilities RMB’000	Total RMB’000
As at January 1, 2022	(290)	173,094	–	[REDACTED]	–	2,450	175,254
Financing cash flow	–	27,560	–	[REDACTED]	–	–	27,104
Non-cash changes							
Net foreign exchange gain	(27)	–	–	[REDACTED]	–	–	(27)
Finance costs	–	–	–	[REDACTED]	–	19	19
Reclassification of amounts due to Nanjing Bode	–	2,469	–	[REDACTED]	–	(2,469)	–
Interest expenses on borrowing from Nanjing Bode	–	5,055	–	[REDACTED]	–	–	5,055
Loan waived by Nanjing Bode (note 23(b)(i))	–	(180,000)	–	[REDACTED]	–	–	(180,000)
Accrued [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
As at December 31, 2022	(317)	28,178	–	[REDACTED]	47	–	27,405

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	Amounts due from shareholders <i>RMB'000</i>	Amounts due to a related party <i>RMB'000</i>	Financial liabilities at FVTPL <i>RMB'000</i>	Deferred [REDACTED] <i>RMB'000</i>	Other payables <i>RMB'000</i>	Lease liabilities <i>RMB'000</i>	Total <i>RMB'000</i>
Financing cash flow	337	23,000	270,180	[REDACTED]	(34,515)	(23)	255,497
Non-cash changes							
Net foreign exchange gain	(20)	-	-	[REDACTED]	-	-	(20)
Finance cost	-	-	-	[REDACTED]	-	201	201
New lease entered	-	-	-	[REDACTED]	-	11,274	11,274
Reclassification of amounts due to Nanjing Bode	-	(51,342)	-	[REDACTED]	53,720	(2,378)	-
Interest expenses on borrowing from Nanjing Bode	-	164	-	[REDACTED]	327	-	491
Accrued [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Loss from fair value change of financial liabilities at FVTPL	-	-	41,345	[REDACTED]	-	-	41,345
As at December 31, 2023	-	-	311,525	[REDACTED]	20,815	9,074	336,193

38. MAJOR NON-CASH TRANSACTIONS

During the Track Record Period, the Group entered into new lease agreements for property for 5 years. On the lease commencement, the Group recognized right-of-use assets amounting to RMB11,274,000 and lease liabilities amounting to RMB11,274,000 for the year ended December 31, 2023.

On December 31, 2022, the Group entered into an irrevocable and unconditional loan waiver agreement with Nanjing Bode for the loan amount of RMB180,000,000.

39. CONTINGENT LIABILITIES

During the Track Record Period, certain subsidiaries of the Group failed to make full contributions to the social insurance and housing provident fund for their employees in accordance with the relevant regulations and provisions. Based on the relevant rules and regulations, the under provision of the social insurance and housing provident fund contributions are approximately RMB2,841,000 and RMB2,845,000 for the years ended December 31, 2022 and 2023, respectively. The management of the Group has, taking into account the relevant facts and circumstances, and advice sought from the Group’s PRC legal advisers, considered that it is not probable for the Company to be requested by the relevant authorities to pay such outstanding amounts and relevant material penalties, therefore, no provision has been made as at each reporting date and during the Track Record Period.

40. SUBSEQUENT EVENTS

There are no material subsequent events undertaken by the Company or by the Group after December 31, 2023 and up to the date of this report.

41. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to [December 31, 2023] and up to the date of this report.