



# 福森藥業有限公司

FUSEN PHARMACEUTICAL COMPANY LIMITED

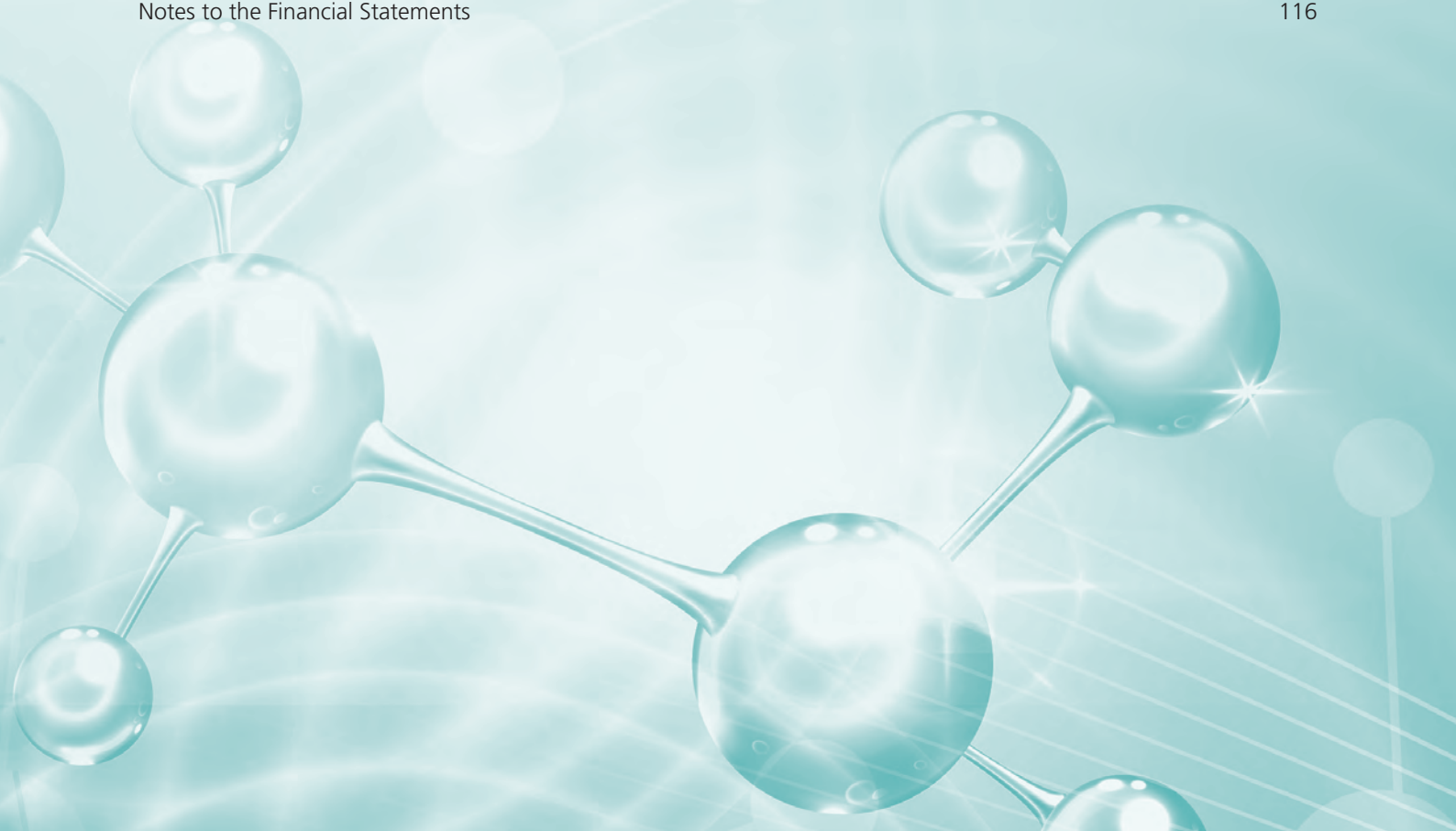
*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 1652

**2023** ANNUAL  
REPORT

# Contents

Corporate Information	02
Financial Summary	04
Chairman’s Statement	05
Management Discussion and Analysis	06
Biographical Details of Directors, Senior Management and Company Secretary	12
Corporate Governance Report	17
Environmental, Social and Governance Report	31
Report of the Directors	80
Independent Auditor’s Report	103
Consolidated Statement of Profit or Loss and Other Comprehensive Income	109
Consolidated Statement of Financial Position	111
Consolidated Statement of Changes in Equity	113
Consolidated Cash Flow Statement	114
Notes to the Financial Statements	116



# Corporate Information

## EXECUTIVE DIRECTORS

Mr. Cao Changcheng (*Chairman*)  
Mr. Cao Zhiming  
Mr. Hou Taisheng  
Ms. Meng Qingfen  
Mr. Chi Yongsheng

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Sze Wing Chun  
Mr. Lee Kwok Tung Louis  
Dr. To Kit Wa

## AUDIT COMMITTEE

Mr. Sze Wing Chun (*Chairman*)  
Mr. Lee Kwok Tung Louis  
Dr. To Kit Wa

## NOMINATION COMMITTEE

Mr. Cao Changcheng (*Chairman*)  
Mr. Lee Kwok Tung Louis  
Dr. To Kit Wa

## REMUNERATION COMMITTEE

Mr. Lee Kwok Tung Louis (*Chairman*)  
Mr. Cao Changcheng  
Dr. To Kit Wa

## COMPANY SECRETARY

Mr. Wong Tik Man

## AUTHORISED REPRESENTATIVES

Mr. Cao Zhiming  
Mr. Wong Tik Man

## INVESTOR RELATIONS

Mr. Cao Zhiming

## AUDITOR

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

## COMPLIANCE ADVISER

Dakin Capital Limited

## LEGAL ADVISOR

D. S. Cheung & Co.

## REGISTERED OFFICE

Windward 3  
Regatta Office Park  
PO Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

## HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

Urban Industrial Zone  
Xichuan County, Henan Province  
China  
(中國河南省淅川縣城區工業園區)

## PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART 16 OF THE COMPANIES ORDINANCE

Workshop 05 & 06, 15/F  
Hundsun International Centre  
44 Heung Yip Road  
Aberdeen  
Hong Kong

# Corporate Information *(Continued)*

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited  
Shops 1712–1716, 17th Floor, Hopewell Centre  
183 Queen’s Road East  
Wanchai, Hong Kong

## CAYMAN ISLANDS SHARE REGISTRAR

Ocorian Trust (Cayman) Limited  
Windward 3  
Regatta Office Park  
PO Box 1350  
Grand Cayman KY1-1108  
Cayman Islands

## PRINCIPAL BANKERS

Wing Lung Bank Ltd.  
45 Des Voeux Road Central  
Hong Kong

Bank of Pingdingshan Co., Ltd.  
Zhengzhou Branch  
1st Floor, Bank of Pingdingshan Building  
No. 6 Fung Yi Road  
Jinshui District, Zhengzhou City  
Henan Province  
China

China Construction Bank Corporation  
Xichuan Branch  
Middle Section, Jiefang Road  
Chengguan Town, Xichuan County  
Henan Province  
China

## LISTING INFORMATION

Date of listing: 11 July 2018  
Place of incorporation: Cayman Islands  
Place of listing: Main Board of The Stock Exchange of  
Hong Kong Limited  
Stock Code: 1652  
Board lot: 1000 shares  
Financial year end: 31 December

## COMPANY’S WEBSITE

[www.fusenyy.com](http://www.fusenyy.com)

# Financial Summary

## RESULTS

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	<b>565,608</b>	491,757	385,664	486,854	407,388
Cost of sales	<b>(266,102)</b>	(266,736)	(174,531)	(220,787)	(194,900)
Gross profit	<b>299,506</b>	225,021	211,133	266,067	212,488
Other net income/(loss)	<b>146</b>	7,379	(2,815)	4,734	25,194
Selling and distribution expenses	<b>(139,541)</b>	(118,721)	(90,946)	(107,407)	(112,805)
General and administrative expenses	<b>(140,095)</b>	(69,921)	(65,235)	(78,874)	(58,729)
Impairment loss on goodwill and intangible assets	<b>–</b>	–	–	(22,637)	–
Profit from operations	<b>20,016</b>	43,758	52,137	61,883	66,148
Net finance costs	<b>(8,843)</b>	(15,725)	(7,097)	(7,730)	(6,869)
Impairment on interest in a joint venture	<b>–</b>	(38,007)	(19,280)	–	–
Impairment on interest in an associate	<b>(20,329)</b>	–	–	–	–
Share of (loss)/profit of a joint venture	<b>(11,186)</b>	(11,816)	11,669	24,252	4,535
Share of loss of an associate	<b>(9,106)</b>	(9,203)	(13,638)	–	–
(Loss)/profit before taxation	<b>(29,448)</b>	(30,993)	23,791	78,405	63,814
Income tax	<b>(6,847)</b>	(3,661)	(7,178)	(15,737)	(11,555)
(Loss)/profit for the year	<b>(36,295)</b>	(34,654)	16,613	62,668	52,259

## ASSETS AND LIABILITIES

	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	<b>1,343,745</b>	1,350,268	1,239,336	1,241,347	1,176,229
Total liabilities	<b>781,519</b>	737,375	582,392	583,098	494,689
Total equity	<b>562,226</b>	612,893	656,944	658,249	681,540

# Chairman's Statement

Dear Shareholders,

Through the collective efforts of all employees, the Group achieved revenue of RMB565.6 million in 2023, representing an increase of 15.0% as compared to the corresponding period in 2022. The gross profit margin also improved from 45.76% in 2022 to 52.95% in 2023, which signified a recovery to the level achieved in 2021. Nevertheless, the Group still incurred a net loss in 2023. Such loss was primarily attributable to the Group's persistent increase in research and development investments to lay a solid foundation for future development, as well as the impairment of goodwill of an associate, which has also had an impact on the overall profitability of the Company.

The Group recognises that its long-term stable development would rest upon a number of core factors, including a diversified product portfolio and continuous research and development capabilities of new product. The Group's research and development expenses in 2023 amounted to approximately RMB65.2 million, representing an increase of approximately RMB50 million as compared to approximately RMB15.2 million in the corresponding period in 2022. Currently, the Group has a total of 50 research and development projects in progress, including 31 generic chemical projects, 12 active pharmaceutical ingredient projects, and 7 new drug projects in the category of traditional Chinese medicine. Among these, 4 projects are currently under review and approval, and it is expected that around 10 products will be submitted for new drug market applications in 2024. Jiaheng Pharmaceutical, a wholly-owned subsidiary of the Group, will utilise various financing methods to ensure sufficient funds for research and development investments.

The Group believes that efficient and cost-controlled production base serves as the foundation for the Group's expansion and development. As the Company's new factories and production lines gradually commenced operations, both production capacity and efficiency witnessed continuous improvements. Furthermore, the Group retrofitted its factories and production lines with photovoltaic technology, harnessing solar energy for power generation to reduce carbon emissions and lower electricity costs. The Group is actively constructing its chemical Active Pharmaceutical Ingredient (API) production base, with trial production expected to commence in the second quarter of this year, which provide cost advantages for the Company's current pipeline of generic pharmaceutical products under research. All of these capital investments have prepared the Group for future capacity expansion. On the market and sales front, the Group consistently integrated and optimised its sales teams to increase the coverage of existing products, actively leveraging new media channels to enhance the Company's brand and engage in content promotion. At the same time, the Company is establishing a dedicated clinical channel sales team for the upcoming launch of new products, preparing for a swift market entry upon their introduction.

Market volatility and intense competition pose challenges that companies must confront in their course of development, and the Group remains confident about the future. Considering the Group's continuously expanding product pipeline as the foundation for its ongoing development, the Company will persistently screen and initiate research on market-valuable products for further development and implementation. The commissioning of new production line has not only expanded our production capacity but also continuously enhanced our production efficiency. At the same time, the Group will continue to optimize its product sales system and increase market coverage. I, hereby, would like to express my sincere gratitude on behalf of the board of directors of the Company to the shareholders, customers, and strategic partners of the Company for their trust and support. We strive to achieve sound operating results in 2024 to reward our shareholders and investors.

**Cao Changcheng**

*Chairman of the Board*

28 March 2024

# Management Discussion and Analysis

## Overview

The Group's net loss for the year ended 31 December 2023 amounted to approximately RMB36.3 million, representing an increase of approximately 4.6% compared to the corresponding period in 2022. The decrease in profit from operations for the year ended 31 December 2023 compared to the corresponding period in 2022 was primarily attributable to increased investments in research and development, aimed at enriching the Company's product pipeline and laying the foundation for the Group's future sales of new products. As the Group's new factories and production lines gradually commenced operations, both production capacity and efficiency witnessed continuous improvements. Furthermore, the Group retrofitted its factories and production lines with photovoltaic technology, harnessing solar energy for power generation to reduce carbon emissions and lower electricity costs. The Group consistently integrated and optimised its sales teams, actively leveraging new media channels to enhance the Company's brand and engage in content promotion. The market experienced sustained and intense fluctuations throughout 2023, particularly during the second half of 2023, intensifying competition. A joint venture and an associate of the Group were also impacted by such market conditions, contributing to their own operational losses and subsequent losses attributable to the Company. Consequently, the Group conducted assessments and provided for the corresponding impairment losses in accordance with the requirements of the accounting standards.

## Business Review

The Group's operating revenue in 2023 was approximately RMB565.6 million, representing an increase of 15.0% compared to the corresponding period in 2022. This marks the second consecutive year of continuous growth in the Group's operating revenue and represents the highest annual operating revenue since its listing. The Group's gross profit for 2023 was approximately RMB299.5 million, representing an increase of 33.1% compared to the corresponding period in 2022, and our gross profit margin increased from 45.8% in 2022 to 53.0% in 2023. The growth in the Group's revenue was not only attributable to traditional proprietary cold and fever drugs but also to the continuous growth of revenue and proportion from new sellable products. Moreover, while the operating revenue has been continuously increasing, the Group has made effective control over its marketing expenses, with selling and distribution expenses accounting for approximately 24.7% of operating revenue in comparison to 24.1% in the corresponding period in 2022, reflecting minimal change. The Group has consistently increased its investment in research and development, with research and development expenses reaching approximately RMB65.2 million in 2023, representing an increase of approximately RMB50.0 million as compared to approximately RMB15.2 million in the corresponding period in 2022. Currently, there are a total of 50 research and development projects in progress, including 31 pharmaceutical formulation projects, 12 chemical Active Pharmaceutical Ingredient (API) projects, 7 new drug project in the category of traditional Chinese medicine, 3 projects are currently under review and approval, and it is expected that the application for the registration of about ten of the products will be submitted in 2024. This investment is primarily aimed at laying the foundation for the Company's future development. Although the Group reported a loss for the year in the consolidated financial statements, Henan Fusen, as our core business segment, continued to maintain profitability when excluding the impact of investment in research and development expenses.

# Management Discussion and Analysis *(Continued)*

## Outlook

Market volatility and intense competition are inevitable stages in the process of corporate development, but the Group remains confident about the future. The Group will continue to increase investments in production and expand its production capacity in preparation for the production of new products in the future. The progress of the Group's chemical Active Pharmaceutical Ingredient (API) production base is steadily advancing as scheduled. In terms of new product development, the Group will continue to increase its investment and select market-valued projects for implementation. Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited ("Jiaheng Pharmaceutical"), a wholly-owned subsidiary of the Group, will utilise various financing methods to ensure sufficient funds for research and development investments.

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by approximately RMB73.8 million, or 15.0%, from approximately RMB491.8 million for the year ended 31 December 2022 to approximately RMB565.6 million for the year ended 31 December 2023. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2023 and 2022:

	2023		Year ended 31 December		
	Revenue RMB'000	% of total	2022 Revenue RMB'000	% of total	Growth rate %
<i>Manufacturing products</i>					
Shuanghuanglian Oral Solutions	<b>275,766</b>	<b>48.9%</b>	236,394	48.1%	16.7%
Shuanghuanglian Injections	<b>97,986</b>	<b>17.3%</b>	73,864	15.0%	32.7%
Heat-clearing and Detoxicating Oral Solutions	<b>48,605</b>	<b>8.6%</b>	23,716	4.8%	104.9%
Nicardipine Hydrochloride Injections	<b>27,300</b>	<b>4.8%</b>	18,786	3.8%	45.3%
Other Products	<b>100,965</b>	<b>17.8%</b>	116,198	23.7%	-13.1%
<b>Subtotal</b>	<b>550,622</b>	<b>97.4%</b>	468,958	95.4%	17.4%
<i>Third-party products</i>	<b>14,986</b>	<b>2.6%</b>	22,799	4.6%	-34.3%
<b>Total</b>	<b>565,608</b>	<b>100.0%</b>	491,757	100.0%	15.0%

The increase in revenue of the Group was mainly due to the increase in the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections and Heat-clearing and Detoxicating Oral Solutions. The third party products comprise of medicine produced by other pharmaceutical companies. The Group sells those products through its own sales team.



# Management Discussion and Analysis *(Continued)*

## Cost of sales

Cost of sales remained stable at approximately RMB266.1 million for the year ended 31 December 2023, as compared to approximately RMB266.7 million for the year ended 31 December 2022.

## Gross profit and gross profit margin

Gross profit increased by approximately RMB74.5 million from approximately RMB225.0 million for the year ended 31 December 2022 to approximately RMB299.5 million for the year ended 31 December 2023. The Group's gross profit margin was approximately 53.0% and 45.8% for the years ended 31 December 2023 and 2022, respectively.

## Other net income

Our other net income in 2023 primarily consists of net realised and unrealised gains on derivative financial instruments, government grants and others. The other net income decreased by approximately RMB7.2 million from the other net loss of approximately RMB7.4 million for the year ended 31 December 2022 to the other net income of approximately RMB0.2 million for the year ended 31 December 2023, primarily due to the net realised and unrealised losses on derivative financial instruments.

## Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses increased by approximately RMB20.8 million, or 17.5%, from approximately RMB118.7 million for the year ended 31 December 2022 to approximately RMB139.5 million for the year ended 31 December 2023, mainly represented by the approximately RMB9.8 million increase in service fee and by the approximately RMB5.3 million in advertisement expenses.

## General and administrative expenses

The general and administrative expenses increased by approximately RMB20.2 million, or 36.9%, from approximately RMB54.7 million for the year ended 31 December 2022 to approximately RMB74.9 million for the year ended 31 December 2023, mainly attributable to the increase in credit loss of approximately RMB21.8 million for the year ended 31 December 2023.

## Research and development expenses

The research and development expenses increased by approximately RMB50.0 million from approximately RMB15.2 million for the year ended 31 December 2022 to approximately RMB65.2 million for the year ended 31 December 2023. The expenses were mainly for the research and development on new medicine products.

## Net finance costs

Our net finance costs represent finance income, which includes interest income derived from bank deposits, less finance costs, interest on bank loans and foreign exchange loss.

The net finance costs decreased from approximately RMB15.7 million for the year ended 31 December 2022 to approximately RMB8.8 million for the year ended 31 December 2023, mainly attributable to the decrease in net foreign exchange loss.

# Management Discussion and Analysis *(Continued)*

## Impairment on interest in an associate

Impairment on interest in an associate was arising from the Group's associate, namely Weihai Rensheng Pharmaceutical Group Company Limited ("**Weihai Rensheng**"). The impairment on interest in an associate was approximately RMB20.3 million for the year ended 31 December 2023 (for the year ended 31 December 2022: Nil).

As the performance of Weihai Rensheng is less than satisfactory, the management of the Group has engaged an external valuer to carry out an impairment assessment on Weihai Rensheng CGU at 31 December 2023. The recoverable amount of Weihai Rensheng CGU is the greater of its value in use ("**VIU**") and the fair value less costs of disposal ("**FVLCOD**") of the Group's interest in an associate. The VIU calculation uses cash flow projections covering a five-year period based on financial budgets prepared by the management of Weihai Rensheng and strategic projections representing the best estimated future performance of Weihai Rensheng. The terminal growth rate is 2.2%. The pre-tax discount rate used is 23.0%. The FVLCOD calculation is determined based on the aggregated fair value of the existing business using income approach and the drug licences estimated based on recent or expected transaction price.

## Share of loss of a joint venture

Share of loss of a joint venture of the Group decreased by approximately RMB0.6 million from approximately RMB11.8 million loss in 2022 to approximately RMB11.2 million loss in 2023. The Group interests is due from Jiangxi Yongfeng Kangde Pharmaceutical Company Limited ("**Jiangxi Yongfeng Kangde**"), whose 35.8% shares are owned by the Group. Such loss of Jiangxi Yongfeng Kangde was mainly due to a centralized procurement policy and the decrease in sales of its major product, Kefadim, and recognition of write-down of inventories as a result.

## Share of loss of an associate

Share of loss of associate of the Group decreased by approximately RMB0.1 million from approximately RMB9.2 million loss in 2022 to approximately RMB9.1 million loss in 2023. The Group interests is due from Weihai Rensheng, whose 34% shares are owned by the Group.

## Income tax expenses

Income taxes increased from approximately RMB3.7 million in 2022 to approximately RMB6.8 million in 2023. Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen, our subsidiary, was certified as a High New Technology Enterprise in Henan province and has been entitled to a preferential income tax rate of 15%. Our effective tax rate was 23.3% and 11.8% in 2023 and 2022 respectively. The increase was primarily attributable to the non-deductible research and development expenses of the Company's subsidiary Jiaheng Pharmaceutical.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2023, the Group had net current liabilities of approximately RMB97.7 million (2022: RMB108.0 million) and cash and cash equivalents of approximately RMB34.9 million (2022: RMB128.1 million).

As at 31 December 2023, the Group's total equity attributable to equity shareholders of the Company amounted to approximately RMB563.5 million (2022: RMB614.2 million), and the Group's total debt amounted to approximately RMB342.3 million (2022: RMB225.8 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

# Management Discussion and Analysis *(Continued)*

## GEARING RATIO

As at 31 December 2023, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 60.9% (2022: 36.8%).

## CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2023 and 2022 not provided for in the financial statements were as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contracted for	82,205	17,634

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2023 (2022: Nil).

## INFORMATION ON EMPLOYEES

As at 31 December 2023, the Group employed 1,148 employees (2022: 1,159 employees). Employees are remunerated based on their qualifications, position and performance. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the year ended 31 December 2023, the total staff cost (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB103.9 million (2022: RMB91.8 million).

## TREASURY POLICY

The Directors will continue to follow a prudent policy in managing the Group's cash and maintaining a strong and healthy liquidity to ensure that the Group is well placed to take advantage of future growth opportunities.

## CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2023, the Group's equity interest attributable to shareholders amounted to approximately RMB562.2 million (31 December 2022: approximately RMB612.9 million) in aggregate and total liabilities amounted to approximately RMB781.5 million (31 December 2022: approximately RMB737.4 million). The Group is committed to maintaining an appropriate combination of equity and debt, in order to maintain an effective capital structure and provide maximum returns for shareholders.

# Management Discussion and Analysis *(Continued)*

## CHARGE ON GROUP ASSETS

As at 31 December 2023, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment, investment property and right-of-use assets which had an aggregate carrying amount of RMB148,731,000 (31 December 2022: Nil).

## FOREIGN EXCHANGE EXPOSURE

The Group conducts business primarily in the PRC with most of its transactions denominated and settled in Renminbi. The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD. The Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

## MATERIAL ACQUISITION AND DISPOSAL

The Group did not perform any material acquisition or disposal of subsidiaries for the year ended 31 December 2023.

## SIGNIFICANT INVESTMENT

Save as disclosed in this report, the Group did not have any significant investment for the year ended 31 December 2023.

## EVENT AFTER THE REPORTING PERIOD

On 16 April 2024, Henan Fusen Pharmaceutical Company Limited (河南福森藥業有限公司) ("**Henan Fusen**"), an indirect wholly-owned subsidiary of the Company (as Limited Partner A), entered into a limited partnership agreement with China United Innovative (Beijing) Technology Development Company Limited (中企聯合創新(北京)科技發展有限公司) (as General Partner) and Qingdao Qiji Electronic Technology Company Limited (青島啟集電子科技有限公司) (as Limited Partner B) in relation to the formation of a limited liability partnership (the "**Limited Liability Partnership**"). The total capital commitment of Henan Fusen is RMB85,000,000 and is expected to be funded by internal resources of the Group.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Limited Liability Partnership exceeds 5% but all of them are less than 25%, the formation of the Limited Liability Partnership constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules. For further details, please refer to the announcement of the Company dated 16 April 2024.

Save as disclosed above, there is no significant event subsequent to 31 December 2023 and up to the date of this report which would materially affect the Group's operations and financial performance.

# Biographical Details of Directors, Senior Management and Company Secretary

## DIRECTORS OF THE COMPANY

### Executive Directors

**Mr. Cao Changcheng (曹長城先生)**, aged 67, is an executive Director, the chairman of the Board and the founder of the Group. Mr. Cao is one of the Controlling Shareholders of the Company (as defined in the Listing Rules) and also a director of a wholly-owned subsidiary of the Company, Henan Fusen. Mr. Cao is primarily responsible for the formulation of overall business development strategy and major business decision of the Group. He has over 22 years of experience in the pharmaceutical industry. Prior to joining the Group, Mr. Cao was the general manager of Henan Xichuan Pharmaceutical Group Company Limited (河南浙川製藥集團有限公司) (“**Henan Xichuan Pharmaceutical**”), a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from November 2000 to October 2003.

Under the leadership of Mr. Cao, Henan Fusen successfully developed Shuanghuanglian Oral Solutions and Shuanghuanglian Injections and they have become our major products since 2004. Henan Fusen also obtained the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Mr. Cao’s innovation also led to the establishment of the Henan Province Microencapsulation Technology Research Centre (河南微囊化藥物工程技術研究中心) in 2012 and Henan Fusen was recognised by the Henan Department of Science and Technology (河南省科學技術廳) as a High New Technology Enterprise (高新技術企業) in 2015.

Mr. Cao obtained a graduation certificate of the major of Economic Administration from Northeastern University (東北大學) in July 2000 through long distance learning. He was awarded a Certificate of the completion of Advance Course in Business Development Strategy and Innovative Operation Skills (企業戰略與創新經營高級研修班) by Tsinghua University (清華大學) in October 2014 through long distance learning.

Mr. Cao has been a member of the 12th People’s Congress of Henan Province (第12屆河南省人民代表大會委員) since January 2013.

Mr. Cao is the father of Mr. Cao Zhiming who is an executive Director and the chief executive officer of the Company.

**Mr. Hou Taisheng (侯太生先生)**, aged 61, is an executive Director of the Company. Mr. Hou joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Hou is primarily responsible for general management and overseeing the sales and marketing of the Group. He has over 21 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Mr. Hou was the deputy general manager of Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from March 2002 to October 2003.

He was also a sales representative in charge of the sales and marketing of our products in Nanyang city and Henan Province from 2003 to 2007. Under the leadership of Mr. Hou, Henan Fusen has developed extensive nationwide sales and distribution network covering each of the 31 provinces, autonomous regions and centrally administered municipalities in the PRC since 2016.

Mr. Hou obtained an Associate Degree of Business Administration from the Party School of the Henan Provincial Committee of CPC (河南省委黨校) in July 1982 through long distance learning.

## Biographical Details of Directors, Senior Management and Company Secretary *(Continued)*

**Mr. Chi Yongsheng (遲永勝先生)**, aged 62, is an executive Director. Mr. Chi joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Chi is primarily responsible for overseeing the financial operation of the Group. He has over 24 years of experience in the pharmaceutical industry in PRC. Prior to joining the Group, Mr. Chi worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1995 to October 2003. Mr. Chi was responsible for the audit work in Henan Xichuan Pharmaceutical and he was promoted to manage the finance department in 2000.

Mr. Chi obtained an Associate Degree of Business Management from the Henan Agricultural University (河南農業大學) in July 1994 through an off-the-job learning programme.

**Ms. Meng Qingfen (孟慶芬女士)**, aged 59, is an executive Director. Ms. Meng joined the Group in October 2003 as a director and vice president of Henan Fusen. Ms. Meng is primarily responsible for overseeing the research, development and quality control of our products and the production of the Group. She has over 28 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Ms. Meng worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1988 to October 2003 with her latest position as deputy general manager. Ms. Meng was the supervisor of the production line for extraction of traditional Chinese medicine (提取車間) in 1993 and she was also in charge of the quality control system in 1998 during her time in Henan Xichuan Pharmaceutical. Ms. Meng has been the head of the Group's production house since 2003 responsible for ensuring the safety and quality of the Group's products. With her help, Henan Fusen was able to obtain the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Ms. Meng has also been appointed as the head of our Group's research and development team in 2013 to strengthen our research and development effort and broaden our product offering.

Ms. Meng obtained a Diploma in Animal Husbandry from Zhengzhou Animal Husbandry and Veterinary College (鄭州畜牧獸醫專科學校) in July 1986 and an Associate Degree of Pharmacy from the Pharmaceutical College of Henan University (河南大學藥學院) in July 2006 through long distance learning.

## Biographical Details of Directors, Senior Management and Company Secretary *(Continued)*

**Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) (曹智銘先生) (前稱曹篤篤先生)**, aged 38, is an executive Director and the chief executive officer of the Company who is primarily responsible for the general management, supervising day-to-day operation, overseeing the investor relations and advising on corporate strategy of the Group. Mr. Cao Zhiming joined the Group in January 2013 as a Director of the Company and in March 2013 as an executive assistant of the chairman of the board of Henan Fusen. He has over 12 years of working experience in securities and corporate finance. Mr. Cao Zhiming's previous working experience includes the following:

Name of companies	Principal business activities	Latest position	Period of services
Essence International Securities (Hong Kong) Limited (安信國際證券(香港)有限公司)	Dealing in and advising on securities	Licensed representative (dealing in securities and futures contracts)	July 2012– February 2013
Haitong International Securities Group Limited (海通國際證券集團有限公司) (stock code: 665)	Dealing in and advising on securities; leveraged foreign exchange trading	Licensed representative (dealing in securities and futures contracts)	April 2010– June 2012
Haitong Securities (HK) Brokerage Limited (海通證券(香港)經紀有限公司)	Dealing in and advising on futures contracts and securities	Licensed representative (dealing in securities and futures contracts)	March 2010– May 2011
Okasan International (Asia) Limited (岡三國際(亞洲)有限公司)	Dealing in futures contracts and securities; advising on securities and corporate finance; asset management	Licensed representative (dealing in securities and futures contracts)	March 2009– December 2009
Core Pacific-Yamaichi Securities (H.K.) Limited (京華山一國際(香港)有限公司)	Dealing in and advising on securities; advising in corporate finance; providing automated trading service; asset management	Licensed representative (dealing in securities and futures contracts)	August 2007– February 2009

Mr. Cao Zhiming obtained a Bachelor of Business Administration in Business Economics from the City University of Hong Kong (香港城市大學) in November 2007 and a master degree of Science in Finance from the Chinese University of Hong Kong (香港中文大學) in November 2012. Mr. Cao Zhiming had also obtained licenses for carrying on type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO for his employers during the period from August 2007 to February 2013.

Mr. Cao Zhiming is the son of Mr. Cao Changcheng who is our executive Director and the chairman of the Board.

# Biographical Details of Directors, Senior Management and Company Secretary *(Continued)*

## Independent Non-Executive Directors

**Mr. Sze Wing Chun (施永進先生)**, aged 47, was appointed as our independent non-executive Director on June 14, 2018. Mr. Sze obtained a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 1998. He has been a member of the Hong Kong Institute of Certified Public Accountants since October 2002 and became a fellow member in May 2017. He has also been a fellow member of the Association of Chartered Certified Accountants since October 2006. Mr. Sze worked at Deloitte Touche Tohmatsu, an international CPA firm from September 1998 to November 2011 and worked at Crowe Horwath (HK) CPA Limited, an international CPA firm from February 2012 to February 2017. He is currently a director of Ascenda Cachet CPA Limited, a CPA firm in Hong Kong. Mr. Sze has over 20 years of experience in auditing, accounting and taxation.

Mr. Sze is was also an independent non-executive director of Pangaea Connectivity Technology Limited (listed on the Main Board of the Stock Exchange, stock code: 1473) from January 2021 to September 2023.

**Mr. Lee Kwok Tung Louis (李國棟先生)**, aged 56, was appointed as an independent non-executive Director on 15 April 2019. Mr. Lee graduated from Macquarie University in Australia with a Bachelor of Economics in 1992. Mr. Lee was admitted as a Certified Practising Accountant of the CPA Australia in June 1996 and a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants (“HKICPA”) in October 1999. Mr. Lee is currently a Fellow Certified Practising Accountant of the CPA Australia and a Fellow Certified Public Accountant of HKICPA. Mr. Lee has accumulated and possessed extensive experience with unlisted groups, listed groups and professional firms in finance, accounting and auditing since 1993.

Mr. Lee is currently an independent non-executive director of Redsun Properties Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1996) and ZONQING Environmental Limited (listed on the Main Board of the Stock Exchange, stock code: 1855).

Mr. Lee was also an independent non-executive director of Winto Group (Holdings) Limited (listed on GEM of the Stock Exchange, stock code: 8238) from January 2015 to May 2016, Zhong Ao Home Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1538) from November 2015 to July 2017, Worldgate Global Logistics Ltd. (listed on GEM of the Stock Exchange, stock code: 8292) from June 2016 to June 2019, China Singyes New Materials Holdings Limited (listed on GEM of the Stock Exchange, stock code: 8073) from June 2017 to December 2019, Windmill Group Limited (listed on the Main Board of the Stock Exchange, stock code: 1850) from March 2017 to November 2021, Titan Invo Technology Limited (listed on the Main Board of the Stock Exchange, stock code: 872) from August 2020 to April 2023, CGN Mining Company Limited (listed on the Main Board of the Stock Exchange, stock code: 1164) from August 2014 to August 2023 and Zhengwei Group Holdings Company Limited (listed on the Main Board of the Stock Exchange, stock code: 2147) from December 2022 to February 2024.

**Dr. To Kit Wa (杜潔華博士)**, aged 49, was appointed as an independent non-executive Director on 13 August 2020. Dr. To obtained a Bachelor of Science in General Biology in 1996, a Master of Philosophy in 2002 and a Doctor of Philosophy in Cancer Biology in 2007 from The University of Hong Kong. She also received the Certificate and the Diploma of Marketing from HKU School of Professional and Continuing Education in 2000 and 2001 respectively. She also obtained Master of Corporate Governance from Hong Kong Metropolitan University in 2022. She also got the associateship of the Hong Kong Chartered Governance Institute in February 2024.



## Biographical Details of Directors, Senior Management and Company Secretary *(Continued)*

Dr. To joined Winsor (Hong Kong) Limited as an assistant manager to supervise a group of research assistants for the daily operation of a laboratory from 2010 to 2013. Dr. To conducted research in the Laboratory of Biomedical Imaging and Signal Processing in the Department of Electrical and Electronic Engineering, The University of Hong Kong from 2015 to 15 June 2020.

Dr. To has also been appointed as independent director of Garden Stage Limited (listed on the Nasdaq stock market, stock code: GSIW) on 1/3/2024.

### SENIOR MANAGEMENT

**Mr. Li Zhen (李鎮先生)**, aged 46, was appointed as the chief financial officer of the Company on 18 April 2019. He is responsible for overseeing the Group's overall financial accounting.

Mr. Li is a member of the Chinese Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He obtained a Bachelor of Management in Accountancy from Central University of Finance and Economics (中央財經大學). Mr. Li has over 21 years of experience in accounting, auditing and finance. He started his career at KPMG Huazhen from September 2000 to April 2010 with his last position as Senior Manager. He had been the financial controller in Beijing BOE Vision-Electronic Technology Company Limited (北京京東方視迅科技有限公司) and the chief financial officer in Shenzhen Aishide Company Limited (深圳市愛施德股份有限公司). He had served as the chief financial officer in Evercare (Beijing) Holding Group Company Limited (伊美爾(北京)控股集團股份有限公司) from May 2016 to July 2017. Prior to joining our Group in April 2019, he served as an assistant financial controller in Dr. Peng Telecom & Media Company Limited (鵬博士電信傳媒集團股份有限公司) from July 2017 to April 2018.

**Mr. Fu Jiancheng (付建成先生)**, aged 64, is the vice president of the Company. Mr. Fu joined the Group in October 2003 as a supervisor of Henan Fusen. Mr. Fu is primarily responsible for the human resources and administrative management of the Group. He has over 18 years of experience in the pharmaceutical industry in PRC.

Mr. Fu obtained an Associate Degree of Sales Management from the Henan Institute of Coal Industry Management (河南煤炭管理幹部學院) in July 1980 through long distance learning.

### COMPANY SECRETARY

**Mr. Wong Tik Man (王迪民先生)**, aged 43, was appointed as our company secretary on 29 January 2021. Mr. Wong is responsible for overseeing the compliance and company secretarial matters of our Group. is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a Bachelor of Accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 2005.

Mr. Wong has over 18 years of experience in accounting, auditing and company secretarial matters. Prior to joining the Company, Mr. Wong worked for various organisations and audit firms, including Ta Yang Group Holdings Limited (stock code: 1991) from April 2018 to December 2019 as a financial controller. He is currently a director of Windward CPA Limited.

# Corporate Governance Report

## CORPORATE GOVERNANCE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability.

The Company has adopted the principles and code provisions stated in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 to the Listing Rules, save for the C.6.1 of the CG Code and please refer to the paragraph headed “Company Secretary” on page 26 of this report for details. Since the date of the listing of the Shares (the “**Listing**”) on the Main Board of the Stock Exchange on 11 July 2018 (the “**Listing Date**”) and up to the date of this report, the Company has fully complied with CG Code, except for the matters disclosed in our announcement dated 23 March 2020.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) set out in Appendix C3 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the year ended 31 December 2023.

## NON-COMPETITION UNDERTAKING

During the year ended 31 December 2023, none of the Directors nor their respective associates (as defined in the Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

Each of Mr. Cao Changcheng and Full Bliss Holdings Limited (collectively referred to as the “**Controlling Shareholders**”), has confirmed to the Company of his or its compliance with the non-competition undertakings provided to the Company under a deed of non-competition dated 14 June 2018 (the “**Deed of Non-competition**”). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-competition had been complied with by the above-mentioned parties and duly enforced for the year ended 31 December 2023.

# Corporate Governance Report *(Continued)*

## ROLE AND FUNCTION OF THE BOARD AND MANAGEMENT

The Board is responsible for leadership and control of the Company overseeing the Group's businesses, strategic decisions, risk management, internal control systems and performance. The Board is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors make decisions objectively in the interests of the Company and its Shareholders.

According to the code provision D.1.2 of the CG Code, the management shall provide all members of the Board with monthly updates. For the year ended 31 December 2023, the executive Directors have provided to all other members of the Board updates on any material changes to the position and prospects of the Group, which are considered to be sufficient to provide general updates of the performance of the Group, position and prospects to the Board members and allow them to give a balanced and understandable assessment of the same.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

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

## DIRECTORS' RESPONSIBILITIES

The Board takes the responsibility to oversee all major matters of the Company, including but not limited to formulating and approving the overall strategies and business performance of the Company, monitoring the financial performance and internal control as well as overseeing the risk management system of the Company and monitoring the performance of senior executives. The Board is also responsible for performing the corporate governance duties including the development and reviewing the Company's policies and practices on corporate governance.

Liability insurance for the Directors and senior management officers of the Company was maintained by the Company with coverage for any legal liabilities which may arise in the course of performing their duties.

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements for the year ended 31 December 2023. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

# Corporate Governance Report *(Continued)*

## COMPOSITION

The composition of the Board as at the date of this report is set out as follows:

### Executive Directors

Mr. Cao Changcheng (*Chairman*)

Mr. Cao Zhiming

Mr. Hou Taisheng

Ms. Meng Qingfen

Mr. Chi Yongsheng

### Independent Non-executive Directors

Mr. Sze Wing Chun

Mr. Lee Kwok Tung Louis

Dr. To Kit Wa

Biographical details of the Directors and the relationship between the Directors are set out in the section headed “Biographical Details of Directors, Senior Management and Company Secretary” of this report.

The proportion of independent non-executive Directors complies with the requirement as set out in the Rules 3.10(1) and (2), and 3.10A of the Listing Rules whereby independent non-executive Directors of a listed issuer represent at least one-third of the board of directors. The three independent non-executive Directors represent one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. With the various experience of both the executive Directors and independent non-executive Directors and the nature of the Group’s business, the Board considered that the Directors have a balance of skills and experience for the business of the Group.

Mr. Cao Changcheng is the father of Mr. Cao Zhiming. Save as disclosed, there was no financial, business, family or other material relationship among the Directors during the year ended 31 December 2023.

The Company has received an annual confirmation of independence from each independent non-executive Director and the Company considers such Directors to be independent in accordance with the criteria set out in Rule 3.13 of the Listing Rules.

## CHAIRMAN AND CHIEF EXECUTIVE

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. The positions of chairman and chief executive officer of the Company are held by Mr. Cao Changcheng and Mr. Cao Zhiming, respectively. The chairman provides leadership for the Board and is responsible for formulation of overall business development strategy and major business decision of the Group. The chief executive officer focuses on general management and day-to-day operation, oversees the investor relations and advise on corporate strategy of the Group. Their respective responsibilities are clearly defined and set out in writing.

# Corporate Governance Report *(Continued)*

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

According to article 108 of the Company's memorandum and articles of association, one-third of the Directors for the time being shall retire from office by rotation at every annual general meeting of the Company, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Each of Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun will retire from office as Directors at the forthcoming annual general meeting to be held on Tuesday, 28 May 2024 ("**AGM**"), Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun, being eligible, will offer themselves for re-election at the forthcoming AGM.

According to the Listing Rules and the board diversity policy (the "**Board Diversity Policy**") adopted by the Company on 14 June 2018, the Nomination Committee will, among other things, undertake the nomination and selection of the independent non-executive Director candidates on the completion of his specified terms, and make relevant recommendations to the Board.

Furthermore, when changes to the members or composition of the Board or its Committees are required or when casual vacancies arise, the Nomination Committee shall adhere to the principles stated in the Board Diversity Policy and take into account the existing composition of the Board and its Committees, as well as the business requirements of the Group, and nominate potential candidates by reference to their capacity and the selection criteria to the Board for approval.

Mr. Sze Wing Chun has met the independence criteria under the Listing Rules. Moreover, Mr. Sze Wing Chun has given confirmation of independence to the Company. With due consideration on the above factors, the Board believes that Mr. Sze Wing Chun is independent.

Biographical details of Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun, are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report. Based on their diversified background including, but not limited to, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, length of service and other qualities of Directors, the Board believes that (i) Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun, can contribute to the diversity of the Board; and (ii) their expertise will enable them to fulfill their roles as executive Director or independent non-executive Director effectively, and provide useful and constructive opinion and make contribution to the Board and the development of the Company.

Having considered the above aspects and in view of the contribution that Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun, are able to make to the Board, their re-election will be in the best interests of the Company and its shareholders as a whole.

At the AGM, separate ordinary resolutions will be put forward to the Shareholders in relation to the proposed re-election of Mr. Cao Zhiming and Ms. Meng Qingfen as an executive Director and Mr. Sze Wing Chun as independent non-executive Directors, respectively.

# Corporate Governance Report *(Continued)*

## DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

In compliance with the code provision C.1.4 of the CG Code, all Directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure that they keep abreast of the current requirements. The Company has arranged regular seminars to provide Directors with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements from time to time. The Directors are also provided with regular updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

The Group has also provided reading materials including the CG Code, the Inside Information Provision (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to all Directors to develop and refresh the Directors' knowledge and skills.

The Group continuously updates the Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, so as to ensure that the Directors are aware of their responsibilities and obligations as well as to maintain good corporate governance practices.

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the year ended 31 December 2023 are summarised as follows:

Directors	Type of training (Note)
<b>Executive Director</b>	
Mr. Cao Changcheng	A,B
Mr. Cao Zhiming	A,B
Mr. Hou Taisheng	A,B
Ms. Meng Qingfen	A,B
Mr. Chi Yongsheng	A,B
<b>Independent Non-executive Director</b>	
Mr. Sze Wing Chun	A,B
Mr. Lee Kwok Tung Louis	A,B
Dr. To Kit Wa	A,B

Notes:

Types of training

A: Attending training sessions, including but not limited to, briefing, seminars, conferences, forums and workshops

B: Reading relevant news alerts, newspapers, journals, magazines and relevant publications relating to the latest development of the Listing Rules, other applicable regulatory requirements and directors' duties and responsibilities

# Corporate Governance Report *(Continued)*

## BOARD COMMITTEES

The Board has established three Board committees, namely, the audit committee (the “**Audit Committee**”), the nomination committee (the “**Nomination Committee**”) and the remuneration committee (the “**Remuneration Committee**”), for overseeing particular aspects of the Company’s affairs. All Board committees have been established with defined written terms of reference, which are posted on the Stock Exchange’s website at “www.hkexnews.hk” and the Company’s website at “www.fusenpharma.com”. All Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings set out above.

Directors are encouraged to make a full and active contribution to the Board’s affairs to voice out their views and concerns. A culture of openness and debate is promoted to facilitate the effective contribution of independent non-executive Directors and ensure constructive relations between executive and independent non-executive Directors.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company’s expense.

### Audit Committee

The Company established the Audit Committee on 14 June 2018 with written terms of reference (which had been amended and restated with effect from 1 January 2019) in compliance with Rule 3.21 of the Listing Rules and the CG Code. The Audit Committee consists of three independent non-executive Directors, Mr. Sze Wing Chun (being the chairman of the Audit Committee who has a professional qualification in accountancy), Mr. Lee Kwok Tung Louis and Dr. To Kit Wa. The primary duties of the Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control procedures and risk management system of the Group, to oversee the audit process, to develop and review the Group’s policies and to perform other duties and responsibilities as assigned by the Board. The Audit Committee discussed the accounting principles and policies adopted by the Group together with the management and the external auditors. The written terms of reference of the Audit Committee are posted on the Stock Exchange’s website and on the Company’s website.

The work performed by the Audit Committee during the financial year ended 31 December 2023 included the following:

- The Group’s consolidated financial statements for the year ended 31 December 2023 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2023 comply with applicable accounting standards and the Listing Rules and that adequate disclosures have been made;
- reviewing the accounting principles and practices adopted by the Group; and
- reviewing the annual results announcement of the Group for the year ended 31 December 2023.

# Corporate Governance Report *(Continued)*

## Nomination Committee

The Company established the Nomination Committee on 14 June 2018 with written terms of reference (had been amended and restated with effect from 1 January 2019) in compliance with the CG Code. The Nomination Committee comprises an executive Director, Mr. Cao Changcheng, (being the chairman of the Nomination Committee) and two independent non-executive Directors, Mr. Lee Kwok Tung Louis and Dr. To Kit Wa. The primary duties and responsibilities of the Nomination Committee are to review and assess the composition of the Board and the independence of the independent non-executive Directors and make recommendations to the Board on appointment of new Directors. The nomination policy of the Company aims to lay down a formal, considered and transparent nomination procedure for new members of the Board to ensure orderly succession for appointments and that the Board consists of members who are balanced in skill, experience and diversity in perspectives and satisfy the business requirements of the Company.

In selecting new directors or filling casual vacancies, the Nomination Committee will consider the candidate's professional qualification and skill, integrity and reputation, achievement and experience in the industry in which the Company operates, as well as his time commitment. The Nomination Committee will nominate candidates it considers appropriate with reference to the standards of the Board Diversity Policy, including but not limited to, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, lengths of service, other qualities and factors relating to its own business model and specific needs from time to time. The ultimate decision of all Board appointments should be based on meritocracy and the likely contributions that the selected candidates will bring to the Board. For details of the Board Diversity Policy, please refer to the paragraph headed "Board Diversity Policy" in this section.

According to the Company's nomination procedure, a Nomination Committee meeting will be convened and Board members will be invited to nominate candidates, while candidates recommended by senior management or controlling shareholder of the Company will also be considered. Suitable candidates will then be recommended by the Nomination Committee to the Board for consideration and approval. Directors appointed by the Board will retire and are eligible for re-election at the forthcoming annual general meeting after their appointment. A circular containing information of the directors to be re-elected will be sent to shareholders for their reference in relation to their voting as required by Rule 13.51(2) of the Listing Rules.

The work performed by the Nomination Committee during the year ended 31 December 2023 included the following:

- reviewing the structure, size, composition and diversity of the Board;
- assessing the independence of the independent non-executive Directors; and
- considering the qualifications of the retiring Directors, namely Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun, standing for re-election at the forthcoming AGM.



# Corporate Governance Report *(Continued)*

The Nomination Committee considered that an appropriate balance of diversity perspectives of the Board was maintained. For details of the appointment and re-election of Directors, please refer to paragraph headed "Appointment and Re-election of Directors" in this section.

## Remuneration Committee

The Company established the Remuneration Committee on 14 June 2018 with written terms of reference in compliance with the CG Code. The Remuneration Committee comprises two independent non-executive Directors, Mr. Lee Kwok Tung Louis (being the chairman of the Remuneration Committee) and Dr. To Kit Wa and an executive Director, Mr. Cao Changcheng. The primary duties and responsibilities of the Remuneration Committee include, among other things, to make recommendations to the Board on the appropriate policy and structure for all aspects for the Directors' and senior management's remuneration, to consider the performance bonus (if any) for executive directors, senior management and general staff (if applicable), having regard to their achievements against the performance criteria and by reference to market norms, and make recommendations to the Board, and to review and/or approve matters relating to share schemes under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The written terms of reference of the Remuneration Committee are posted on the Stock Exchange's website and the Company's website.

The work performed by the Remuneration Committee since its establishment and up to the date of this report included the following:

- reviewing the Company's emolument policy and structure for all Directors and senior management of the Company;
- determining the policy for the remuneration of executive Directors, assessing performance of executive Directors and approving the terms of executive directors' service contracts; and
- considering and making recommendations to the Board on the grant of Restricted Share Units to employees of the Group.

The Remuneration Committee has reviewed the remuneration packages and emoluments of the Directors and senior management and considered that they are fair and reasonable during the year ended 31 December 2023. No Director nor any of his associates is involved in deciding his own remuneration.

The Remuneration Committee has adopted the manner set out under the code provision E.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration package of individual executive Director and senior management.

Details of the Director's remuneration and five individuals with highest emoluments are set out in Notes 9 and 10 to the consolidated financial statements.

# Corporate Governance Report *(Continued)*

## ATTENDANCE RECORDS OF MEETINGS

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. The company secretary is responsible for preparing the agenda for each meeting after consulting with the chairman, and all Directors are given the opportunity to include matters for discussion in the agenda. The company secretary sends notice of the Board meeting to the Directors before the meeting is held in accordance with the CG Code and articles of association of the Company. The company secretary also sends the agenda, board papers and relevant information in relation to the Group to the Directors at least 3 days before each Board meeting and committee meeting, and keeps the Directors updated on the Group's performance and latest developments. If any Director raises any queries, steps will be taken to respond to such queries as promptly and fully as possible. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

Five Board meetings and three Audit Committee meetings, two Remuneration Committee meetings and one Nomination Committee meeting were held during the year ended 31 December 2023. The individual attendance records of the meetings are set out as follows:

	No. of meetings attended during the year ended 31 December 2023				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General meeting
<i>Executive Directors</i>					
Mr. Cao Changcheng	4/4	–	2/2	1/1	1/1
Mr. Cao Zhiming	4/4	–	–	–	1/1
Mr. Hou Taisheng	4/4	–	–	–	1/1
Ms. Meng Qingfen	4/4	–	–	–	1/1
Mr. Chi Yongsheng	4/4	–	–	–	1/1
<i>Independent non-executive Directors</i>					
Mr. Sze Wing Chun	5/5	3/3	–	–	1/1
Mr. Lee Kwok Tung Louis	5/5	3/3	2/2	1/1	1/1
Dr. To Kit Wa	5/5	3/3	2/2	1/1	1/1

Under the code provision C.5.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. The Directors consider that they have met regularly for the year ended 31 December 2023.

The chairman also held a meeting with independent non-executive Directors without presence of other Directors for the year ended 31 December 2023.

# Corporate Governance Report *(Continued)*

## BOARD DIVERSITY POLICY

The Board recognises and embraces the benefits of having a diverse Board with a view to enhancing its effectiveness and achieving a high standard of corporate governance. The Board also sees diversity as an essential element in maintaining a competitive advantage and contributing to the attainment of the strategic objectives and sustainable development of the Company. Therefore, the Company has adopted a board diversity policy on 14 June 2018 to ensure that the Company will, when determining the composition of the Board, consider board diversity in terms of the selection criteria (the “**Selection Criteria**”) based on a range of diversity perspectives including, among other things, gender, age, cultural and educational background, professional experience, talents, skills, knowledge, length of service and other qualities of Directors. All appointments by the Board will be based on meritocracy, and candidates will be considered against the Selection Criteria. The Board is committed to achieving gender diversity and other diversity perspectives, with the ultimate goal of achieving gender parity on the Board. To ensure gender diversity of the Board, in selecting candidates for new directors or filling casual vacancies of the Board, the Nomination Committee will continue to identify suitable candidates of both genders to the Board to be appointed as Directors based on the Selection Criteria.

As at the date of this report, the Board comprises eight Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. Six of our Directors are male and two of our Directors are female. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service.

As at 31 December 2023, the workforce (including senior management) comprised of 50.91% female and 49.09% male. The Company is determined to and will continue to achieve and maintain gender diversity and equality in terms of the Board and the general workforce.

### Company secretary

Mr. Wong Tik Man was appointed as the company secretary of the Company on 19 January 2021. He is an external service provider to the Company and his primary corporate contact person is Mr. Li Zhen, the chief financial officer of the Company, for the purpose of code provision of C.6.1 of the CG code. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Wong through the contact person assigned. Having in place a mechanism that Mr. Wong will get hold of the Group’s development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Wong as the company secretary is beneficial to the Group’s compliance with the relevant board procedures, applicable laws, rules and regulations. The biographical details of Mr. Wong are set out under the section headed “Biographical Details of Directors, Senior Management and Company Secretary”.

In accordance with Rule 3.29 of the Listing Rules. Mr. Wong has taken no less than 15 hours of relevant professional training during the year ended 31 December 2023.

## CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company’s policies and practices on corporate governance and code of conduct applicable to employees and the Directors, reviewing and monitoring training and continuous professional development of the Directors and senior management and the Company’s policies and practices on compliance with legal and regulatory requirements, as well as reviewing the Company’s compliance with the CG Code and disclosure in the Corporate Governance Report.

# Corporate Governance Report *(Continued)*

## INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2023, the remuneration paid and payable to the external auditors of the Company, KPMG, in respect of the audit services was as follow:

Services rendered	Remuneration paid/payable RMB'000
Audit services	4,008

## SHAREHOLDERS' RIGHT

As one of the measures to safeguard Shareholders' interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the Stock Exchange's website and the Company's website after the relevant Shareholders' meeting. To ensure that the shareholders are familiar with the detailed procedures for conducting poll, detailed procedures for conducting a poll are explained at the commencement of the general meetings, and all questions from shareholders on the voting procedures will be answered before the poll voting starts.

### Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary general meetings may be convened on the requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

### Putting Forward Enquiries to the Board

Shareholders may send written enquiries or requests in respect of their rights to the Company's principal business address in Hong Kong.

### Procedures for Putting Forward Proposals at Shareholders' Meeting

There are no provisions under the articles of association of the Company regarding procedures for the Shareholders to put forward proposals at general meetings. However, Shareholders who wish to propose resolutions may follow the procedures set out above to requisition for an extraordinary general meeting and include a resolution at such meeting.

# Corporate Governance Report *(Continued)*

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board continuously supervises the effectiveness of the Company's risk management and internal control system with the assistance of the Audit Committee, so as to protect the Company's assets and the interests of Shareholders. The Company's risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has established its internal audit function, which is responsible for independently reviewing the adequacy and effectiveness of the Company's risk management and internal control system on an annual basis and reporting the results to the Audit Committee. In addition to the internal audit function, all employees are accountable for risk management and internal control within their business scope. Business departments actively cooperate with internal control and internal audit functions, report to the management team on any important business development and how policies and strategies established by the Company are implemented within the department, and timely identify, assess and manage major risks.

The Company has formulated risk management and internal control management policies to construct a fundamental environment for risk management and internal control. In addition, the Company has set up the internal control framework, which relates to business processes such as procurement, sales, human resources and payroll, capital, intellectual property rights, financial reporting and disclosure. The Board has conducted yearly review of the effectiveness of the internal control system of the Company and its subsidiaries and has planned to further develop the risk management and internal control system to ensure its effective operation.

For the year ended 31 December 2023, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. No material deviation in the compliance guidance on risk management and internal controls by the subsidiaries was reported; all subsidiaries have complied with the relevant laws and industry regulations in respect of financial reporting and legal compliance; and no material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue.

For the year ended 31 December 2023, the Board have complied with the code provisions on risk management and internal control as set out in the CG Code.

### Internal control on connected transaction

As a general control, the Group maintained a list of connected persons and entities for the monitoring and identification of connected transaction.

In additional, the risk management and internal control of the Group were reviewed by the external professional consultants for the year ended 31 December 2023. Where appropriate, their recommendations are adopted and enhancements to the risk management and internal controls will be made.

The Board and the Audit Committee considered that (i) the risk management and internal control system of the Company was adequate and efficient; and (ii) the resources allocated, staff qualifications and experience in respect of the accounting, internal auditing and financial reporting functions of the Company as well as training programs and budget were adequate and sufficient.

# Corporate Governance Report *(Continued)*

## **Independent non-executive directors' view on internal control for connected transactions**

The management and independent non-executive Directors will continue to monitor connected transactions of the Company. The management and independent non-executive Directors consider that information provided by the Company's management to assist independent non-executive Directors in their annual review of connected transaction is fair and sufficient. The independent non-executive Directors also made regular enquiries upon whether there is any continuing connected transaction exceeding the proposed annual caps to ensure that continuing connected transaction was identified timely. The independent non-executive Directors have not encountered any challenges or difficulties in their annual review of connected transaction of the Company.

## **WHISTLEBLOWING POLICY**

The Company has established a whistleblowing policy. Whistleblowing channels are published in all workplace. The policy is to facilitate employees, partners and customers to report complaints and internal malpractices to the finance department of the Company, who will review, investigate and follow up these complaints. Once cases are verified, investigation results will be announced within the Company as warnings.

## **COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS**

The Company has adopted shareholders communication policy with the objective of ensuring that the Shareholders and potential investors are provided with ready, equal and timely access to balanced and understandable information about the Company.

According to CG Code Provision F.2.2, the chairman of the Board and all board committees should attend the annual general meeting. The chairman of the board, along with all board committees, have attended the annual general meeting held on 30 May 2023.

The Company also encourages shareholders' active participation in annual general meetings and other general meetings. Notices to shareholders for shareholders' meetings are sent to shareholders before the meetings in accordance with the CG Code and articles of association of the Company to allow sufficient time for their consideration of the proposed resolutions.

The Company has established several channels to communicate with the Shareholders as follows:

- (i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website and the Company's website;
- (ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;
- (iii) corporate information is made available on the Company's website;
- (iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

# Corporate Governance Report *(Continued)*

- (v) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong. The Company has reviewed the shareholders communication policy conducted for the year ended 31 December 2023 and considered that the shareholders communication policy has been well implemented and effective.

## CONSTITUTIONAL DOCUMENTS

There was no change to the Company's memorandum and articles of association during the year ended 31 December 2023.

## DISCLOSURE OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules and the overriding principle that inside information should be announced immediately when it is the subject of a decision.

The procedures and internal controls for the handling and dissemination of inside information are as follows:

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;
- the Group has strictly prohibited unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the Company Secretary and the head of investor relations of the Company are authorised to communicate with parties outside the Group.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

This is the 2023 Environmental, Social and Governance Report (the “**Report**”) released by Fusen Pharmaceutical Company Limited (the “**Group**”, the “**Company**”, “**we**” or “**us**”; stock code: 01652.HK) to the general public. This is the fourth Environmental, Social and Governance Report issued by the Company, which covers the period from 1 January 2023 to 31 December 2023 (the “**Reporting Period**”). The Report, prepared under the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), complies with the “comply or explain” principle and represents the disclosure or explanation of the Company’s sustainable operation activities for the year ended 31 December 2023 with reference to the Company’s actual situation.

During the process of identifying the scope of the reporting boundary, we ensure that the report reflects our ESG impact and performance. Unless otherwise specified, the report covers the ESG performance of the business activities directly operated and managed by the Company for the year ended 31 December 2023.

The report is aligned with the principles of “materiality”, “quantitative” and “consistency” as follows.

**Materiality:** We have conducted a detailed materiality assessment to identify and evaluate key ESG issues that are most important to our business as well as our internal and external stakeholders. The information gathered from the materiality assessment was then used to determine the disclosure content of this report. For details of the materiality assessment, please refer to the section headed “(3) Materiality Assessment”.

**Quantitative:** We disclose measurable environmental and social KPIs and set quantitative performance targets where applicable. The measurement standards, methodologies, assumption and/or calculation tools of the KPIs in this report, as well as the source of the conversion factors used, have been explained in the corresponding context (where applicable).

**Consistency:** This year’s ESG report has been prepared with the same method used in previous years. Changes that may affect a meaningful comparison with previous reports have been explained in corresponding section.



# Environmental, Social and Governance Report *(Continued)*

## ABOUT FUSEN PHARMACEUTICAL

### (1) Business Overview

The Company is a modern comprehensive pharmaceutical enterprise integrating the cultivation of Chinese herbal medicine, pharmaceutical research and development, and sales. Based on the Chinese herbal medicine industry, we are committed to building a health industry group integrating traditional Chinese medicine, chemical medicine and biopharmaceuticals. In addition to distributing core products such as Shuanghuanglian-based cold medicines, the Company is principally engaged in the research, production, and sales of various proprietary Chinese medicine and western medicine products for treating cold, fever, cardiovascular diseases and anemia.

Since its establishment in 2003, the Company, adhering to the concept of “honesty and trustworthiness, strengthening the foundation, winning the brand and steady development”, has been successively awarded the titles of “national leading enterprise of agricultural industrialization” and “excellent private enterprise” and “high-tech enterprise” in Henan Province. Under the background of healthy China, the company will adhere to the business philosophy of “craftsmanship quality, health is happiness” to protect the health of consumers.

**Corporate vision:** Practice the concept of “health is happiness” and become a leader in the health industry.

**Core values:** Pragmatic and efficient, honest and trustworthy, striving to forge ahead, pioneering and innovative

**Enterprise mission:** Based on the traditional Chinese medicine industry, build a health industry group integrating traditional Chinese medicine, chemical medicine and biopharmaceutical.

### History

1975	Xichuan Pharmaceutical factory
1988	Production of the first Shuanghuanglian oral solutions Received new drug certificate of flunarizine hydrochloride capsule issued by the National Ministry of Health
1996	Production of the first Shuanghuanglian injections
2001	Implement reform and promote enterprise restructuring and reorganization
2005	Planning and construction of Danjiang Grand Vide Garden Scenic Area
2010	Fusen Herbal Cultivation Co., Ltd
2018	Listed on the Main Board of the Hong Kong Stock Exchange (1652.HK)
Fusen	Committed to building a health industry group integrating traditional Chinese medicine, chemical medicine and biopharmaceuticals

# Environmental, Social and Governance Report *(Continued)*

## (2) ESG Management Guidelines and Strategy

The Company pursues the business philosophy of “craftsmanship quality, health is happiness”, and upholds the core values of “honest and trustworthy, adherence to tradition and innovation, quality is paramount, and steady progress”. Based on the Chinese herbal medicine industry, we are committed to building a health industry group integrating traditional Chinese medicine, chemical medicine and biopharmaceuticals, while providing high-quality safeguards for public health. Furthermore, we will strive to promote environmental sustainability, and social harmony and prosperity.

We are committed to:

- E — Building a green pharmaceutical enterprise that continues to promote campaigns focused on clean production, circular economy, and pollution reduction, actively address climate change, and contribute to the realization of the national 30-60 dual-carbon goals;
- S — Creating value for our shareholders; providing consumers with high-quality medicines and sincere services; providing employees with a safe, healthy, and fair workplace and development path; collaborating with upstream and downstream partners to create a mutually beneficial industrial cluster and supply chain system; actively engaging in social welfare activities to promote social harmony and development;
- G — Engineering a sound environmental, social, and governance framework to enhance the transparency of our business operations.

A good environmental, social and governance structure is vital to the development of the Company. In addition to pursuing growth in performance, we also strive for continuous improvement in the areas of environmental protection, social responsibility and corporate governance, and we hope to improve the transparency of the Company’s operations in order to realise and enhance our sense of social responsibility.

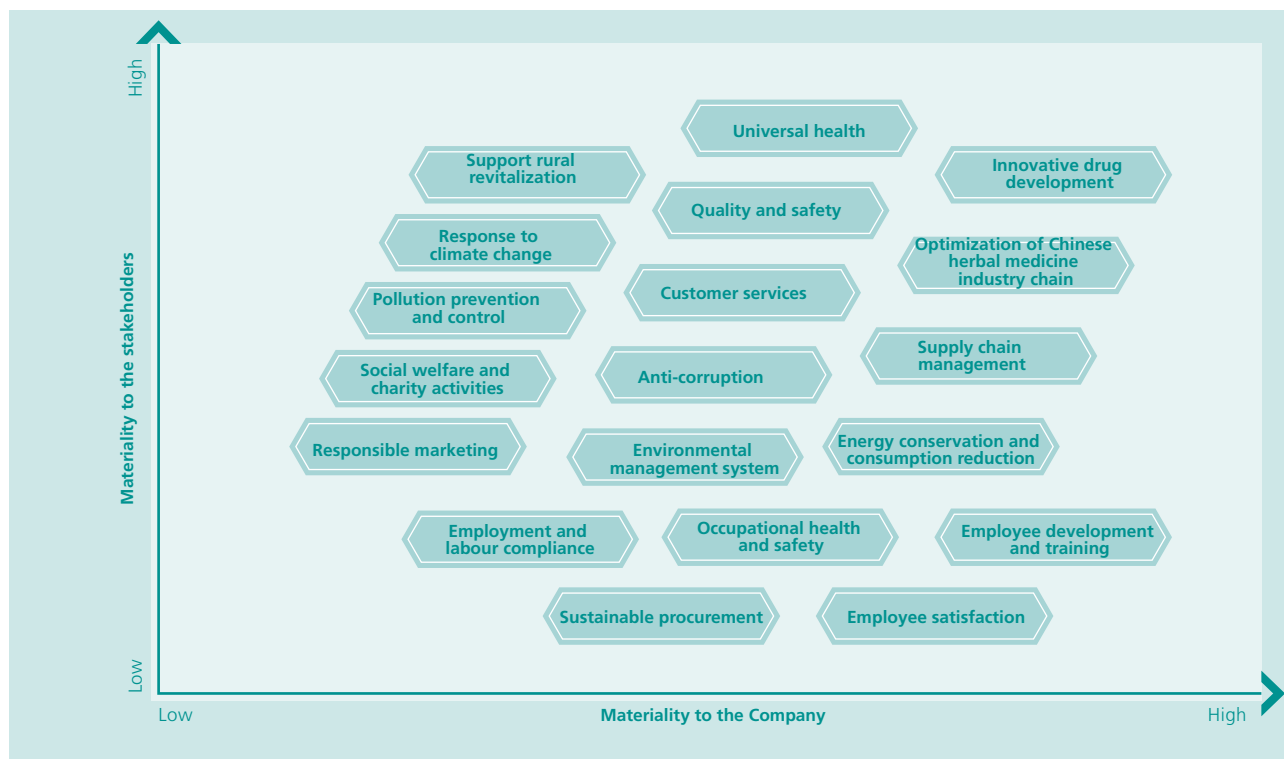
# Environmental, Social and Governance Report *(Continued)*

## (3) Materiality Assessment

We believe that the economic, social and environmental impacts of the Company are the ESG issues that we need to focus on. We assess the materiality of ESG issues in terms of their impacts on both business and stakeholders and provide responses and disclosures in each section.

### ▼ Process of ESG issues materiality assessment

- Selection of issues** select the social, environmental and management factors that the Company is involved in, i.e. ESG issues, through ESG standard approach, peer benchmarking and corporate social responsibility (“CSR”) experts’ judgments
- Research and analysis** conduct interviews and research on ESG issues with relevant departments and stakeholders to understand the key concerns of internal and external parties
- Confirmation of materiality** formulate materiality analysis matrix for ESG issues based on our internal and external research and experts’ judgements and opinion, based on which the corresponding resources and attention will be prioritized



▲ Fusen’s ESG Issue Materiality Assessment Matrix

# Environmental, Social and Governance Report *(Continued)*

## (4) Stakeholders Analysis

The confirmed stakeholders of the Company mainly include employees, consumers, suppliers, distributors, shareholders and investors, government and market regulators, and in broader terms, communities and the general public. To facilitate a better understanding of the performance of the Company's social responsibility, diversified communication channels, including official WeChat account, official website, email account, annual general meeting and extraordinary general meeting etc., have been established and optimised continuously for the stakeholders.

The Company will continue to optimise the stakeholder communication platforms and mechanism, collect and listen to their opinions and suggestions on our environmental, social and governance issues, and communicate closely with them on each issue.

We believe that considering opinions from stakeholders will allow the Company to assess its performance in respect of the environment, society and governance in a more objective and comprehensive way, thereby promoting a sustainable and healthy development of the Company and contributing to the sustainable development of the wider society.

### Stakeholders analysis list of Fusen Pharmaceutical

Stakeholders	Issues of concern	Communication channels and methods	Company's response
Government	Implement the national strategy Support medical and health system reform Conduct technology Innovation Pay attention to climate change Establish internal control mechanism for compliance operation	Attend meetings organised by the government Report on work conditions Invite visits and inspections Invite experts for training	Compliance operation Anti-corruption Expand social employment Pay taxes by laws Reduce carbon emissions Support rural revitalization and common prosperity

# Environmental, Social and Governance Report *(Continued)*

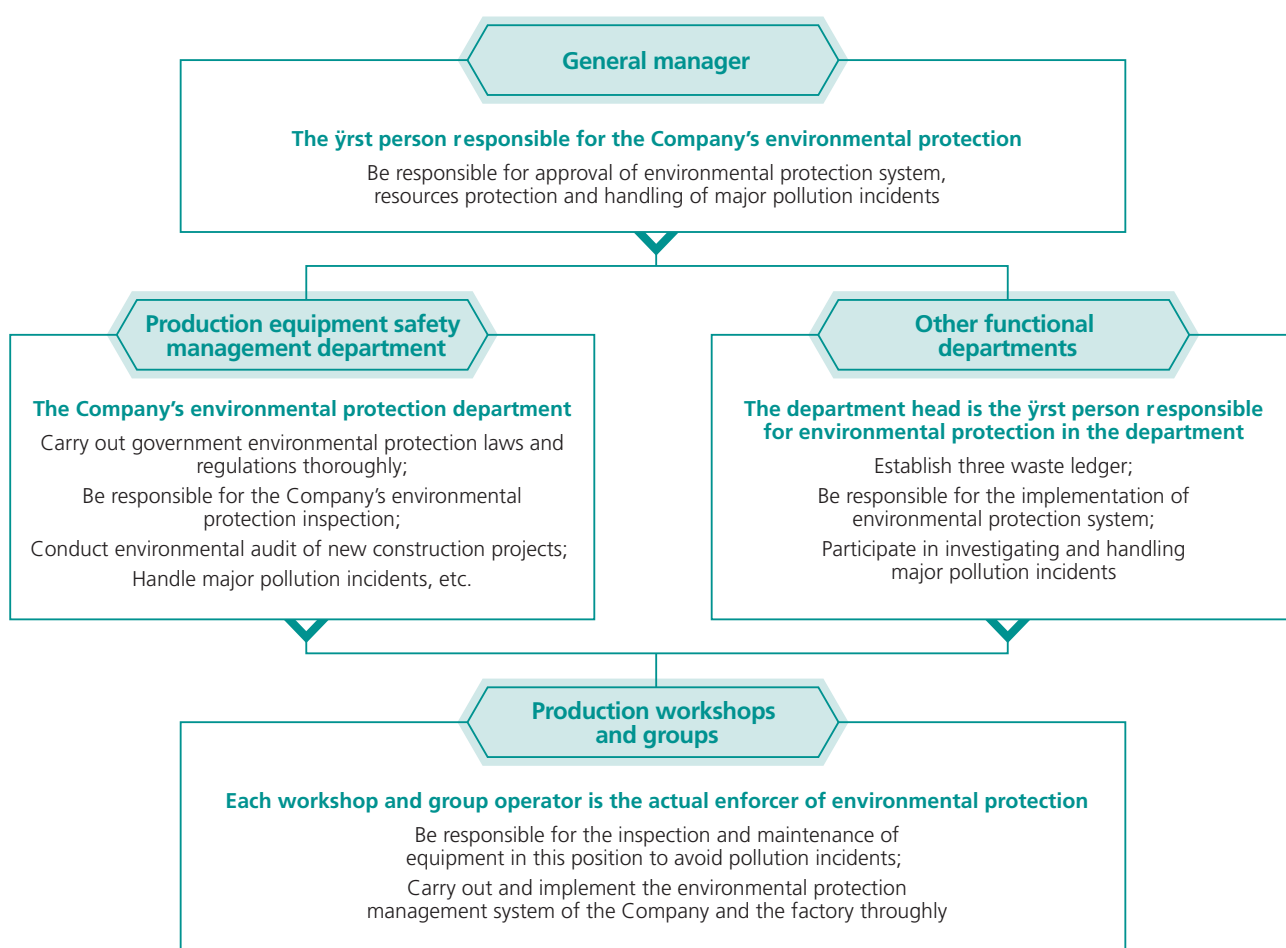
Stakeholders	Issues of concern	Communication channels and methods	Company's response
Shareholders and investors	Investment income Asset preservation and appreciation Regulatory governance Going concern	Annual general meeting and extraordinary general meeting Daily communication and report of business units Financial statements and special audit reports	Improve corporate governance Achieve stable returns Strengthen internal control and risk management
Consumers	Safe and effective drugs Product quality and after-sales service Customer privacy protection	Organise exchange events Customer service hotline Set up official WeChat and official website Public email account	Accelerate innovative product development Reinforce quality control Reasonable product prices After-sales and complaint management Responsible marketing
Employees	Employee rights protection Training and development Occupational health and safety Democratic management	Staff representatives meetings Cultural and sports activities Rationalise proposed communication channels Organise various kinds of training	Establish a standardised employment mechanism Improve the income distribution and welfare mechanism Construct a safe and healthy working environment Strengthen staff training
Business partners (suppliers, distributors, etc.)	Supply chain management Intellectual property protection	Project cooperation Training and exchange Visits evaluation	Equal and mutually beneficial cooperation Jointly promote industry development Sustainable procurement
Community and public	Environmental protection Resources conservation Pollution prevention and control Community welfare and charity Information communication	Engagement in organizational events Release of ESG reports Social supervision hotline	Protect the ecological environment Organise social welfare and charity activities Implement rural revitalization Strengthen publicity and brand building

## I. ENVIRONMENTAL RESPONSIBILITY

### (1) Construction of Environmental Management System

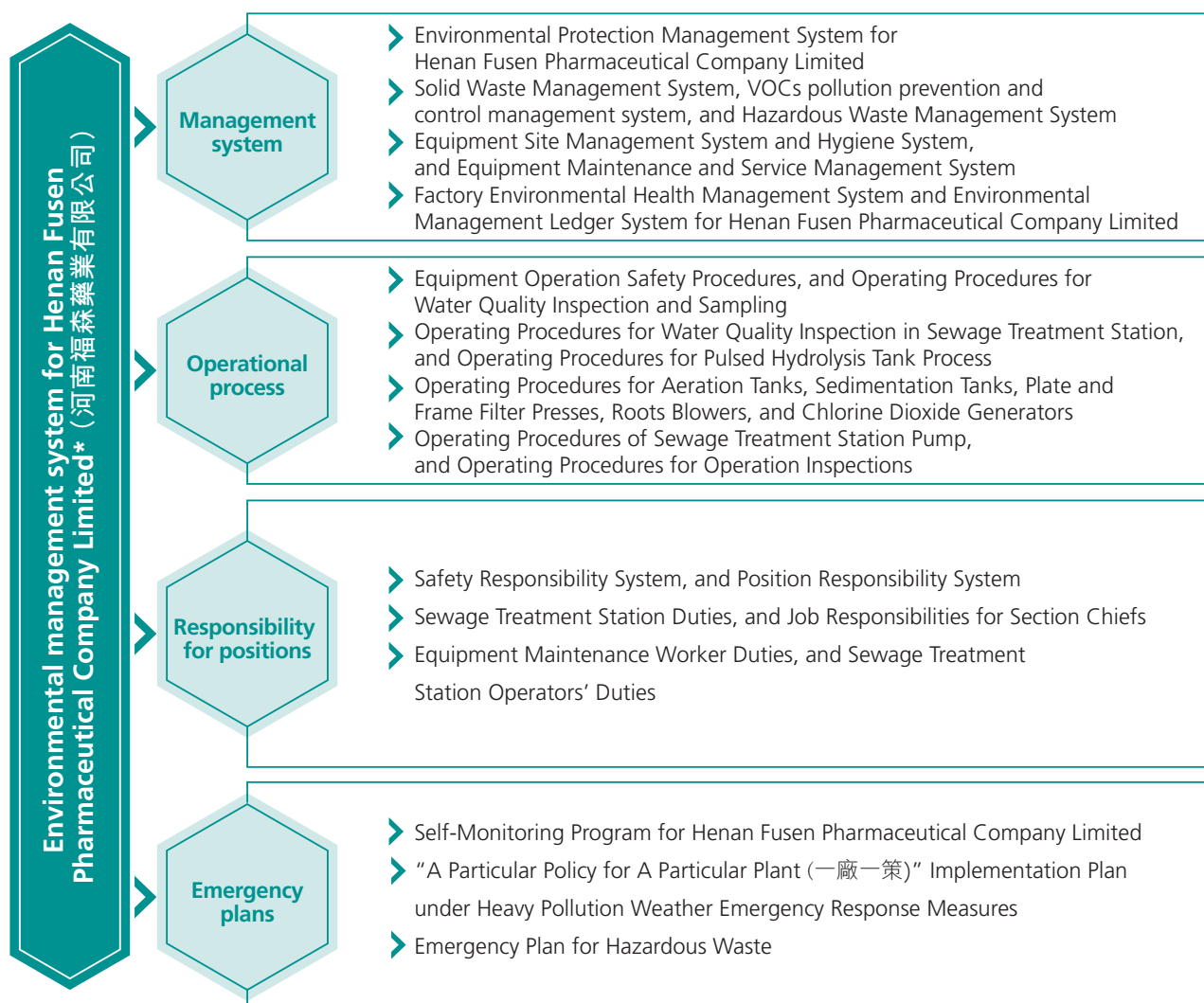
#### 1. Establish an Organisational Structure for Environmental Management

The Company has established a three-level environmental management network directly led by the general manager, with the production equipment safety management department mainly held accountable, and implemented at the department, workshop and group levels, to ensure from the organisational system that the Company's environmental management decisions and systems are fully implemented to the post and to the person.



## 2. Sound Environmental Management System

The Company strictly adheres to various requirements such as the *Environmental Protection Law of the People's Republic of China*, the *Atmospheric Pollution Prevention and Control Law of the People's Republic of China*, the *Water Pollution Prevention and Control Law of the People's Republic of China* and the *Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes*, and actively improve the Company's environmental protection management system on such basis, forming an environmental management system with the management system as the framework, the duties and operation procedures of each position as the details, and the environmental protection emergency plan as the protection.



## 3. Striving for Environmental Management Certification

The Company proactively seeks various environmental management certifications at home and abroad, and strives to integrate environmental targets and experiences into the Company's production and management. Such endeavour aims to promote the equipment energy-saving and environmental upgrades, and pollution reduction and carbon reduction, making environmental protection and low-carbon initiatives our core competencies. In 2017, the Company passed the audit and acceptance of clean production in Nanyang City, Henan Province. In 2022, the Company obtained the ISO 14000 environmental management system certification from the International Organization for Standardization. In 2023, the Company was selected as a national-level "Green Factory" by the Ministry of Industry and Information Technology, which was received by a total of 1,491 companies nationwide.

# Environmental, Social and Governance Report *(Continued)*

## (2) Prevention of Pollution, Reduction of Discharge and Governance

### 1. Waste Water Treatment

The waste water generated by the Company mainly includes the cleaning waste water of Chinese medicine pre-treatment and extraction production line, traditional Chinese medicine extraction waste water, equipment and floor cleaning water; bottle (oral solution and injection bottle) cleaning waste water; laboratory waste water; purification waste water; boiler room waste water; cooling system drainage and staff domestic sewage, etc. The Company has established a dedicated sewage treatment facility and a 1,800m<sup>3</sup> emergency regulating tank, employing advanced treatment processes such as IC reactors. Where the discharging standards are met, the treated water enters the secondary treatment process at the Xichuan County Sewage Treatment Facility through the municipal sewage pipeline on Binhe Road, without causing pollution or affecting surrounding water systems.

#### Factory sewage treatment process

Production of waste water — catch basin — mediation lift tank — sedimentation tank — hydrolysis tank — anaerobic system — A/O tank — secondary sedimentation tank — decolorisation tank — final sedimentation tank — municipal sewage pipeline

**Table 1 Waste water emission of Fusen Pharmaceutical**

Performance indicator	Unit	2021	2022	2023
Total emission of waste water	Tonnes/year	76,892.301	251,062.1	<b>195,285.9</b>
Emission of COD	Tonnes/year	1.158	5.581	<b>2.272</b>

Note: Due to the impact of the COVID-19 pandemic and the relocation and expansion of production and process upgrade of the Company, emission of waste water was significantly reduced in 2021



Photo 1 **Fusen Pharmaceutical's factory sewage treatment station**



# Environmental, Social and Governance Report *(Continued)*

## 2. Exhaust Gas Treatment

The exhaust gas generated by the Company mainly includes: boiler exhaust gas, Chinese medicine extraction exhaust gas, production process dust, sewage station odor, experimental animal room odor, etc. The Company strictly complies with the *Comprehensive Emission Standard for Air Pollutants* and the *Emission Standard of Air Pollutants for Pharmaceutical Industry*, and installs pollution control devices such as dust removal and deodorisation at each exhaust gas outlet, disposes of them to meet the standards and emits them through an exhaust pipe of taller than 15m in the air, which does not pollute or affect the surrounding residents.

Exhaust gas outlet	Exhaust gas treatment process
Boiler Exhaust Gas	“Low-NOx combustion + FGR flue gas circulation” treatment process
Chinese medicine extraction exhaust gas	Ethanol Recovery Device Water Absorption + UV Light Oxygen Treatment Facilities
Dust-related processes in each workshop	Centrifugal Separator + Bag Filter Dust Collector (5 Sets)
Sewage station odor	Installation of Collection Devices + Alkali Spraying + Activated Carbon Adsorption
Animal room odor	Installation of collection device + activated carbon adsorption + leading to the sewage station for biological filter treatment after negative pressure ventilation

**Table 2 Exhaust gas emission of Fusen Pharmaceutical for the past three years**

Performance indicator	Unit	2021	2022	2023
Emission of exhaust gas	Cubic metres/year	19,369,680	54,958,800	<b>58,789,680</b>
Emission of nitrogen oxide	Tonnes/year	0.729	1.792	<b>1.063</b>
Emission of sulfur oxides	Tonnes/year	0.126	0.309	<b>0.386</b>
Emission of particulate matter	Tonnes/year	0	0	<b>0</b>



Photo 2 Part of Fusen Pharmaceutical's exhaust gas treatment devices

# Environmental, Social and Governance Report *(Continued)*

## 3. Solid Waste Treatment

During the production process, solid waste generated by the Company includes general solid waste and hazardous waste, both of which are stored in storage facilities so required in strict compliance with the requirements of the General Industrial Solid Waste Storage and Landfill Pollution Control Standards (《一般工業固體廢物貯存和填埋污染控制標準》) and the Hazardous Waste Storage Pollution Control Standards (《危險廢物貯存污染控制標準》) (GB18599-2020) (GB18597-2001). Pursuant to the circular economy principle of reduction, recycling, and reuse, stringent classification and disposal are implemented according to law to minimize waste generation and ensure clean and orderly plant premises, avoiding pollution to the surrounding environment.

### Overview of Generation and Treatment of Solid Waste at our Entire Plant

Nature of solid waste	Location where waste is generated	Type of solid waste	Treatment Destination	
General Solid Waste	Extraction Process	Impurities in Chinese medicinal materials	Landfill	
		Chinese medicine residue	Organic fertilizer production	
	Oral solution and injection filling production	Impurities from filtration	Landfill	
		Unqualified products	Bottled liquid medicines crushed and transported into the sewage treatment facility, and bottles residue transported to landfill	
	Workshop for pretreatment, extraction, and solid formation of Chinese medicine	Dust collected by dust collectors		Landfill
	Packaging process	External packaging materials	External sale for comprehensive use	
	Sewage treatment facility	Sludge	Organic fertilizer production	
	Plant premises	Domestic waste	Landfill	
	IC reactor dry desulfurization	Waste desulfurization agents	External sale for comprehensive use	
Purified water preparation system	Reverse osmosis membrane	Returned to suppliers		
Animal laboratory	Animal carcasses	Nanyang Kangwei Environmental Protection Co., Ltd. (南陽康衛環保有限公司) appointed for treatment		

# Environmental, Social and Governance Report *(Continued)*

Nature of solid waste	Location where waste is generated	Type of solid waste	Treatment Destination
Hazardous Solid Waste	Animal laboratory, and sewage treatment facility	Waste activated carbon	Handled by CEP Environmental Protection Co., Ltd. (中環信環保有限公司)
	Purified water preparation system	Waste ion exchange resin	
	Chemical pharmaceutical solid formation workshop	Dust collected by dust collectors	
	Sewage treatment facility	Liquid waste generated during the operation of online monitoring equipment	

**Table 3 Solid waste emission of Fusen Pharmaceutical**

Performance indicator	Unit	2021	2022	2023
Emission of hazardous waste	Tonnes/year	1.06	0.04	<b>0.362</b>
Emission of non-hazardous waste	Tonnes/year	944.327	2,545.232	<b>3,215.2</b>

### (3) Energy and Resources Conservation

#### 1. Energy Conservation

The Company implements the three-level energy management system of the Company, departments and workshops. The Company has set up an energy saving management team, with the general manager of the Company as the team leader, the deputy general manager in charge of production as the deputy team leader, the leaders of each functional department as the team members, and the permanent organisation of energy management in the production equipment safety management department. The energy management organisation of each workshop is in its workshop office and the workshop supervisor is responsible for the energy management of the workshop.

The Company insists on planning electricity consumption, safe electricity consumption and electricity saving, sets energy consumption quotas for each major energy-consuming product, process, equipment and position according to scientific, advanced and reasonable principles, regularly assesses the completion of the quotas and combines them with reward and penalty measures. At the same time, we actively adopt new energy-saving technologies, new processes, new equipment and new materials. From 2020, the Company changed its coal-fired boilers to natural gas boilers and implemented low-NOx combustion and steam condensate recovery processes to reduce natural gas consumption by 10% per tonne of steam.

# Environmental, Social and Governance Report *(Continued)*

**Table 4 Energy consumption of Fusen Pharmaceutical for the past three years**

Performance indicator	Unit	2021	2022	2023
Electricity consumption	kW·h/year	2,850,300	7,542,243	<b>8,900,000</b>
Natural gas	Cubic metres/year	1,045,940	2,571,470	<b>3,213,919</b>

## 2. Water Conservation

Water resources consumed by the Company are mainly used for production and manufacturing, office operation, environmental management and emergency and fire service purposes. The Company attaches great importance to water conservation and protection. Monthly water consumption follows strictly with the water consumption plan issued by the competent department of the Water Resources Bureau, and excess water consumption is strictly prohibited. In the daily process, the Company pays attention to adopting circular water-use techniques to improve water consumption efficiency. Responsibility system for water conservation is improved with the leaders of each departments and workshops as the persons responsible for water conservation, and supervision, inspection, reward and punishment assessment of water conservation is strengthened. Education on water conservation is carried out to enhance the awareness of water conservation among all employees, achieving “Turn off the tap after use (隨手關水)” and “Turn off the tap when leaving (人走水關)” to prevent the phenomenon of “running water (常流水)” and to minimise wasting water resources.

**Table 5 Water resources consumption of Fusen Pharmaceutical for the past three years**

Performance indicator	Unit	2021	2022	2023
Total water consumption	Tonnes/year	52,337	261,566	<b>240,000</b>
Average water consumption intensity	Tonnes/RMB10,000 of output	1.10	5.68	<b>3.74</b>

# Environmental, Social and Governance Report *(Continued)*

## 3. Packaging Consumables Conservation

The Company's product packaging consumables include materials such as glass, plastic, paper, PVC and aluminum foil. The Company focuses on reducing the amount and the use of packaging materials and plastic products as much as possible in the design of product packaging.

**Table 6 Packaging materials consumed by Fusen Pharmaceutical for the past three years**

Performance indicator	Unit	2021	2022	2023
Packaging materials	Tonnes/year	3,658.0	4,385.54	<b>5,458.0</b>
Average consumables intensity	Tonnes/RMB10,000 of output	0.07	0.09	<b>0.09</b>
Office paper	Tonnes/year	5.10	8.95	<b>7.03</b>

## (4) Response to Climate Change

### 1. Conducting Greenhouse Gas Verification

In active response to the national dual-carbon strategy, the Company has designated dedicated personnel responsible for its greenhouse gas emissions accounting and reporting, established an energy consumption statistics ledger and implemented comprehensive management standards for energy consumption data related to greenhouse gas emissions, raw material consumption data, various test and analytical records, etc. It has also formulated detailed management systems for data preservation and maintenance to ensure standardised management and traceability of data.

#### ▼ Greenhouse gas emissions of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2021	2022	2023
Greenhouse gas emissions	tCO <sub>2</sub>	4,572.734	4,044.446	<b>6,948.888</b>

Following verification by professional institutions, the Company's greenhouse gas emissions primarily originate from combustion emissions of fossil fuels, emissions from anaerobic treatment of industrial wastewater, and emissions implied by the net purchased electricity and heat.

# Environmental, Social and Governance Report *(Continued)*

## ▼ Major greenhouse gas emission sources and emissions of Fusen Pharmaceutical in 2023

Emission Category	Energy/Raw Material	Emission Facility	Greenhouse Gas Emissions(tCO <sub>2</sub> )
Fuel combustion emissions	Liquefied petroleum gas (LPG)	Stoves	4,189.62
Wastewater treatment emissions	Natural gas	Natural gas boilers	57.48
Emissions caused by net purchased electricity consumption	Industrial wastewater	Anaerobic sewage treatment system	57.48
	Purchased electricity	Electric motors, pumps, fans, centrifuges, and other relevant production and domestic electrical equipment	2,701.78
		Total	6,948.88

To minimise greenhouse gas emissions, the Company has replaced coal-fired boilers with natural gas boilers and installed a flare destruction device for methane recovery and disposal. In the future, the Company will further focus on energy conservation, emissions reduction, and purchasing green electricity to achieve the dual-carbon goals.

## 2. Formulating Climate Change Adaptation Policies

The Company attaches great importance to the possible significant impact of climate change on the Company and actively avoids the potential risks brought about by extreme weather to the Company's production and operation. According to the requirements of the Safety Production Management System, in the event of windy weather of grade 5 (including grade 5) or above, outdoor fire-raising operations at high places should be stopped; welding and cutting operations should be stopped in case of rainy weather in open-air operations, and sufficient lighting equipment should be provided at the site of fire-raising operations at night to minimise casualties and property losses caused by extreme weather; in the event of heavy pollution weather, measures such as suspending coal-fired boiler operations and prohibiting the use of China National Standard IV and below heavy-duty trucks (including gas-powered vehicles) for material transportation will be implemented.

## II. EMPLOYEE RESPONSIBILITY

### (1) Employment and Labour Practices

#### 1. Ensuring Equal Employment

The Company attaches great importance to protecting the personal rights and interests of employees and adheres to equal employment. Our staff recruitment and treatment standards strictly comply with relevant laws and regulations of the PRC including the *Labour Law of the People's Republic of China*, the *Labour Contract Law of the People's Republic of China* and the *Social Insurance Law of the People's Republic of China*, with employees of different nationalities, genders and religious beliefs and cultural backgrounds treated equally in recruitment, training, compensation, career growth and promotion, etc. and no boycott or discriminatory words or contents appear in the documents related to the content of employment.

## Environmental, Social and Governance Report *(Continued)*

The Company have entered into the *Collective Contract* (《集體合同書》) with the labour union committee, regulating remuneration, working hours, rest time and holidays, insurance and benefits for our labours, in order to establish harmonious labour relations and protect the legal rights and interests of employees.

The Company has entered into the *Contract on Protection of the Rights of Female Staff and Workers* (《女職工權益保護專項合同》) with the labour union committee, which requires the Company to provide special labour protection to female employees during pregnancy and postpartum confinement period. Work breaks are provided to female employees who are pregnant for 7 months or above and adequate maternity leaves and postpartum confinement leaves are provided to those who have given birth. The said contract also states that the proportion of female employee representatives in staff representatives meetings and general meetings of labour union members shall not be lower than that of female employees and there should be female employee representatives among the employee representatives in the consultation panel participating in equal consultations to have a better understanding of the opinion of female employees.

At the end of the Reporting Period, the Company had 1,148 working employees, of whom 576 were male and 576 were female, with a balanced ratio of male to female; the employees were mainly aged 30 (inclusive) to 50 (exclusive), with a reasonable age structure to effectively meet the corporate long-term sustainable development needs. All employees are full-time employees with no employment of part-time workers or contract workers. Most of the employees are located in Henan Province, accounting for approximately 91% of the total number of employees, which greatly supports local employment in Henan Province. At the end of the Reporting Period, the Company had 7 ethnic minority employees and 1 employee with disabilities among its employees.

**Table 7 Number of employees of Fusen Pharmaceutical (by gender) for the past three years**

Performance indicator	Unit	2021	2022	2023
Number of male employees	Persons	650	569	<b>576</b>
Number of female employees	Persons	593	590	<b>572</b>

# Environmental, Social and Governance Report *(Continued)*

**Table 8 Number of employees of Fusen Pharmaceutical (by age) for the past three years**

Performance indicator	Unit	2021	2022	2023
Number of employees under 30 years old (exclusive)	Persons	234	225	<b>238</b>
Number of employees from 30 years old (inclusive) to 40 years old (exclusive)	Persons	511	471	<b>476</b>
Number of employees from 40 years old (inclusive) to 50 years old (exclusive)	Persons	401	369	<b>342</b>
Number of employees over 50 years old (inclusive)	Persons	97	94	<b>92</b>

**Table 9 Number of employees of Fusen Pharmaceutical (by region) for the past three years**

Performance indicator	Unit	2021	2022	2023
Number of employees in Henan Province (household registration)	Persons	1,220	1,105	<b>1,045</b>
Number of employees in other regions with Chinese nationality	Persons	23	51	<b>96</b>
Number of employees in Hong Kong, Macau, Taiwan and overseas	Persons	1	3	<b>7</b>

**Table 10 Number of employees of Fusen Pharmaceutical (by education background) for the past three years**

Performance indicator	Unit	2021	2022	2023
Number of employees with graduate degree or above	Persons	3	12	<b>19</b>
Number of employees with bachelor's degree	Persons	83	100	<b>142</b>
Number of employees with college degree	Persons	328	213	<b>245</b>
Number of employees with high school education or below	Persons	829	834	<b>742</b>



## 2. Diversified Development of Talents

On the basis of our corporate values, the Company places great importance on the diversity development of our people. We uphold the principles of fairness, justice and openness in terms of compensation and employment, recruitment and dismissal, promotion and employee benefits, in order to avoid discrimination or injustice of any form in the areas of race, colour, nationality, ethnicity, religion, region, language, age, sex, marital status, disability, and to provide equal opportunities to all employees.

Adhering to the principle of “utilizing rather than owning talents, and focusing on action over position”, the Company carries out talent introduction in an innovative way through methods such as intelligence introduction, talent borrowing, serving temporary posts, part-time employment, temporary employment, consulting, technical cooperation and team collaboration.

The Company determines the position and remuneration of talents based on criteria such as personal morality, job skills, business contribution and ideological realm, so as to fully utilize everyone’s talents and abilities. At the same time, the Company adopts a combination of material and spiritual motivation. Through the implementation of negotiated salary, salary for college graduates, in-service education subsidies, equity incentives, free education for employees’ children and other generous remuneration and benefit policies, the Company ensures that it can attract, retain and make good use of talents.

During the Reporting Period, the Company’s staff turnover rate was 2.4%, representing a relatively stable workforce.

## 3. Safety Production Management

The Company continues to strengthen the safety management of the Company and is committed to providing a safe working environment and protecting employees from occupational hazards. The Company deeply implements the laws and regulations such as the *Production Safety Law of the People’s Republic of China*, the *Labour Law of the People’s Republic of China* and the *Fire Control Law of the People’s Republic of China*, establishes and improves the long-term mechanism of safety management of the Company, raises the safety awareness of all employees, regulates the safety operation procedures and ensures the smooth production and operation of each unit and process of the Company.

# Environmental, Social and Governance Report *(Continued)*

In June 2023, the Company issued the Safety Management System of Henan Fusen Pharmaceutical Company Limited, which required the establishment of a production safety leading group and provided systematic regulations on safety education and training, safety production inspection, safety production hazard investigation, safety production work requirements, fire safety management, special operation management, electricity safety management, equipment safety management, etc., to control and eliminate potential risks in the production process and achieve safe production.

## Composition of Production Safety Leading Group

Group Leader	The general manager of the Company acts as the Group Leader, responsible for the overall work of the Company's safety affairs.
Deputy Group Leader	The executive deputy general manager (or the deputy general manager in charge of production safety) of the Company acts as the Deputy Group Leader, who is specifically responsible for the day-to-day management of safety affairs.
Members	The heads of each department are members of the production safety leading group, and are responsible for the implementation of production safety matters in their respective departments.
Part-time Safety Officer	The general person in charge of each department serves as the part-time safety officer of the department, responsible for supervising, inspecting and reporting safety matters.

The production safety leading group has an office located in the Production Equipment Safety Management Department, with the Director of the Production Equipment Safety Management Department acting as the Director of the office and the Deputy Director acting as the Deputy Director of the office.

# Environmental, Social and Governance Report *(Continued)*

## Production Safety Standards

Fire management	Fire-fighting equipment and facilities shall be sufficiently equipped, complete, reasonably placed, and regularly maintained; fire escapes shall be unobstructed, and employees shall know how to use the equipment.
Electricity management	Wiring shall be in good condition; electrical facilities shall be in good condition, regularly maintained, and used under load; electricians and other employees in specified job positions shall hold the appropriate certification to conduct their work.
Gas management	Pipelines shall be in good condition; gas cylinders shall be equipped with a shockproof rubber ring, placed in a vertical position and updated regularly; gas storage facilities shall be fully equipped, with complete duty records.
Material management	Materials shall be categorised and placed in a safe and standard way, with clear labelling; dangerous goods and moisture-prone goods shall be protected with protective measures; and there shall be no obsolete material on site.
Loading and unloading management	No damage to products or materials and no barbaric work; the driver of the forklift truck is licensed to work and drive at restricted speeds; the loading and unloading equipment is kept by a designated person.
Hazardous process operation management	Key equipment is regularly maintained; stamping personnel are required to wear earplugs and gloves; welding personnel are required to wear masks, glasses and gloves; welding and stamping personnel receive regular training sessions for their job positions.
Safety and protection management	Doors, windows and guardrails of all kinds are free from damages; ceilings, walls, floors and pipelines are free from cracks, damages or leaks; all kinds of personal protection equipment products are regularly replaced, and such products are issued to operators of production and operation positions according to the regulations.

# Environmental, Social and Governance Report *(Continued)*

## (2) Health and safety

### 1. Occupational Health Protection

The Company strictly complies with the requirements of the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases and other laws and regulations to ensure the health and safety of its employees by creating a healthy and safe working environment based on prevention, equipping with protective equipment, organising health checkups and conducting relevant training, etc. In 2023, there was no major occupational health incident in the Company, no working days were lost due to work injury (2022: nil; 2021: nil), and no work-related deaths occurred (2022: nil; 2021: nil). In 2023, the Company invested RMB643.3 thousands and RMB4.7774 million in production safety and employee occupational health and safety, respectively, and the employee health checkup rate was 100%.

- Optimisation of working environment: All workshops are dust-free and clean, each unit is equipped with safety equipment such as fire-fighting equipment and alarm equipment, and employees are given hands-on training and drills.
- Equipping with protective equipment: Employees exposed to occupational hazards are equipped with appropriate and effective personal labour protective equipment, and regular inspections are conducted in each workshop to see if the labour protective equipment is in place and worn by employees.
- Organising health checkups: Conduct occupational health checkups for workers exposed to occupational hazards before, during (once a year) and after leaving the workplace, and establish occupational health file tracking and management for workers.
- Conducting relevant training: The city labour union is regularly invited to the Company to conduct activities such as "Psychological Care Seminar on Safety Production" and psychological crisis intervention, so that employees can learn and master the knowledge of mental health protection to ensure their physical and mental health.
- Care for female employees: Provide protection for female employees in accordance with the *Regulations Concerning the Labour Protection of Female Staff and Workers* (《女職工勞動保護規定》) issued by the State Council, protect the interests of female employees in accordance with the laws and safeguard the rights of female employees to enjoy health and equal employment opportunities.



Photo 3 Organising and conducting psychological care training



Photo 4 Participating in training on labour protection for female workers

# Environmental, Social and Governance Report *(Continued)*

## (3) Development and Training

### 1. Creating a Learning Enterprise

The Company actively promotes the development of a learning-based enterprise. According to the requirements under the administrative regulations for comprehensive learning training and assessment of the Group, in combination with the actual productions and operations and work priorities in 2023, the Group formulated the 2023 annual training programme. Training methods integrating internal training and external training were adopted, focusing on the skills and expertise required for job operations and daily work, and targeting weaknesses in production and operation management. Study tours to advanced enterprises in the same industry and superior administrative departments were arranged, and professional training institutions provided industry-related training. These arrangements effectively improved the professional literacy and work performance of all employees in the Company.

### 2. Strengthening employee cultivation

The Company adheres to the principle of classification and grading for employee cultivation, and establishes the mechanism of “passing on experience (傳幫帶)”, theoretical training mechanism, platform practice mechanism and joint cultivation mechanism by reference to employees’ comprehensive quality, professional profile, hobbies and strengths. Furthermore, the Company establishes a training ledger, which is specifically aimed at keeping track of the training and cultivation of undergraduates and above with less than one year of service, and continues to enhance the professional skills and management level of all types of employees and stimulate their development potential, thereby contributing more strength to our business development.

#### Training methods Training contents

Regular Training	The workshops and departments of the Company formulate and implement regular training programmes for employees according to the actual productions and operations.
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The relevant departments of the Company conduct regular training assessments and supervision.

Special Talent Cultivation	According to the Company’s “Career Development Planning”, the officer in charge of talent cultivation will pass on the work experiences to the cultivation targets based on their actual positions, hobbies, strengths and professional characteristics, in the form of “master leading the apprentice”, whereby the master will preach day-to-day teachings, designate responsibilities for the apprentices to fulfil, and track job assignment and provide guidance. Besides expanding job responsibilities, and engaging such apprentices in relevant company conferences and professional training sessions, the master will also hold daily heart-to-heart talks, and prepare regular reports.
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# Environmental, Social and Governance Report *(Continued)*

**Table 11 Training received by Fusen Pharmaceutical's employees  
(by gender) for the past three years**

Performance indicator	Unit	2021	2022	2023
Number of male employees trained	Persons	486	569	<b>576</b>
Number of female employees trained	Persons	455	590	<b>572</b>
Number of hours of training for male employees	Hours	48	48	<b>48</b>
Number of hours of training for female employees	Hours	48	48	<b>48</b>

**Table 12 Training received by Fusen Pharmaceutical's employees  
(by rank) for the past three years**

Performance indicator	Unit	2021	2022	2023
Number of senior management trained	Persons	24	26	<b>27</b>
Number of middle management trained	Persons	83	103	<b>90</b>
Number of hours of training for senior management	Hours	60	60	<b>60</b>
Number of hours of training for middle management	Hours	48	48	<b>48</b>

### 3. Production Safety Training

The Company undertakes widespread, in-depth and frequent education and training sessions regarding production safety awareness, safety technology knowledge, systems and regulations, and operational skills for employees, so that our employees continue to enhance their understanding of the significance of production safety, while strengthening their awareness of complying with systems and regulations and labor discipline, preventing the occurrence of accidents. As a result, such training will ensure the smooth progress of various activities.

The Company has established a three-level safety education and training system, with new hires required to receive production safety education or training from the company level to the workshop level, team level and section level. Special operation personnel including electricians, drivers of factory vehicles, welders and hot cutters must receive relevant training on professional safety knowledge and obtain credentials before taking up their posts. In 2023, the Company's production safety training rate reached 100%, with 440 people participating in safety training.

The Company has established and improved the "five simultaneities" administrative policy for production safety:

- (Simultaneously) establishing production safety goals and measures for production plans;
- (Simultaneously) establishing production safety requirements for work assignments;
- (Simultaneously) including production safety items to inspection work;
- (Simultaneously) including production safety clauses in the assessment reports;
- (Simultaneously) including production safety contents in summary reports. In particular, workers must receive regular education, and employees are trained to abide by systems and regulations and fulfil safety responsibilities.



Photo 5 **workplace safety training**



Photo 6 **fire drill training**

## (4) Labour Standards

### 1. Insisting on the Compliance of Labour Use

The Company fully complies with the relevant rules and regulations prohibiting the use of child labour and forced labour. The Company's human resources management system fully protects the legal rights and interests of employees, prohibits the use of child labour or any form of forced labour, and prohibits the use of violence, threats or unlawful means of restricting personal freedom to compel labourers to work. During the Reporting Period, the Company was not aware of any case of hiring child labour and forced labour.

- Prohibit the use of child labour: The Company has formulated the *Documents on Policies and Procedures to Prevent Employment of Child Labour* (《防止僱傭童工政策及程序文件》), which requires the Company to verify the authenticity of the identity information, account information and the relevant information provided during the recruitment process before new employees are hired and onboarding formalities will be carried out only when recruitment conditions are met. We do not employ any applicant who is under legal age. When a new employee joins the Company, the receiving department is required to re-examine the identity documents. For any minor under the age of 16 found, the Company shall seek such individual's opinions and escort him/her back to his/her original place of residence as required and ask for his/her parents or guardian's signed confirmation upon the minor's arrival.
- Respect for employees' labour: the Company signs labour contracts with employees, specifies the working hours of the labourers, negotiates with the labourers in case of extension, does not force employees to work overtime and provides overtime pay.

In June 2023, the Company circulated the "Personnel Management System of Henan Fusen Pharmaceutical Company Limited\* (河南福森藥業有限公司)", strengthening the personnel management at source, and gradually building a "closed-loop" management chain with clear functions, sound systems and well-defined responsibilities. In doing so, the Company will realize a management model of division of labor, joint efforts, clear responsibilities and efficient cooperation, promoting the procedural, standardized and institutionalized personnel work of the Company.



## 2. Promoting Union Building

The Company has established staff representatives meetings and entered into collective contracts with employees on equal consultation. At the same time, it has also established matching democratic management systems such as the system for open factory affairs and the system for organising women's work committees, which have served as a standardised guide for staff to fully develop democracy and effectively supervise the actions of the Board. In 2023, the Company had an enrolment rate of 80% for its trade union.

During the development process of the enterprise for more than ten years, all major decisions involving the vital interests of the employees, such as the signing of collective labour contract between the Company and employees, wage adjustment plan, unemployment, pension, medical care, work injury insurance, personnel use and new major projects, are considered and approved by the staff representatives meetings or the staff assembly, and we are determined to implement the powers and functions of the staff representatives meetings and give full play to the role of the staff representatives meetings, letting the staff to make the decision on all major issues. We do not approve any plans without the signature of the staff representatives meeting, which not only protects the rights and interests of the staff, but also mobilises their enthusiasm. The union insists on visiting and talking to 1-2 units every quarter to understand the staff's thoughts and demands in a timely manner, and collects rationalised suggestions from staff through multiple channels and reports them for implementation.

On 17 May 2023, Fusen Pharmaceutical held the first membership representative meeting of the fifth session of the trade union of the Company, electing the new session of the trade union committee, the fund review committee, and the female staff committee.

## 3. Adhering to Factory Operation Transparency

To further establish and improve the Company's factory operation transparency system, enhance its quality and effectiveness, and standardize its content and procedures, so that all employees are mobilized to participate in corporate management, and that our business reform, development, and stability will be promoted, the Company issued the "Implementation Measures for Factory Operation Transparency System" in 2023, specifying that apart from issues prohibited by national laws for disclosure and those involving trade and technical secrets, all other matters should be disclosed item by item.

### Factory Operation Transparency

As for significant corporate decisions

1. Business development plans, investments, and productions and operations, as well as decisions major infrastructure projects;
2. Bidding projects for small-scale infrastructure construction;
3. Enterprise restructuring, and major technological transformation plans;
4. Important regulations, systems, and management methods;
5. Bulk materials procurement;
6. Disposal of waste materials.

# Environmental, Social and Governance Report *(Continued)*

## Factory Operation Transparency

- |   |  |
|---|--|
| As for the immediate interests of employees                                       | <ol style="list-style-type: none"><li>1. Employee incentive and disciplinary measures, as well as matters related to bonus distribution;</li><li>2. Negotiation system and implementation of collective contracts;</li><li>3. Employee training programs;</li><li>4. Employees' job advancement, and appointments based professional titles;</li><li>5. Payment conditions of employee pension, medical care, work-related injury, unemployment, maternity, and other social insurance and welfare funds, etc.</li></ol>   |
| As for the construction of the leadership team and party integrity and governance | <ol style="list-style-type: none"><li>1. Work reports, democratic assessment, organizational assessment, and appointment and removal of leaders and cadres;</li><li>2. Appointment of mid-level management personnel, selection of important position personnel;</li><li>3. Implementation of clean and self-discipline regulations for leaders and cadres;</li><li>4. Details of business entertainment expenses, including items, amounts, overspending, cost-cutting amounts, and their causes, etc.;</li><li>5. Leaders' and cadres' remuneration, use of transportation and communication tool.</li></ol> |
| As for other matters that employees should be informed of                         | <ol style="list-style-type: none"><li>1. Expenses for employee education and training;</li><li>2. Various advanced evaluations, incentive overview, etc.</li></ol>   |

## Methods for factory operation transparency

1. Employee Representative Meeting System: factory operations are disclosed through reports, explanations, proposals, decisions, etc., fulfilling the responsibilities of the employee representative meeting to review, approve or veto, consider decisions, supervise evaluations, elections, etc.
2. Publicity Platforms: Multimedia exhibition halls, public bulletin boards, and other media of documentation are established to disclose, promptly report, and publicize factory operations.
3. Any content that requires direct attention from employees should be promptly posted on public bulletin boards. After disclosure, attention should be paid to gathering feedback from employees through suggestion boxes, open days, employee forums, reporting hotlines, etc., in order to constantly improve the work.

## 4. Work-life Balance

The Company advocates work-life balance, improving and enriching employees' lives and creating a harmonious working atmosphere by supporting employees in difficulties and organising team building activities such as red tours and technical competitions. In 2023, the Company's condolences for supporting employees in poverty accumulated to RMB26,000, which provided assistance to 24 employees with a satisfaction rate of 100%.

- Support for employees in difficulties: Establish a database of employees in poverty and implement daily and dynamic support for those in difficulties; visit and discuss with subsidiaries regularly to understand the situation of families in difficulties and implement precise support; offer condolences to employees who suffer from serious illnesses, accidents or disasters that cause difficulties in life at the end of each year.
- Implementing staff motivation: Equip employees with fully equipped apartment suites; give tuition subsidies to employees' children in primary and secondary schools, and give scholarships to those who are admitted to undergraduate colleges and universities; give extra housing subsidies, living subsidies and equity incentives to outstanding talents, so that the living and material environment of employees can be continuously improved.
- Organising various activities: Through red travel, study tour, field training, on-the-job training, technical competition, technical training and other activities, our employees can achieve happy work and happy life.

## Party building activities



## Sports activities



Photo 7-12 Organising various activities for employees

## III. SUPPLY CHAIN MANAGEMENT

### (I) Optimizing the Chinese Medicine Industry Chain

#### 1. Building a “Chinese Medicine +” Industrial Cluster

Fusen Pharmaceutical proactively builds a leading modern Chinese herbal medicine pharmaceutical enterprise in alignment with national strategies, driving its enterprise restructuring through intelligent big data transformation. By extending the Chinese herbal industry chain to develop new “Chinese Medicine +” models, including actively constructing Chinese herbal health tourism bases and towns characterized by Chinese herbal medicine, Fusen Pharmaceutical will gradually cultivate an industry cluster characterized by “Chinese Medicine +”, featuring health and wellness concepts and authentic medicinal resources, transforming the Chinese herbal medicine industry into a “sizeable industry” benefiting the public. In collaboration with Henan Technology Investment Co., Ltd. and the Zhumadian Huanghuai Industrial Investment Fund (駐馬店市黃淮產業投資基金), Fusen Pharmaceutical jointly established the special fund coined as “China Medicine Valley” to promote the sustainable and healthy development of the pharmaceutical industry.

Currently, over 80 operating entities including Chinese herbal medicine plantation enterprises, cooperatives, and large-scale farms have been cultivated in Xichuan County, where Fusen Pharmaceutical is located, establishing five Chinese herbal medicine plantation bases. The Chinese herbal medicine enterprises across the county, led by Fusen Pharmaceutical, achieved an annual output value of RMB4.218 billion, initially establishing a modern industry cluster of Chinese herbal medicines characterized by “scientific business positioning, standardized planting, modern production, high-end products, and brand enterprise”.



▲ Fusen Pharmaceutical Promotes the Smartization of Chinese Herbal Medicine Production

## 2. Facilitating the Localization and Ecological Development of Herbal Medicines

The Company has proposed the concept of building the “first workshop” for Chinese herbal medicines, promoting the localization, ecological planting, product branding, and institutionalized management of Chinese herbal medicine production. Meanwhile, by adopting the model of “company + base + farmers”, the Company provides all plantation farmers with standardized honeysuckle seedlings and free uniform technical services, and implements a unified guaranteed procurement price. Through scientific cultivation, meticulous management, and refined management, the Company effectively ensures the uniformity and safety of honeysuckle quality, providing Fusen Pharmaceutical Company Limited with high-quality raw materials required for production.

Currently, Fusen Pharmaceutical operates a honeysuckle plantation spanning over 35,000 mu in Xichuan County, with an annual total output value exceeding RMB300 million. This initiative has significantly contributed to increasing farmers’ income by over RMB150 million. Fusen Pharmaceutical’s honeysuckle plantation base has also earned several recognitions, including “Standardized Demonstration Plantation Base for Honeysuckle in Henan Province”, “Seed Breeding and Standardized Production Base in Henan Province”, and “Authentic Herbal Medicines Standardized Production Base in Henan Province”.



▲ Fusen Pharmaceutical’s Honeysuckle GAP Plantation Base

# Environmental, Social and Governance Report *(Continued)*

## (2) Supplier Admittance

The Company complies with the *Company Law of the People's Republic of China*, the *Tendering and Bidding Law of the People's Republic of China* and other relevant regulations and is committed to building stable relationships with suppliers while meeting social, environmental, legal and ethical standards. At the end of the Reporting Period, the Company had a total of 913 suppliers.

The Company has formulated and issued the Supplier and Procurement Management System (《供貨商及採購管理制度》) in strict compliance with the requirements of the Pharmaceutical Administration Law of the People's Republic of China, the Good Manufacturing Practice for Pharmaceutical Products ("GMP") and other relevant laws and regulations, which specifies supplier admittance, periodic evaluation, auditing and evaluation standards, and material quality evaluation standards to implement strict selection on suppliers. At the same time, the Company has developed the Supplier Audit and Approval Management Procedures (《供應商的審計和批准管理規定》) to conduct quality assessments of suppliers providing materials used in the Company's production process. Based on the risk profiles of the materials, suppliers are categorized into three levels (A, B, and C) for audit management, ensuring that only qualified materials are used in the production of our products.

### ▼ Supplier Audit Management Process

Supplier Classification		
A-level	B-level	C-level
Raw materials, auxiliary materials that directly impact drug quality, packaging materials, etc.	Auxiliary materials with certain impact on drug quality	Materials that do not directly impact drug quality, such as packaging tape, cardboard boxes, etc.

Content and Standards for Supplier Audit at Different Levels			
A-level		B-level	C-level
Qualification audit	On-site Audit	Qualification Audit	Qualification Audit
Business license, drug production permit, active pharmaceutical ingredient (API) registration certificate, registration certificate for pharmaceutical excipients, registration certificate for pharmaceutical packaging materials, supplementary application documents, quality standards, manufacturer's inspection reports, business authorization, salesperson information, etc.	Institutions and personnel, plant facilities, equipment, materials, production management, quality management, document management, etc.	Business license, registration certificate and attachments for pharmaceutical excipients with drug approval numbers, quality standards, manufacturer's inspection reports, business authorization, salesperson information, etc.	Business license, proof of production and operation license, business authorization, salesperson information, etc.

# Environmental, Social and Governance Report *(Continued)*

## Supplier Audit Implementation

Initial Audit		Daily Audit		Regular Audit	
✓	Determine suppliers to be procured	✓	Pay close attention to the quality of material acceptance and daily usage, promptly identify any general quality issues that arise, and provide timely feedback to suppliers for corrective actions	✓	Conduct regular audits every two years
✓	Conduct preliminary assessments of supplier qualifications and quality management levels	✓	Cancel the qualified status of suppliers who consistently experience quality issues	✓	Audit the validity of supplier qualifications and whether the materials are still within the scope of the supplier's production and operation
✓	Perform qualification or on-site audits according to established standards			✓	Follow up previous audit findings and corrective actions
✓	Approve suppliers who meet the requirements to become qualified suppliers of the Company				

## Regular Quality Review

- ✓ Conduct an annual review and analysis of the quality of materials used, including complaint records, deviations in the production process, exceedances of test results, non-conformance rates, and audit findings
- ✓ If the number of procurement batches within a year exceeds 20, the qualification rate shall be no less than 95%. If the number of procurement batches within a year is less than 20, the number of non-compliant batches shall be less than 2. If there are no significant defects identified in the audit results, the evaluation is considered to be in compliance with the requirements.

**Table 13 Number of Fusen Pharmaceutical's suppliers in different regions**

Performance indicator	Unit	Southwest China	Northern China	Northeast China	Central China	Southern China	Northwest China
Number of suppliers in different regions	Numbers	5	128	15	357	331	77



# Environmental, Social and Governance Report *(Continued)*

## (3) Sustainable Procurement

The Company fully incorporates ESG concepts such as environmental protection, occupational health and safety, anti-discrimination and anti-corruption into its procurement policies, and regulates the entire life cycle of supplier selection, admittance, evaluation, maintenance and elimination. The Company conducts comprehensive assessment and grading for all suppliers in respect of various factors, including qualification rate of product inspected and credit period every two years, and consider adopting the strategy of pre-emptive right to procure materials from suppliers with outstanding assessment results for two consecutive years.

In production and daily office work, the Company replaces coal-fired boilers with natural gas boilers to reduce greenhouse gas emissions; procures remanufactured paper packaging boxes for the transport of medicines; purchases energy-saving lighting and smart water-saving devices to minimize energy and resource consumption; and acquires electric vehicles as company service vehicles to support the development of new energy sources.

## IV. PRODUCT RESPONSIBILITY

### (1) Product Quality and Safety

#### 1. Systematic Management

Under the background of Healthy China,, the Company will always upholds the philosophy of " honest and trustworthy, adherence to tradition and innovation, quality is paramount, and steady progress", and adhere to the business philosophy of " craftsmanship quality, health is happiness", to safeguard the health of consumers.

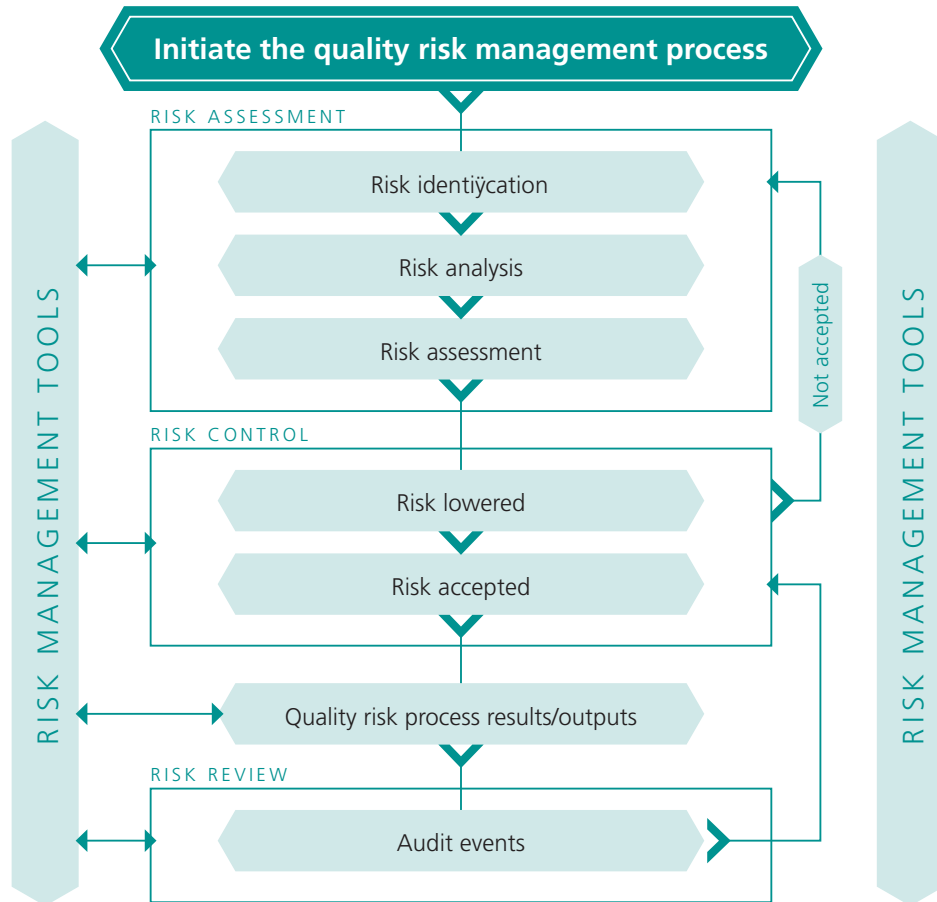
Building upon its own industrial foundation and resources, the Company emphasizes both tradition and innovation, integrating Chinese and Western approaches. It drives the in-depth integration of innovation and industrial chains, and promotes the high-quality development of the pharmaceutical and health industry in the province. With a focus on authentic Chinese herbal medicines, the Company ensures quality assurance. To guarantee product quality from the source, Fusen Pharmaceutical has established a high-standard GAP planting base for Chinese herbal medicine and modernized Chinese herbal material processing centers to ensure the production and supply of quality Chinese herbal materials from the source and establish a traceable quality management system to ensure product quality and safety through full process control. In the past three years, no products were returned to the Company for reasons of product quality, safety or health.

**Table 14 Product return rate of Fusen Pharmaceutical for the past three years**

Performance indicator	Unit	2021	2022	2023
Product return rate	%	0	0	0

## 2. Institutionalisation

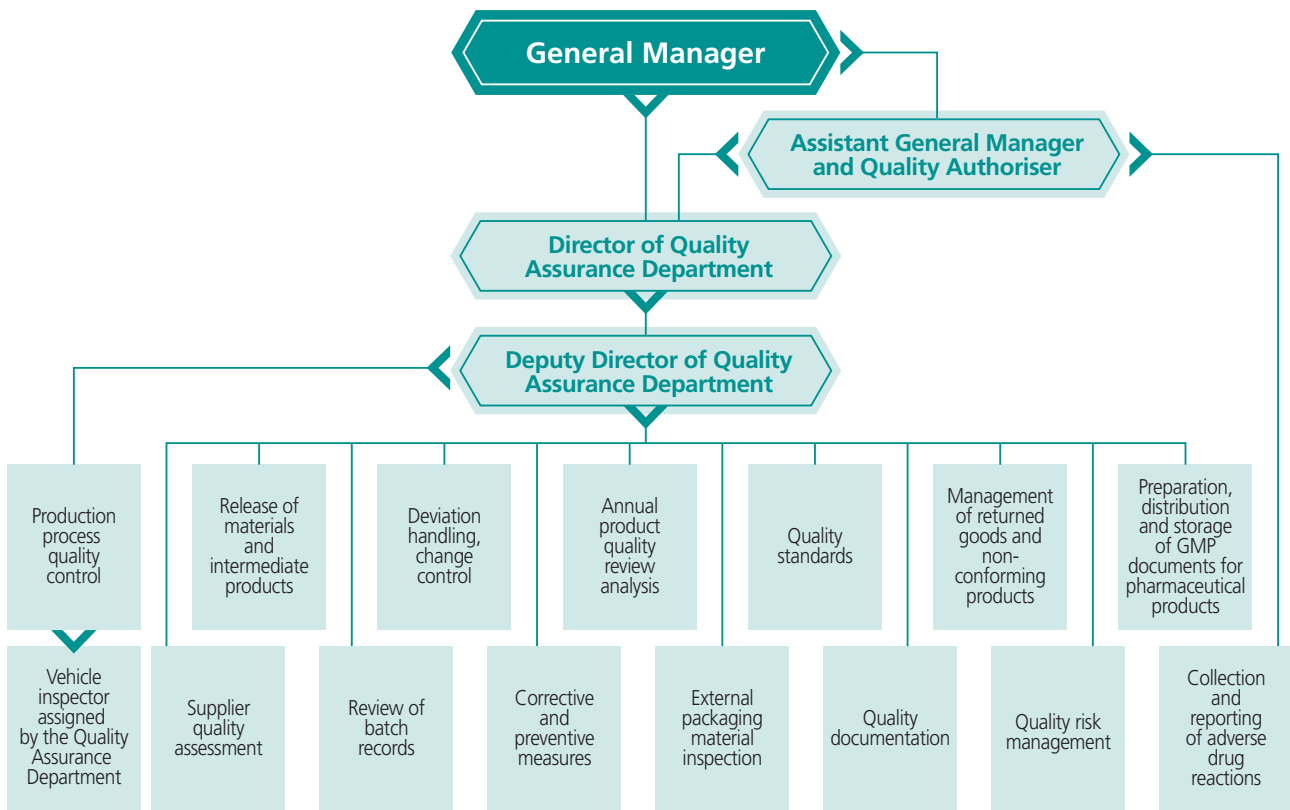
The *Quality Risk Management Procedures* formulated by the Company assess, control and review the risk factors that may affect product quality to ensure the product quality is applicable to the quality risk management at all stages of the life cycle of the Company's pharmaceutical products, including research and development, production and sales.



**Figure 15 Quality Risk Management Flowchart of Fusen Pharmaceutical**

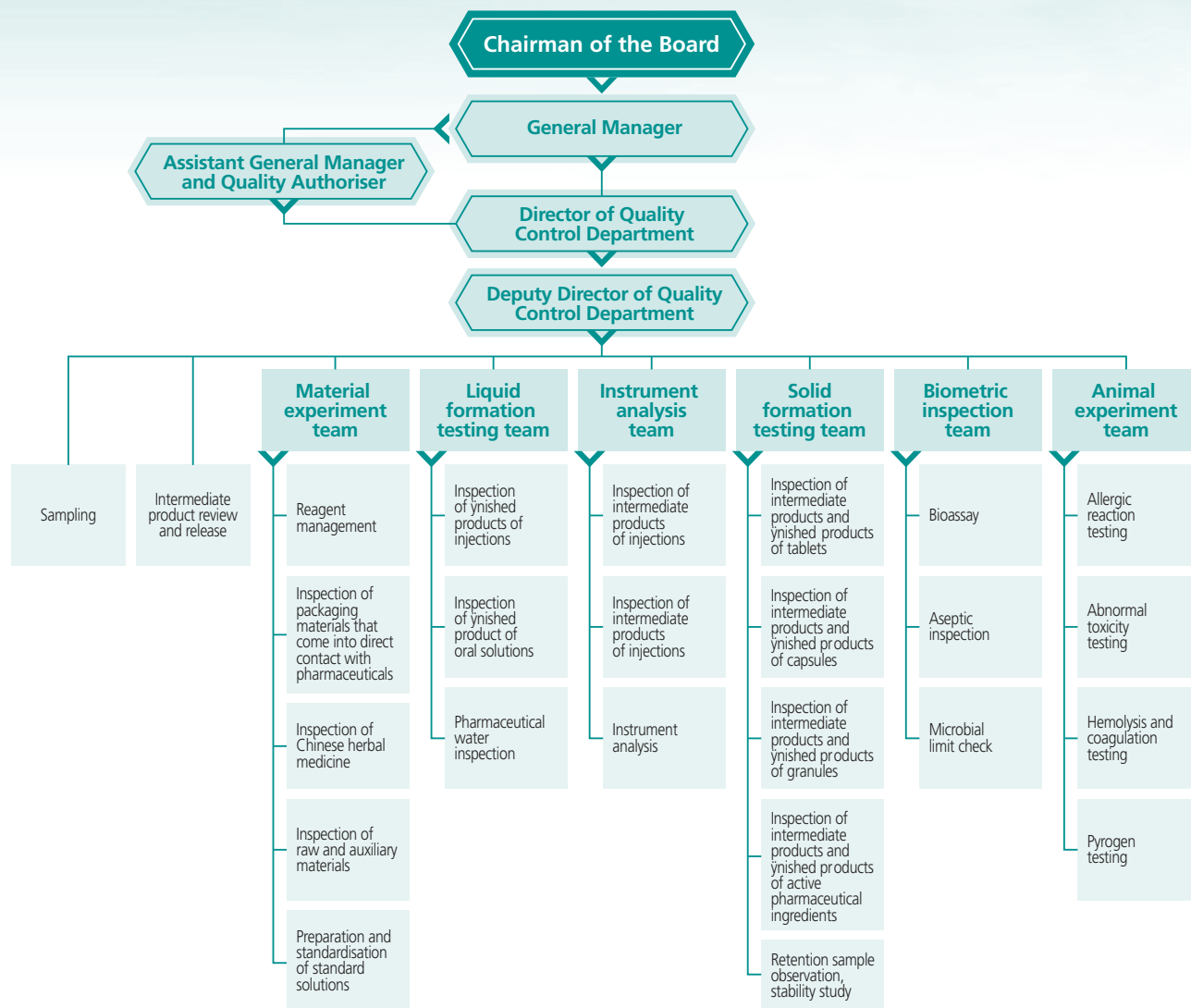
# Environmental, Social and Governance Report *(Continued)*

The Company also formulates the *Quality Objectives Management Regulations* to ensure that the Company's quality policy and objectives are achieved through the management of quality objectives; establishes the *Quality Assurance System* to form an organic whole of quality management with clear tasks, responsibilities, authority, coordination and mutual promotion to ensure that products and services meet the required quality requirements; establishes the *Quality Control System* to ensure that the necessary inspections are completed before the release of materials or products to confirm that their quality meets the requirements.



**Figure 16 Quality Assurance System of Fusen Pharmaceutical**

# Environmental, Social and Governance Report *(Continued)*



**Figure 17 Quality Control System of Fusen Pharmaceutical**

In the entire production process of pharmaceutical products, the Company comply with the *Good Manufacturing Practice for Pharmaceutical Products* to implement strict quality control and ensure the adaptability among our staff, facilities, equipment and scale of product production; production can proceed to the next stage only after all of the previous production phases meet the standards; and quality supervision has been exercised during the process of purchasing raw material, production, storage and transportation of finished goods.

The Company's *Supplier and Procurement Management System* provides that, during the process of raw materials procurement and acceptance inspection, it has to apply a rigorous audit management and admittance approval to suppliers and enter into quality assurance agreements with the cooperating suppliers. Acceptance inspection, sampling, testing and release of arriving raw materials are carried out by inspectors and quality assurance personnel and any storage of unqualified raw materials is prohibited.

\* For identification only

### 3. Innovative Development

The Company firmly capitalized on the opportunities arising from the national attention and support for the development of Chinese medicine, and proposed the goal of building “a health industry group integrating traditional Chinese medicine, chemical medicine and biopharmaceuticals” and leading the “Chinese medicine health industry”. By continuing to improve product quality and efficacy, the Group provides numerous consumers with high-quality product offerings covering heat-clearing and detoxifying, cardiovascular, anti-hypertensive and hypoglycemic, tonic, qi-regulating, anemia-treating, anti-bacterial and anti-inflammatory effects, enabling more families to access safe and effective drug selections. Our endeavour has injected new vitality into building a healthy China. Among others, the market share of Shuanghuanglian oral solutions in the domestic market reached 35.5%, ranking 2nd in the market, while the market share of Shuanghuanglian injections in the domestic market reached 91.6%, ranking 1st in the market. The Shuanghuanglian oral solution was selected as one of the top cold medicine brands for “Familiar Drugs Frequently Used by Chinese Families for the Year of 2022-2023” thanks to its excellent efficacy and wide recognition. The same solution is also one of the “National Qualified Assessment Quality Assurance Products”.

#### Fusen Pharmaceutical’s Healthcare Products List

Heat clearing and detoxification category	Shuanghuanglian Oral Solution, Shuanghuanglian Injection, Heat-Clearing and Detoxification Oral Liquid, Flu Clear Tablet, Qianbai Rhinitis Tablet, Yanning Capsule, Bupleurum Chinese Injection, and Sanhuang Tablet
Cardio cerebrovascular Category	Piracetam Injections, Flunarizine Hydrochloride Capsules, Xiaoshuan Oral Liquid, Tongmai Oral Liquid, Mai’an Granules, Yixinkang Tablet, and Insosine Injection
Blood pressure and sugar reduction category	Metformin Hydrochloride Sustained-release Tablet, Nicardipine Hydrochloride Injection, and Captopril Tablet
Tonifying category	Pulse Vitalizing Tonic Drink, Maiwei Dihuang Oral Liquid, and Yangchun Oral Liquid
Qi-regulating category	Yuanhu Pain Relief Oral Liquid and Hepatic Vitality Tablet (Ganweikang Tablet)
Anti-anemia category	Compound Ferrous Hydrochloride Granules and Compound Ferrous Sulfate Granules
Antibacterial and anti-inflammatory category	Lincomycin Hydrochloride Injection, Clarithromycin Extended-release Tablet, Roxithromycin Capsule, Fosfomycin Calcium and Trimethoprim Capsules, Compound Sulfamethoxazole Tablets, and Gentamicin Sulfate Injection
Gastrointestinal tract category	Rhubarb And Sodium Bicarbonate Tablet and Berberine Hydrochloride Tablet
Expectorant cough category	Compound Propantheline Bromide Tablets and Xiaoer Kechuanling Oral Liquid

## Environmental, Social and Governance Report *(Continued)*

In March 2023, Fusen Pharmaceutical received the “Notice of Approval for Supplementary Drug Application” (Notice Serial Number: 2023B01068) issued by the National Medical Products Administration regarding its product flunarizine hydrochloride capsule, announcing that such product has passed the quality and efficacy consistency evaluation of generic drugs. Fusen Pharmaceutical is the first domestic company to produce generic flunarizine hydrochloride capsules with consistent product quality. After passing the consistency evaluation, it means Fusen Pharmaceutical’s flunarizine hydrochloride capsules are consistent in quality and efficacy with the innovator drug, achieving interchangeability with the innovator drug in clinical practice, which has accumulated valuable experience for our product follow-up work. Furthermore, generic drugs are priced lower than innovator drugs, which can effectively improve patients’ medical experience, their quality of life, and increase their willingness to seek medical treatment, providing more patients with access to affordable treatment. In the future, Fusen Pharmaceutical will continue to safeguard public health with the philosophy of “craftsmanship quality, health is happiness”.

The Company always stands at the forefront of medical technology. Following the research and development philosophy of “attaching equal importance to Chinese and Western medicines, and combining imitation and innovation, and combining long and short”, the Company persistently pursues the research and development strategy of “generation of production, generation of reserves, generation of research and innovation”. Besides developing high-quality generic drugs, we continue to carry out in-depth secondary development of Chinese medicine varieties, and development of classic prescription products. In addition, we search, collect, select and develop “two prescriptions and one preparation” (兩方一製劑). The Company will organically combine chemical medicine and Chinese medicine to support our future development.

The Company has established a leading group for patent administration, headed by the president of the parent company, to encourage employees’ initiative and creativity in invention and creation, and cultivate the innovative culture of the Company and employees’ innovative awareness. The Company has set up a patent work award, which will provide assessment every three years. Physical rewards are granted to units and individuals that have obtained obvious economic benefits and social benefits from their patent work. In 2023, the Company added 10 new patents, with a cumulative total of 59 invention patents and more than 80 utility model patents.

The Company actively plans to build a Chinese medicine industrial park in line with national strategies, cooperating with universities and scientific research institutions, including Zhejiang University, Tianjin University of Traditional Chinese Medicine, Nankai University and Macau University of Science and Technology, to set up the Fusen Zhuhai Hengqin Chinese Medicine R&D Platform, capturing the high ground of the industry as our commitment to fostering a new form of Chinese herbal medicine industry, which comprehensively facilitate the improvement in its core industrial competitiveness.

On 17 June 2023, a cooperation agreement signing ceremony for the innovative Chinese medicine “SY-617” under research was held at the Traditional Chinese Medicine Science and Technology Industrial Park of Co-operation between Guangdong and Macao, involving the cooperating signatories, such as Hospital of Chengdu University of TCM, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited\* (嘉亨(珠海橫琴)醫藥科技有限公司), Zhuhai Hengqin HaoMai Technology Company Limited\* (珠海橫琴濠麥科技有限公司) and Guangdong-Macao Pharmaceutical Co., Ltd. This signing further promoted innovation and practice in cooperation between the Chinese medicine industries of Sichuan and Macao, representing important demonstrative significance for the development of cooperation between the two places in the Chinese medicine industry.

#### **4. Strengthening of GMP Management**

The Company has established a quality management system in compliance with the GMP, with clear responsibilities outlined within the quality management organizational structure. Both the production management and quality management personnel have over 25 years of experience, and training has been provided to employees on legal regulations, GMP, basic microbiology knowledge, and job-specific Standard Operating Procedures (SOPs). The production equipment and inspection instruments meet the basic requirements for product manufacturing and testing. Appropriate operating procedures have been developed for the main equipment involved in product manufacturing. Material and product management systems have been established. Continuous improvement of the quality management level is achieved through change control, deviation handling, Out-of-Specification (OOS) investigations, Corrective and Preventive Actions (CAPA), and quality reviews. In July 2023, an inspection team delegated by the Henan Food and Drug Evaluation and Inspection Center (河南省食品藥品評審查驗中心) conducted an on-site pharmaceutical GMP compliance inspection of the small-volume injections manufactured by the Company in Jinhe Development Zone, Xichuan County, Henan Province. After inspection and evaluation, it was confirmed that there were no serious or major defects.

# Environmental, Social and Governance Report *(Continued)*

**Table of Fusen Pharmaceutical's Key Focus Areas for GMP Compliance Inspection**

	Key Focus Areas	Inspection Conclusion
Process Systems	Process Purified Water System Air Conditioning System Injection Water System Compressed Air System	Operating normally
Key Equipment	Vertical Ultrasonic Bottle Washing Machine Tunnel Sterilization Drying Oven Ampoule Filling and Sealing Machine Liquid Preparation System	All within the validity period of the three-year inspection
Product Sterility Assurance	Code of conduct for personnel in key areas  Management of key operators  Use and sterilization of key containers and equipment  Space disinfection or sterilization  Sterilization of key materials	The Cleanroom Personnel Management Regulations (《潔淨室人員管理規程》) and the Procedures for Personnel Entry and Exit in Class C Clean Areas (《人員進出c級潔淨區操作規程》) are in place  Health examinations have been conducted, along with training on microbiology knowledge and aseptic operations. Personnel entering the clean areas have followed attire changing procedures and hand disinfection protocols  The Cleaning Procedures for Chinese Medicine Extraction Workshop Containers and Equipment (《中藥提取車間容器具清潔規程》) and the Cleaning Procedures for Small-volume Injection Workshop Containers and Equipment (《小容量注射劑車間容器具清潔規程等》) have been established  The cleanrooms undergo ozone disinfection once daily  Three-stage filtration, pure steam sterilization at 121 degrees Celsius for 30 minutes



# Environmental, Social and Governance Report *(Continued)*

## (2) Customer Service and Complaint Handling

### 1. Customer Complaint Handling

The Company attaches great importance to customer demands and has established a complaint handling responsibility team consisting of the Deputy General Manager in charge of quality, the Deputy General Manager in charge of marketing, the Pharmacovigilance Department and the Quality Assurance Department. We have formulated systems such as the Complaint Handling Management Regulations and the Procedures for Handling Medical Consultations and Complaints, and have developed a three-tiered handling procedure (A, B, and C) to ensure standardized and procedural handling of user objections or inquiries regarding product quality, continuously improve service quality and meet customer requirements to the greatest extent possible.

#### ▼ Fusen Pharmaceutical's Three-tiered Complaint Handling Procedures for Products

User Feedback Category		Handling Procedures	
Class A	Reference opinions provided by users regarding the Company's product quality	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>Immediately inform the production department of opinions that can be promptly addressed for improvement</li> <li>Develop corrective measures for situations where immediate improvement is not possible, and set a deadline for rectification</li> <li>Notify the complainant in writing or by phone after rectification, and provide samples if necessary</li> </ul>
Class B	Quality issues without clinical significance	<ul style="list-style-type: none"> <li>✓</li> <li>✓</li> <li>✓</li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>Assign a designated individual to respond within 3 days to user complaints that can be adequately addressed through written or verbal responses and provide samples if necessary</li> <li>Immediately initiate an investigation for complaints that require further investigation before providing a response and respond to the user within one week</li> <li>Maintain records of user inquiries, feedback or complaints handling</li> <li>Archive user opinions or complaints</li> </ul>

# Environmental, Social and Governance Report *(Continued)*

User Feedback Category		Handling Procedures
Class C	Serious adverse reactions and other quality issues that harm user health	<ul style="list-style-type: none"> <li>✓ Conduct an internal investigation within the Company, including examining batch production records, packaging records, on-site monitoring records, inspection records, etc.</li> <li>✓ Inspect the quality of retained product samples to confirm the cause of the problem</li> <li>✓ The Pharmacovigilance Office collects investigation findings, proposes handling suggestions, and reports them to the Deputy General Manager in charge of quality</li> <li>✓ The Deputy General Manager in charge of quality presents handling methods based on the investigation findings and seeks approval from the General Manager</li> <li>✓ The Pharmacovigilance Office is responsible for implementing the approved handling methods until a satisfactory resolution is achieved</li> <li>✓ Thoroughly investigate the root cause, notify the head of the department involved, and take measures to prevent recurrence</li> <li>✓ If the final conclusion does not indicate a quality issue, provide a clear explanation to the user</li> <li>✓ If it is indeed a product quality issue, initiate the product recall mechanism</li> </ul>

During the Reporting Period, the Company received a total of 12 quality-related complaints.

**Table 18 Product complaints of Fusen Pharmaceutical for the past three years**

Performance indicators	Unit	2021	2022	2023
Number of product complaints	Items	4	12	8

## 2. Product Recall Mechanism

In compliance with relevant laws and regulations such as the Pharmaceutical Administration Law of the People's Republic of China, the Regulations for the Implementation of Drug Administration Law of the People's Republic of China, the Good Manufacturing Practice for Pharmaceutical Products and the Measures for the Administration of Drug Recall, the Company has formulated the Drug Recall Management Regulations, the Drug Return Management Regulations and other systems to regulate the management of product return or recall due to quality defects, control drug risks and hazards, and ensure the safety of public medication. The Company has not experienced any product recalls for the past five consecutive years.

### ▼ Fusen Pharmaceuticals' Three-level Drug Recall Procedure

1. Quality Issue Investigation Conduct investigation and analysis of quality issues from complaints, reports and proactive collection
2. Recall Level Assessment
  - Level 1 Recall:** Involves drugs that may or have already posed serious health risks
  - Level 2 Recall:** Involves drugs that may or have already caused temporary or reversible health hazards
  - Level 3 Recall:** Involves drugs that generally do not pose health hazards but require recall due to other reasons
3. Recall Notification Issuance Issue recall notifications to pharmaceutical distributors, retailers, drug users, and other relevant parties  
(Level 1: within 1 day; Level 2: within 3 days; Level 3: within 7 days)
4. Recall Implementation Process Compile daily summaries of drug quantities and statistics on recalls
5. Recall Progress Reporting Provide periodic reports on the recall progress to the provincial drug regulatory authority  
(daily for level 1; every 3 days for level 2; every 7 days for level 3)
6. Recalled Drug Handling Affix non-compliant labels and store in a designated area for non-compliant products; and carry out destruction according to the prescribed procedures

# Environmental, Social and Governance Report *(Continued)*

## (3) Responsible Marketing

### 1. Integrity Marketing

The Company conducts various marketing activities in accordance with the *Administrative Licensing Law of the People's Republic of China*, the *Advertising Law of the People's Republic of China*, the *Interim Measures for the Administration of Censorship of Advertisements on Drugs, Medical Devices, Dietary Supplements and Formula Foods for Special Medical Purposes* by the State Administration for Market Regulation and other laws and regulations. The advertisements officially published by the Company have been reviewed by the Henan Administration for Market Regulation.

### 2. Consumer Privacy Protection

The Company strictly abides by the laws and regulations related to customer privacy protection, such as the *Internet safety Law*, the *Administrative Measures for Internet Information Services*, and the *Law of the People's Republic of China on the Protection of the Rights and Interests of the Consumers*, and conducts user data safety management. The Company ensures that there is no unauthorised information leakage or disclosure and will not share and transfer the personal privacy information of other companies, organisations and individuals without the consent of regulatory authorities and the users' knowledge.

## (4) Intellectual Property Management

The Company has developed and promulgated the *Intellectual Property Management System*, which regulates the management of patents, trademarks, copyrights and their neighboring rights, technical and trade secrets, corporate trade names and various service marks, and provides for the integration of intellectual property management into the management of all aspects of the Company's research and development and operations. In addition, the Company's skills and innovation department is responsible for the identification, application, registration, registration and evaluation of intellectual property rights, as well as the coordination and resolution of disputes and controversies relating to intellectual property rights. The Company formulates an annual plan for intellectual property management by taking into account its actual situation, and links it effectively with other enterprise specific management plans, and make an annual summary of intellectual property in a timely manner. Meanwhile, the Company invites external intellectual property agency firms to teach relevant knowledge on site to strengthen training and education on intellectual property laws and regulations, and enhance the awareness and ability of enterprises to protect intellectual property.

## V. ANTI-CORRUPTION

### (1) Establishing a Sound System

The Company has zero tolerance for violations of business ethics, strictly complies with relevant laws and regulations, establishes and improves the anti-fraud control and supervision mechanism, effectively prevents the occurrence of bribery, fraud and corruption, and controls the fraud risk of the Company.

The Company has formulated and promulgated the *Anti-Fraud and Corruption, Anti-Commercial Bribery and Reporting Management System* applicable to Directors, senior management, all employees, and all business partners (including suppliers, distributors or other related parties), which clearly stipulates the concept of fraud, corruption and commercial bribery, the scope of application of the system, the attribution of responsibilities, prevention and control measures, penalties, complaint reporting channels, etc., so as to warn employees of the harm of the incident and play a deterrent role.

#### **Attribution of duties**

- The Board the Company leads the Company's anti-fraud, corruption and commercial bribery work, and urges the management to establish a corresponding control environment within the Company. The board of supervisors supervises the Company to establish a sound and healthy internal control system;
- The corporate management department is specifically responsible for receiving, investigating, reporting and putting forward suggestions for handling reports on fraud/corruption/commercial bribery, keeping written records and reporting to the Board in a timely manner, and filing specific reporting materials after reporting and investigation on a timely basis.

#### **Reporting channels**

- Employees at all levels and all parties in the society that have direct or indirect economic relations with the Company can report the actual or suspected fraud/corruption/commercial bribery cases of the Company and its personnel through telephone hotline, email, letters and other channels, including complaints and reports on violations of professional ethics of the Company and its personnel;
- A complaint suggestion box is placed at a prominent position in the Company's lobby and can be put into anonymous or real name reporting letters.

#### **Prevention and control**

- Advocate a corporate culture of honesty and integrity, and create a corporate culture environment of anti-fraud, corruption and anti-commercial bribery;
- Establish an appropriate procurement system that is particularly effective in the prevention of fraud/corruption/commercial bribery and is based on transparency, competition and objective criteria;
- Suppliers who have business dealings with the Company are required to sign the *Anti-Fraud and Anti-Corruption Undertaking* with the Company when entering into contracts; If the Company's personnel who deal with the Company's economic activities violate the *Anti-Fraud and Anti-Corruption Undertaking*, the Company shall resolutely disqualify its suppliers and service providers, and those who constitute commercial bribery (bribery) crimes shall be subject to criminal liability by the judicial authority;
- The management's continuous supervision of fraud/corruption/commercial bribery is integrated into daily sales, procurement, financial handling and other activities, including daily management and supervision activities.

# Environmental, Social and Governance Report *(Continued)*

## **Supervision and inspection**

- The audit department considers the risk of fraud/corruption/commercial bribery when formulating and implementing the annual audit plan, reports its work plan and results to the Audit Committee, and is under the guidance and supervision of the Audit Committee;
- The market audit department conducts monthly inspections on the sales channels, sales prices, marketing activities and training of the products of the sales centre.

## **Remedies and penalties**

- Upon the occurrence of fraud/corruption/commercial bribery cases, the Company will adopt remedies to evaluate and improve the internal control of relevant affected departments in a timely manner;
- For employees who are proven to have committed fraud/corruption/commercial bribery, the Company will take corresponding administrative disciplinary actions in accordance with relevant regulations. If the behavior violates the criminal law, the judicial authority or other relevant national departments will handle it according to law.

At the same time, the Company has stipulated the code of conduct for employees in the *Employee Handbook*, which prohibits the use of power to engage in private fraud, publicizes the Company's corporate values concept of honesty and integrity to employees, emphasizes the compliance with national laws and regulations and the Company's rules and regulations, advocates the importance of integrity and professional ethics, and continuously improves the self-discipline awareness and anti-corruption awareness of all employees.

During the Reporting Period, there were no concluded cases of corruption-related litigation brought against the Group, its subsidiaries or employees. The Company was not aware of any non-compliance with relevant laws and regulations relating to bribery, corruption, extortion, fraud and money laundering.

In the future, the Company will further improve the anti-corruption compliance system, strengthen routine supervision and special inspection, and provide strong support for the rapid, healthy and sustainable development of the Company.

## **(2) Organising Special Learning**

In order to improve the anti-corruption awareness of all employees, and to perform duties with integrity and honesty, the Company has formulated the *Anti-corruption Training System*, which clarifies the Company's anti-corruption work principles, refines relevant work processes and other contents, review risk points in a targeted manner and organises all employees to learn, so as to play an educational and preventive role for employees in fighting against corruption.

# Environmental, Social and Governance Report *(Continued)*

## VI. COMMUNITY INVESTMENT

### (1) Support Rural Revitalization

With strong advocacy and support from the Xichuan County Party Committee and County Government, the Company provided unified honeysuckle seedlings to all planting households, offered free technical services, and implemented a unified guaranteed minimum purchase prices. These initiatives successfully assisted nearly 4,500 impoverished households in the county to secure local employment opportunities, resulting in an average income increase of over RMB5,000 per household. Our efforts also effectively absorbed surplus labor force from the community and alleviated the challenges faced by rural migrants seeking employment, achieving a win-win situation in terms of economic, ecological and social benefits.

### (2) Social Welfare Activities

The Company regards "giving back to society and caring for people's livelihood" as the social responsibilities that should be fulfilled. It actively engages in social welfare and charitable initiatives, making timely contributions to society through tangible actions such as drug donations, publicity of Chinese medicine knowledge, and conducting health outreach programs in local communities, supporting the establishment of a civilized and harmonious social environment. During the Reporting Period, the Company invested a total of RMB800,000 in community welfare, while our employees collectively volunteered for 156 hours.



Table 19 Community investment of Fusen Pharmaceutical for the past three years

Performance indicator	Unit	2021	2022	2023
Community charity amount	Yuan	3,000,000	320,731.31	<b>800,000.00</b>
Hours of employee volunteer activities	Persons	105	128	<b>156</b>

# Environmental, Social and Governance Report *(Continued)*



Photo 17 Donation to poor students from Tsinghua University



Photo 18 Visiting poor households



# Report of the Directors

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2023.

## PRINCIPAL ACTIVITIES

The Company was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Act (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Group is principally engaged in manufacturing and sale of pharmaceutical products.

## DIVIDEND POLICY

The Company may distribute dividends by way of cash or by other means that the Company considers appropriate. The Directors currently intend to declare a dividend of no less than 10% of the Company's distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. The Board will review dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- the Group's result of operations;
- the Group's cash flows;
- the Group's financial condition;
- the Group's shareholders' interests;
- general business conditions and strategies of the Group;
- the Group's capital requirements;
- the payment by the Company's subsidiaries of cash dividends to the Company; and
- other factors the Board may deem relevant.

Such declaration and payment of the dividend by the Company is also subject to any restrictions under the Companies Act of the Cayman Islands, any applicable laws, rule and regulations and the articles of association of the Company.

## RESULTS AND DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: RMB0.34 cents) to the shareholders of the Company.

# Report of the Directors *(Continued)*

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following period for determining eligibility to attend and vote at the forthcoming annual general meeting to be held on Tuesday, 28 May 2024 (the “**2023 Annual General Meeting**”):

Latest time to lodge transfer documents for registration:	4:30 p.m., Tuesday, 21 May 2024
Closure of register of members:	Wednesday, 22 May 2024 to Tuesday, 28 May 2024 (both days inclusive)
Record date:	Tuesday, 28 May 2024

In order to be eligible to attend and vote at the 2023 Annual General Meeting, all transfer of share(s), accompanied by the relevant share certificate(s) with the properly completed transfer from(s) either overleaf or separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, for registration not later than the latest dates and time set out above.

## BUSINESS REVIEW

The review of the business of the Group during the year ended 31 December 2023 and the discussion on the Group’s future business development are set out in the sections headed “Chairman’s Statement” and “Management Discussion and Analysis” of this report. The description of principal risks and uncertainties faced by the Group and key financial performance indicators are set out in the section headed “Management Discussion and Analysis” of this report. The financial risk management objectives and policies of the Group are set out in the consolidated financial statements of this report.

## SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for each of the five financial years ended 31 December 2023 is set out on page 4 of this report. Such summary does not form part of the audited consolidated financial statements of the Group.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2023 are set out in Note 14 to the consolidated financial statements of this report.

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group did not have other plans for material investments or capital assets as at 31 December 2023.

# Report of the Directors *(Continued)*

## SHARE CAPITAL

Details of the Company's share capital is set out in Note 30 to the consolidated financial statements of this report.

## SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme on 14 June 2018 ("**Share Option Scheme**") in which certain participants, including employees (full-time or part-time), directors or service providers of the Group, may be granted options to subscribe for the ordinary shares in the share capital of the Company with a nominal value of HK\$0.10 each ("**Share(s)**"). The purpose of the Share Option Scheme is to attract and retain the best available personnel, to provide additional incentive to above parties and to promote the success of the business of the Group. The Share Option Scheme shall expire at the close of business on 13 June 2028 unless terminated earlier by the Shareholders in general meeting. The Directors believe that the Share Option Scheme is important for the recruitment and retention of quality executives and employees.

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day;
- (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and
- (iii) the nominal value of a Share on the date of grant of the option.

The maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share schemes of this Company (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) must not in aggregate exceed 10% of the Shares in issue as at the Listing Date. Therefore, the Company may grant options in respect of up to 80,000,000 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 80,000,000 Shares from time to time) to the participants under the Share Option Scheme.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer is made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK\$1.0. The total number of Shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the Share Option Scheme or any other share option schemes of the Company in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting.

## Report of the Directors *(Continued)*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine, which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The following table discloses movements in the Company's share options outstanding under the Share Option Scheme during the year ended 31 December 2023:

Name/category of participants	At 31 December 2022	Date of grant of share options	Exercised during the year	Granted during the year	Lapsed during the year	Cancelled during the year	At 31 December 2023	Vesting period of share options	Exercise period (both days inclusive)	Exercise price of share options HK\$ per share (Note)	Closing price of shares immediately before date of grant HK\$ per share
<b>Two employees of the Group</b>	16,000,000	19 July 2019	-	-	-	-	16,000,000 in total	All of the share options granted have been vested on 19 October 2019	19 October 2019–13 June 2028	3.098	3.04

Note: The exercise price was determined with reference to the highest of (i) the closing price of HK\$3.04 per Share on the date of grant; (ii) the average closing price of HK\$3.098 per Share for the five business days immediately preceding the date of grant; and (iii) the nominal value of HK\$0.01 per Share.

During the year ended 31 December 2023, no share options were granted under the Share Option Scheme.

As at the date of this financial report, there were 16,000,000 outstanding share options granted under the Share Option Scheme, representing approximately 2.13% of the issued share capital of the Company. As at 1 January 2023 and 31 December 2023, the Company may grant options in respect of up to 64,000,000 Shares under the Share Option Scheme, representing approximately 8.53% of the total issued share capital of the Company as at the date of this report.

In order to encourage long-term commitment to the Company and to align the interests of the eligible grantees with the Company's development, the Board proposed to extend the exercise period of the outstanding options granted under the Share Option Scheme, such that those options may be exercised over a period of not more than 10 years from the date of grant. The Annual General Meeting held on 30 June 2020 approved the proposed amendment of terms of share options granted, extending the exercise period of the outstanding options for the period from the current expiry date, being 19 July 2020, to 13 June 2028. The modification took effect on 30 June 2020.

As it is expected that the proposed extension of exercise period would induce and incentivise the holders of the outstanding options to contribute to the growth, development and success of the Group, the Board considers that the proposed extension of exercise period of the outstanding options is in line with the objective of the Share Option Scheme, which also closely aligns the interests of such holders with that of the Shareholders to promote the long-term development and financial performance of the Company.

Please refer to Note 13(a) to the financial statements for further information of the Share Option Scheme and the value of share options granted.

# Report of the Directors *(Continued)*

## RESTRICTED SHARE UNIT SCHEME

The Company adopted a restricted share unit scheme (the “**RSU Scheme**” or “**Restricted Share Unit Scheme**”) on 8 November 2021 (the “**Adoption Date**”), the details of which are set out as follows:

### 1. Purpose of the RSU Scheme

The purposes of the RSU Scheme are to incentivise persons who are eligible to receive restricted share unit(s) (“**RSU(s)**”) (“**Eligible Persons**”) for their contribution to the Group, to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company.

### 2. Participants of the RSU Scheme

Eligible Persons who may participate in the RSU Scheme include (i) employees or officers of the Group including (without limitation to) any executive or non-executive Directors in the employment of or holding office in the Group, research and development personnel, new product introduction personnel, sales and marketing personnel, medical aesthetic professional personnel and other professional personnel of the Group, and (ii) certain consultants or advisors to the Group.

The Board may select any Eligible Person for participation in the RSU Scheme. Unless so selected, no Eligible Person shall be entitled to participate in the RSU Scheme. The basis of eligibility of any person for the grant of RSUs shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group or such other factors as the Board may deem appropriate.

### 3. Total number of shares available for issue

The maximum number of RSUs which may be granted under the RSU Scheme shall be such number of Shares held or to be held by the trustee for the purpose of the RSU Scheme from time to time, and which shall in any event, be no more than 10% of the Company’s issued share capital as at the Adoption Date, being 76,993,400 Shares.

As at 31 December 2023, the total number of RSUs available for grant under the RSU Scheme was 71,993,400, the underlying shares for which (if issued) representing approximately 9.60% of the total number of issued shares of the Company as at the date of this report.

# Report of the Directors *(Continued)*

## 4. Details of the RSUs granted under the RSU Scheme

The number of RSUs available for grant under the RSU Scheme was 71,993,400 and 71,993,400 as at 1 January 2023 and 31 December 2023, respectively. Details of the outstanding RSUs granted under the RSU Scheme and the movements during the year ended 31 December 2023 are set out as follows:

Name/category of Grantee	Date of Grant	Number of Shares underlying the RSUs as of the date of grant (Note 1)	Number of Shares underlying the unvested RSUs as of 1 January 2023	Number of RSUs granted during the Reporting Period	Closing price of the Shares immediately before the date on which the RSUs were granted	Weighted average closing price of the Shares immediately before the vesting date	Vested during the Reporting Period	Lapsed during the Reporting Period (Note 2)	Number of Shares underlying the unvested RSUs as of 31 December 2023	Vesting period (subject to vesting conditions)	Approximate percentage of total number of Shares in issue as of 31 December 2023
Two employees of the Group (Note 3)	8 July 2022	5,000,000	5,000,000	-	HK\$0.97	HK\$1.35	1,000,000	-	4,000,000	(Note 4)	0.667%
Total		5,000,000	5,000,000	-	HK\$0.97	HK\$1.35	1,000,000	-	4,000,000	(Note 4)	0.667%

Notes:

- Grantees are not required to make any payment in respect of grant of RSUs. Subject to the terms of the RSU Scheme, RSUs held by an Eligible Person that are vested as evidenced by the vesting notice may be exercised (in whole or in part) by the Eligible Person serving an exercise notice in writing on the trustee and copied to the Company. On 29 July 2022, the Company allotted and issued to Global Talent Alliance Limited, a wholly-owned subsidiary of the trustee appointed by the Board to administer the RSU Scheme (the “**RSU Nominee**”), 5,000,000 new shares (the “**RSU Shares**”), which are the underlying shares of the Company in respect of the 5,000,000 RSUs granted to the two grantees. The RSU Shares are held on trust by the RSU Nominee for the two grantees until the relevant RSUs have been exercised, upon which the RSU Shares will be transferred to the two grantees.
- During the Reporting Period, no RSU granted under the RSU Scheme was cancelled.
- The two grantees, each granted 2,500,000 RSUs, are business development staff of the Group and are third parties independent of and not connected with the Company, its subsidiaries and its connected persons.
- Subject to the vesting criteria and conditions having been met, the 2,500,000 RSU granted to each of the two Grantees shall vest equally (i.e. 500,000 RSUs) on 8 July 2023, 2024, 2025, 2026 and 2027, respectively. The vesting of the RSUs shall be subject to the satisfaction of the following performance targets: (i) the number of business partners being introduced by the relevant grantee; (ii) number of products being introduced and launched by the Group successfully on such grantee’s effort and (iii) the cost of introducing and launching the relevant products. The RSUs shall be exercised no earlier than 12 months after the respective vesting dates.
- For details of the fair value of the granted RSUs and the basis of the measurement of fair value of RSUs, please refer to Note 13(b) to the financial statements in this report.
- The number of RSUs which may be granted under the RSU Scheme as at 31 December 2023 was 71,993,400 RSUs.

## 5. Maximum Entitlement of each Eligible Person under the Scheme

The total number of Shares granted and to be granted under the RSU Scheme and any other share scheme(s) of the Company to each Eligible Person (excluding any options and awards lapsed in accordance with the terms of the scheme) in any 12-month period up to and including the date of such grant shall not exceed in aggregate 1% of the total number of Shares in issue (the “**Individual Limit**”). Any further grant to Eligible Persons in excess of the Individual Limit shall be subject to separate approval of the Shareholders in general meeting with such grantees and their associates abstaining from voting.

# Report of the Directors *(Continued)*

## 6. Vesting period

Details of the vesting period of the RSUs granted under the RSU Scheme are set out in the table in the section headed “4. Details of the RSUs granted under the RSU Scheme” above in this report.

## 7. Subscription Money for Shares issued under the RSU Scheme

The Board shall cause to be paid the subscription money for the underlying Shares in respect of the RSUs granted to an Eligible Person, representing the nominal value of a Share multiplied by the number of Shares to be issued, from the Company’s internal resources. Grantees are not required to make any payment in respect of grant of RSUs.

## 8. Duration

Subject to any early termination as may be determined by the Board pursuant to the rules relating to the RSU Scheme as amended from time to time, the RSU Scheme shall be valid and effective for a period of ten years, commencing on the date of the first grant of the RSUs.

The number of Shares which were issued or may be issued in respect of options and awards granted under all schemes of the Company during the year ended 31 December 2023 (being nil) divided by the weighted average number of shares of the relevant class in issue for the year ended 31 December 2023 is nil.

## RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 30 to the consolidated financial statements of this report and in the consolidated statement of changes in equity, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s memorandum and articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to the existing Shareholders.

## CONNECTED TRANSACTIONS

### (1) Master Chinese Medicine Purchase Agreement

As disclosed in the Prospectus, upon the Listing, the following non-exempt continuing connected transactions have been entered into and will continue to be carried out between the Group and Xichuan Fusen Chinese Medicine Raw Material Plant and Development Limited (浙川縣福森中藥材種植開發有限公司) (“**Fusen Chinese Medicine**”), details of which are set out below:

On 14 June 2018, a master purchase agreement (the “**Master Chinese Medicine Purchase Agreement**”) was entered into between Henan Fusen as purchaser and Fusen Chinese Medicine as supplier whereby the Group will purchase and Fusen Chinese Medicine will supply *Ionicera japonica* and baikal skullcap root (黃芩) as raw materials (the “**Relevant Materials**”) for production of the Group’s Shuanghuanglian-based cold medicine products. The term of the Master Chinese Medicine Purchase Agreement commenced on the Listing Date, 11 July 2018, and expired on 31 December 2020. As the Master Chinese Medicine Purchase Agreement has expired on 31 December 2020 and the transactions contemplated thereunder shall continue to be entered into on a recurring basis, on 4 December 2020, Henan Fusen and Fusen Chinese Medicine entered into the renewed master Chinese medicine purchase agreement (the “**Renewed Master Chinese Medicine Purchase Agreement**”), pursuant to which the parties agreed to continue the existing cooperation as disclosed above with each other for a term of three years commencing from 1 January 2021.

## Report of the Directors *(Continued)*

Fusen Chinese Medicine is a company incorporated in the PRC with limited liability and principally carries on the business of trading of medicinal herbs. As at the date of this report, Fusen Chinese Medicine was wholly-owned by Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) (“**Fusen Shiye**”) which was a connected person of the Company due to the fact that it was owned as to 35.08% by Mr. Cao Changcheng (“**Mr. Cao**”), an executive Director, the chairman of the Board and a Controlling Shareholder. Fusen Chinese Medicine is therefore a close associate of Mr. Cao and a connected person of the Company. Consequently, transactions between the Group and Fusen Chinese Medicine constitute continuing connected transactions for the Group.

### **Annual Caps**

The annual caps for the three years ending 31 December 2023 are approximately RMB40.0 million, RMB44.0 million and RMB48.0 million respectively (the “**Renewed Annual Caps**”). For the year ended 31 December 2023, purchases by the Group from Fusen Chinese Medicine were within the Renewed Annual Caps and amounted to approximately RMB19.9 million.

### **Pricing policy**

The purchase price of the medicinal herbs will be determined on an order-by-order basis with reference to the prevailing comparable market price after arm’s length negotiation between Henan Fusen and Fusen Chinese Medicine from time to time. Henan Fusen will purchase medicinal herbs from Fusen Chinese Medicine on an as-needed basis.

When determining and approving the price and terms of the transactions under the Renewed Master Chinese Medicine Purchase Agreement, Henan Fusen will consider the following:

- (i) the historical transaction amounts paid by the Group for products of similar type, quantity and quality;
- (ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar products and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying products of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and
- (iii) factors such as types of products required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the products’ price.

In the event that the price offered by Fusen Chinese Medicine is less favourable than those offered by the independent suppliers, Henan Fusen will not enter into transactions with Fusen Chinese Medicine.

The above pricing policy will be reviewed by the Directors (including the independent non-executive Directors) on a half-yearly basis.

Henan Fusen and Fusen Chinese Medicine will enter into individual agreements or orders to set out specific terms with respect to the purchase of medicinal herbs under the Master Chinese Medicine Purchase Agreement in accordance with the principal terms thereunder.



# Report of the Directors *(Continued)*

## **Listing Rules Implications**

Fusen Chinese Medicine is wholly-owned by Fusen Shiye, a company owned as to approximately 35.08% by Mr. Cao, an executive Director, the Chairman and a controlling Shareholder. Fusen Chinese Medicine is a close associate of Mr. Cao and therefore a connected person of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Master Chinese Medicine Purchase Agreement constitute continuing connected transactions for the Company under the Listing Rules after Listing. As the highest of the applicable percentage ratios of the Renewed Master Chinese Medicine Purchase Agreement calculated under Chapter 14A of the Listing Rules exceeded 5%, the transactions contemplated under the Renewed Master Chinese Medicine Purchase Agreement are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The Renewed Master Chinese Medicine Purchase Agreement (together with the Renewed Annual Caps) had been approved by the Directors (including the independent non-executive Directors) and the independent Shareholders at the extraordinary general meeting of the Company held on 20 January 2021.

## **2024 Master Chinese Medicine Purchase Agreement**

As the Renewed Master Chinese Medicine Purchase Agreement had expired on 31 December 2023 and the transactions contemplated thereunder shall continue to be entered into on a recurring basis, on 1 December 2023, Henan Fusen and Fusen Chinese Medicine entered into a renewed master Chinese medicine purchase agreement ("**2024 Master Chinese Medicine Purchase Agreement**"), pursuant to which the parties agreed to continue the existing cooperation as disclosed above with each other for a term of three years commencing from 1 January 2024 (or the date on which the 2024 Master Chinese Medicine Purchase Agreement, the proposed annual caps and the transactions contemplated thereunder have been approved by the Independent Shareholders at the EGM, whichever later) and ending on 31 December 2026 (both days inclusive). The annual caps for the three years ending 31 December 2026 are approximately RMB40.0 million, RMB45.0 million and RMB50.0 million respectively. For further details, please refer to the announcement and circular of the Company dated 1 December 2023 and 5 January 2024, respectively.

As the highest of the applicable percentage ratios of the 2024 Master Chinese Medicine Purchase Agreement calculated under Chapter 14A of the Listing Rules exceeded 5%, the transactions contemplated under the 2024 Master Chinese Medicine Purchase Agreement are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The 2024 Master Chinese Medicine Purchase Agreement and the transactions contemplated thereunder had been approved by the Directors (including the independent non-executive Directors) and the independent Shareholders at the extraordinary general meeting of the Company held on 22 January 2024. For further details, please refer to the announcement of the Company dated 22 January 2024.

# Report of the Directors *(Continued)*

## (2) Master Packaging Materials Purchase Agreement

On 4 December 2020, Henan Fusen entered into the Master Packaging Materials Purchase Agreement with Henan Fusen Health Industry Company Limited\* (河南福森大健康產業有限公司) (“**Fusen Health**”), pursuant to which Fusen Health agreed to supply, and Henan Fusen agreed to purchase, printed packaging materials for the packaging of cold medicine products of the Group on and subject to the terms and conditions of the Master Packaging Materials Purchase Agreement.

### Annual Caps

The annual caps for the three years ending 31 December 2023 are approximately RMB15.0 million, RMB17.0 million and RMB19.0 million respectively. For the year ended 31 December 2023, purchases by the Group from Fusen Health were within the annual caps and amounted to approximately RMB12.0 million.

### Pricing policy

The purchase price of the printed packaging materials under the Master Packaging Materials Purchase Agreement will be determined on an order-by-order basis with reference to the prevailing comparable market price after arm’s length negotiation between Henan Fusen and Fusen Health from time to time. Henan Fusen will purchase printed packaging materials from Fusen Health on an as-needed basis.

When determining and approving the price and terms of the transactions under the Master Packaging Materials Purchase Agreement, Henan Fusen will consider the following:

- (i) the market price of products of similar type, quantity and quality;
- (ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar products and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying products of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and
- (iii) factors such as types of products required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the products’ price.

In the event that the price offered by Fusen Health is less favourable than those offered by the independent suppliers, Henan Fusen will not enter into transactions with Fusen Health.

The above pricing policy will be reviewed by the Directors (including the independent non-executive Directors) on a half-yearly basis.

Henan Fusen and Fusen Health will enter into individual agreements or orders to set out specific terms with respect to the purchase of printed packaging materials under the Master Packaging Materials Purchase Agreement in accordance with the principal terms thereunder.

# Report of the Directors *(Continued)*

## **Implications under the Listing Rules**

Fusen Health is wholly-owned by Fusen Shiye, a company owned as to approximately 35.08% by Mr. Cao, an executive Director, the Chairman and a controlling Shareholder. Fusen Health is a close associate of Mr. Cao and therefore a connected person of the Company under Chapter 14A of the Listing Rules. The Master Packaging Materials Purchase Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As all of the applicable percentage ratios of the Master Packaging Materials Purchase Agreement calculated under Chapter 14A of the Listing Rules with reference to the relevant proposed annual caps exceed 0.1% but are less than 5%, the transactions contemplated under the Master Packaging Materials Purchase Agreement will be exempt from the Independent Shareholders' approval requirement but will be subject to the reporting, announcement and annual review requirements pursuant to Chapter 14A of the Listing Rules.

## **2024 Master Packaging Materials Purchase Agreement**

As the Renewed Master Packaging Materials Purchase Agreement had expired on 31 December 2023 and the transactions contemplated thereunder shall continue to be entered into on a recurring basis, on 1 December 2023, Henan Fusen and Fusen Health entered into a renewed master packaging materials purchase agreement ("**2024 Master Packaging Materials Purchase Agreement**"), pursuant to which the parties agreed to continue the existing cooperation as disclosed above with each other for a term of three years commencing from 1 January 2024 (or the date on which the 2024 Master Packaging Materials Purchase Agreement, the proposed annual caps and the transactions contemplated thereunder have been approved by the Independent Shareholders at the EGM, whichever later) and ending on 31 December 2026 (both days inclusive). The annual caps for the three years ending 31 December 2026 are approximately RMB20.0 million, RMB25.0 million and RMB30.0 million respectively. For further details, please refer to the announcement and circular of the Company dated 1 December 2023 and 5 January 2024, respectively.

As the highest of the applicable percentage ratios of the 2024 Master Packaging Materials Purchase Agreement calculated under Chapter 14A of the Listing Rules exceeded 5%, the transactions contemplated under the 2024 Master Packaging Materials Purchase Agreement are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The 2024 Master Packaging Materials Purchase Agreement and the transactions contemplated thereunder had been approved by the Directors (including the independent non-executive Directors) and the independent Shareholders at the extraordinary general meeting of the Company held on 22 January 2024. For further details, please refer to the announcement of the Company dated 22 January 2024.

## Report of the Directors *(Continued)*

### **Confirmation from Directors in relation to Continuing Connected Transactions**

The Independent non-executive Directors of the Company have reviewed the transactions contemplated under the Renewed Master Chinese Medicine Purchase Agreement and the Master Packaging Materials Purchase Agreement as stated above and Rule 14A.55 of the Listing Rules and confirmed that the continuing connected transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) on normal commercial terms or better; and
- (c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the Company has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above. The Company also confirms that it has followed the pricing policies and guidelines when determining the prices and terms of transactions above during the year ended 31 December 2023.

The Directors, including the independent non-executive Directors, consider that the continuing connected transactions above and the annual caps are fair and reasonable, and that such transactions have been entered into and will be carried out in the ordinary and usual course of the business of the Group, on normal commercial terms, and are in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions disclosed above in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.56 of the Listing Rules.

The Directors confirm that in letter issued by the Company's auditor in respect of the disclosed continuing connected transactions has stated that:

- a. nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.
- b. for transactions involving the provision of goods or services by the Group, nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group.

## Report of the Directors *(Continued)*

- c. nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.
- d. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

In addition, all of the continuing connected transactions of the Company disclosed above constitute related party transactions set out in Note 33 to the consolidated financial statements of this report. Save as disclosed above and the exempt connected transactions as referred to in Note 33(e) to the financial statements, all other related party transactions as described in Note 33 to the financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transactions as disclosed above, and the exempt connected transactions as referred to in Note 33(e) to the financial statements, during the year ended 31 December 2023, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions. The Company has complied with applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### **DISTRIBUTABLE RESERVES**

Please refer to Note 30(d) to the consolidated financial statements of this report for details of the Company's distributable reserve as at 31 December 2023.

### **MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS**

During the year ended 31 December 2023, the percentage of the Group's aggregate revenue attributable to the Group's largest customer was approximately 13.63%, while the percentage of the Group's total revenue attributable to the five largest customers in aggregate was approximately 39.74%.

During the year ended 31 December 2023, the percentage of the Group's largest supplier was approximately 10.50% of the total purchase during the year, while the percentage of the Group's five largest suppliers accounted for approximately 37.64% of the total purchase.

Save as disclosed in this report, none of the Directors, or any of their close associates or Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any beneficial interest in the Group's five largest customers or suppliers.

# Report of the Directors *(Continued)*

## DIRECTORS

The Directors during the year ended 31 December 2023 were as follows:

### Executive Directors

Cao Changcheng (曹長城) (*Chairman*) (appointed on 20 November 2016)

Hou Taisheng (侯太生) (appointed on 7 April 2017)

Chi Yongsheng (遲永勝) (appointed on 7 April 2017)

Meng Qingfen (孟慶芬) (appointed on 7 April 2017)

Cao Zhiming (曹智銘) (*Chief Executive Officer*) (appointed on 18 January 2013)

### Independent non-executive Directors

Sze Wing Chun (施永進) (appointed on 14 June 2018)

Lee Kwok Tung Louis (李國棟) (appointed on 15 April 2019)

To Kit Wa (杜潔華) (appointed on 13 August 2020)

In accordance with the Company's memorandum and articles of association, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years. Such retiring Directors may, being eligible, offer themselves for re-election at the annual general meeting. All Directors appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after their appointment and be subject to re-election at such meeting and all Directors appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election.

Accordingly, Mr. Cao Zhiming, Ms. Meng Qingfen and Mr. Sze Wing Chun will retire by rotation pursuant to article 108 of the Company's memorandum and articles of association, and being eligible, will offer themselves for re-election as Directors at the forthcoming AGM.

## PERMITTED INDEMNITY PROVISION

Every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings, whether civil or criminal, in which judgement is given in his favour, or in which he is acquitted.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, suppliers and customers in order to meet its immediate and long-term goals. During the year under review, there was no material or significant dispute between the Group and its employees, suppliers and customers.

# Report of the Directors *(Continued)*

## **DIRECTORS' SERVICE CONTRACTS**

Each of the executive Directors and independent non-executive Directors has signed a service agreement with the Company for an initial term of three years (subject to termination in certain circumstances as stipulated in the relevant service agreement).

None of the Directors who are proposed for re-election at the forthcoming AGM has a service agreement with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the Directors and the senior management of the Group are set out in the section headed "Biographical Details of Directors, Senior Management and Company Secretary" of this report.

## **EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS**

Details of the emoluments of the Directors and the five individuals with highest emoluments are set out in Note 9 and Note 10 to the consolidated financial statements of this report.

## **EMOLUMENT POLICY**

The Company's remuneration policy comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes discretionary bonus and other merit payments), considering other factors such as their experience, level of responsibility, individual performance, the profit performance of the Group and general market conditions.

The remuneration of the senior management is within the band of Nil to HK\$1,000,000.

The Remuneration Committee will meet at least once for each year to discuss remuneration related matters (including the remuneration of Directors and the senior management) and review the remuneration policy of the Group. It has been decided that the Remuneration Committee would determine, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management.

# Report of the Directors *(Continued)*

## **CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS**

Save as disclosed in the Prospectus and in this report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Controlling Shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or their subsidiaries, during the year ended 31 December 2023.

## **DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS**

Save as the related party transactions disclosed in Note 33 to the consolidated financial statements of this report, no Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

## **MANAGEMENT CONTRACTS**

As at 31 December 2023, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

## **DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below, at no time during the year ended 31 December 2023 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2023, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules, were as follows:



# Report of the Directors *(Continued)*

## Long position in the Shares

Name of Director	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Mr. Cao Changcheng <sup>(Notes 1, 2 and 3)</sup>	Interest of a controlled corporation	539,092,000	71.88%
Mr. Cao Zhiming <sup>(Note 2)</sup>	Interest of a controlled corporation	154,146,000	20.55%
Mr. Hou Taisheng <sup>(Note 4)</sup>	Beneficiary of a trust	13,399,165	1.79%
Ms. Meng Qingfen <sup>(Note 4)</sup>	Beneficiary of a trust	11,809,433	1.57%
Mr. Chi Yongsheng <sup>(Note 4)</sup>	Beneficiary of a trust	12,944,956	1.73%

### Notes:

1. Full Bliss Holdings Limited ("**Full Bliss**") is wholly-owned by Mr. Cao Changcheng. As Mr. Cao Changcheng beneficially owns 100% of the issued shares of Full Bliss, Mr. Cao Changcheng is deemed to be interested in 180,180,000 Shares held by Full Bliss pursuant to the SFO.
2. Mr. Cao Zhiming is the beneficial owner of the entire issued share capital of One Victory Investments Limited ("**One Victory**") and is therefore deemed to be interested in the 154,146,000 Shares held by One Victory pursuant to the SFO. Furthermore, pursuant to a deed of confirmation dated 18 August 2017 entered into between Mr. Cao Changcheng, Mr. Cao Zhiming and One Victory, Mr. Cao Changcheng is entrusted to exercise all voting rights attaching to the Shares owned by One Victory and direct One Victory to vote accordingly.
3. Mr. Cao Changcheng is the protector of a trust established by a deed of settlement dated 14 June 2013. Mr. Cao Zhiming, who was acting on behalf of and under the authorisation and instructions of Mr. Cao Changcheng, is the settlor and The Core Trust Company Limited is the trustee which is entrusted to hold the entire shareholding of Rayford Global Limited on trust for certain individual Shareholders as the beneficiaries ("**Fusen Trust**") who has the power to remove the trustee and appoint new trustee for the Fusen Trust. Mr. Cao Changcheng is also the investment manager of the Fusen Trust, who is entitled to carry out the investment and management functions of the Fusen Trust, including the exercise of all voting rights attaching to the Shares owned by Rayford Global Limited ("**Rayford**") and direct the trustee of the Fusen Trust to vote accordingly. Mr. Cao Changcheng, through Full Bliss, Rayford and One Victory, is therefore interested in an aggregate of 539,092,000 Shares, representing 71.88% of the issued share capital of the Company as at 31 December 2023.
4. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is an executive Director, is a beneficiary under the Fusen Trust.

Save as disclosed above, as at 31 December 2023, none of the Directors nor chief executive of the Company has registered any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## Report of the Directors *(Continued)*

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

So far as the Directors are aware, as at 31 December 2023, the following persons (not being Directors or chief executive of the Company) have or are deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity/Nature	Number of Shares held/interested	Percentage of interest
Full Bliss	Beneficial owner	204,766,000	27.30%
Rayford	Beneficial owner	180,180,000	24.03%
TCT (BVI) Limited <sup>(Note 1)</sup>	Nominee of a trustee	185,180,000	24.69%
THE CORE TRUST COMPANY LIMITED <sup>(Note 1)</sup>	Trustee	185,180,000	24.69%
Ms. Quan Xiufeng <sup>(Note 2)</sup>	Interest of spouse	539,092,000	71.88%
One Victory	Beneficial owner	154,146,000	20.55%
Ms. Zhou Peilin <sup>(Note 3)</sup>	Interest of spouse	154,146,000	20.55%

Notes:

1. The Core Trust Company Limited is the trustee of the Fusen Trust, whereby Mr. Hou Taisheng, Ms. Meng Qingfen, Mr. Fu Jiancheng, Mr. Chi Yongsheng and 43 other individuals are the beneficiaries under the Fusen Trust. TCT (BVI) Limited acts as the nominee to the trustee of the Fusen Trust, and holds 100% of the issued shares of Rayford. TCT (BVI) Limited is wholly owned by The Core Trust Company Limited. Furthermore, Global Talent Alliance Limited, the nominee of the trustee (namely The Core Trust Company Limited) under the restricted share unit scheme of the Company approved and adopted by the Board on 8 November 2021, holds 5,000,000 Shares. Global Talent Alliance Limited is wholly owned by TCT (BVI) Limited, which in turn is wholly owned by The Core Trust Company Limited. As such, The Core Trust Company Limited and TCT (BVI) Limited are deemed to be interested in (i) 180,180,000 Shares held by Rayford; and (ii) the 5,000,000 Shares held by Global Talent Alliance Limited, pursuant to the SFO.
2. Ms. Quan Xiufeng is Mr. Cao Changcheng's spouse and is deemed to be interested in the 539,092,000 Shares in which Mr. Cao Changcheng is interested for the purpose of the SFO.
3. Ms. Zhou Peilin (formerly known as Ms. Zhou Rui) is Mr. Cao Zhiming's spouse and is deemed to be interested in the 154,146,000 Shares in which Mr. Cao Zhiming is interested for the purpose of the SFO.

Save as disclosed above, as at the date of this report, none of the substantial shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interests or short positions in the shares or underlying shares as recorded in the register required to be kept by the Company under Section 336 of the SFO.

# Report of the Directors *(Continued)*

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2023, the Company repurchased a total of 13,175,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK\$17.9 million. Among those repurchased shares, 8,483,000 shares were cancelled during the year ended 31 December 2023, and 4,921,000 Shares were not yet cancelled as at 31 December 2023. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2023 were as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate consideration (excluding expenses) HK\$000	Number of shares cancelled	Number of treasury shares
January 2022	3,431,000	1.30	1.11	4,222	–	8,543,000
March 2022	371,000	1.07	1.03	393	–	8,914,000
April 2022	2,545,000	1.02	0.93	2,500	–	11,459,000
May 2022	5,036,000	0.99	0.90	4,752	–	16,495,000
June 2022	229,000	0.94	0.90	213	(16,495,000)	229,000
	11,612,000			12,080	(16,495,000)	
March 2023	1,718,000	1.35	1.25	2,285	–	1,947,000
April 2023	4,756,000	1.35	1.25	6,406	–	6,703,000
May 2023	976,000	1.37	1.28	1,319	–	7,679,000
June 2023	780,000	1.35	1.24	1,018	–	8,459,000
July 2023	24,000	1.30	1.25	30	–	8,483,000
September 2023	–	–	–	–	(8,483,000)	–
November 2023	2,585,000	1.50	1.31	3,672	–	2,585,000
December 2023	2,336,000	1.40	1.28	3,180	–	4,921,000
	13,175,000			17,910	(8,483,000)	

The repurchase of shares was made by the Directors, pursuant to the general mandate granted by the Shareholders at the respective annual general meetings held on 31 May 2022 and 30 May 2023 with a view to benefiting the Shareholders as a whole by enhancing the net asset value per share and earnings per share.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2023.

# Report of the Directors *(Continued)*

## COMPETING BUSINESS

During the year ended 31 December 2023, none of the Directors or the Controlling Shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

### Non-Competition Undertakings

In order to avoid any possible future competition between the Group and the Controlling Shareholders, Mr. Cao Changcheng and Full Bliss Holdings Limited (each a “**Covenantor**” and collectively the “**Covenantors**”) have entered into the Deed of Non-competition on 14 June 2018. Pursuant to the Deed of Non-competition, each of the Covenantors has irrevocably and unconditionally undertaken to the Company (for itself and for and on behalf of its subsidiaries) that, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its associates (other than any member of the Group) not to develop, acquire, invest in, participate in, carry on or be engaged, concerned or interested or otherwise be involved, whether directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity of any member of the Group.

Each of the Covenantors further undertakes that if any of he/it or his/its close associates other than any member of the Group is offered or becomes aware of any business opportunity which may compete with the business of the Group, he/it shall (and he/ it shall procure his/its associates to) notify the Group in writing and the Group shall have a right of first refusal to take up such business opportunity. The Group shall, within 6 months after receipt of the written notice (or such longer period if the Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the Covenantor(s) whether the Group will exercise the right of first refusal or not.

# Report of the Directors *(Continued)*

The Group shall only exercise the right of first refusal upon the approval of all the independent non-executive Directors (who do not have any interest in such opportunity). The relevant Covenantor(s) and the other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board where there is a conflict of interest or potential conflict of interest including but not limited to the relevant meeting of the independent non-executive Directors for considering whether or not to exercise the right of first refusal.

During the year ended 31 December 2023, the Company had not received any information in writing from any of the Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to be the knowledge of the Controlling Shareholders or their associates (other than any member of the Group), and the Company has received an annual written confirmation from each Covenantor that he/it has complied with the undertakings under the Deed of Non-competition. The independent non-executive Directors have also reviewed and were satisfied that each of the Controlling Shareholders had complied with the Deed of Non-competition.

## CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the section headed "Corporate Governance Report" of this report.

## PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial conditions, results of operations, business and prospects would be affected by a number of risks and uncertainties including market risks, credit risks and liquidity risks. A summary of major risks and uncertainties of the Company's risk is set out as below and also in Note 31 to the consolidated financial statements of this report.

### 1. Research and Development Risk

The Group's future prospect is dependent upon the continuous development and successful commercialisation of new products or progress of milestones achievement of projects. As one of its expansion strategies, the Group intends to form strategic alliances with suitable partners or candidates that would offer the Group access to promising research projects. The success of biopharmaceutical product development and progress of milestones achievement are highly unpredictable. Products that appear to be promising at the early phases of R&D may fail to reach the market for numerous reasons, including the discovery of harmful side effects in pre-clinical tests and clinical trials, unsatisfactory results in clinical trials and the failure of obtaining the necessary regulatory approvals. Consequently, the corresponding R&D expenditure incurred would have to be expensed, which will have an adverse impact on the profitability of the Group.

### 2. Pharmaceutical Pricing Policies in the PRC

The drug pricing system in the PRC is controlled by the government, and it affects the pharmaceutical industry, drug price setting and regulation. Under the government intervention, price reduction across therapeutic categories was common during the last 20 years, which may exert a downward pressure against the price of pharmaceutical products and our market share, revenue and profitability may be adversely affected.

# Report of the Directors *(Continued)*

## ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is devoted to promote and maintain the environmental and social sustainable development and has implemented a wide variety of green measures. The Group's operations has complied in all material respects with currently applicable PRC environmental protection laws and regulations during the year under review. Details of the Group's environmental, social and governance practices are set out in the section headed "Environmental, Social and Governance Report" of this report.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board is aware, the Group has complied with the relevant laws and regulations that may cause a significant impact on the business and operations of the Group during the year under review.

## EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Restricted Share Unit Scheme as disclosed above in this report, no equity-linked agreements were entered into by the Company during the year ended 31 December 2023.

## COMPLIANCE ADVISER'S INTERESTS

As notified by the Company's compliance adviser, Dakin Capital Limited (the "**Compliance Adviser**"), as at 31 December 2023, except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 12 January 2018, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

To the best knowledge of the Directors and based on information available in the public domain concerning the Company, at least 25% of the Company's issued share capital was held by the public as at the date of this report.

## RELIEF OF TAXATION

The Company is not aware of any relief from taxation available to the Shareholders by reason of them holding the Shares.

## EVENT AFTER THE REPORTING PERIOD

Details of event after the Reporting Period are set out in the section headed "Management Discussion and Analysis" in this report.

# Report of the Directors *(Continued)*

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent.

## INDEPENDENT AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2023 were audited by KPMG. A resolution will be proposed at the AGM to re-appoint KPMG as the auditors of the Company.

ON BEHALF OF THE BOARD  
**Fusen Pharmaceutical Company Limited**  
**Cao Changcheng**  
*Chairman and Executive Director*

Hong Kong, 28 March 2024

# Independent Auditor's Report



## Independent auditor's report to the shareholders of Fusen Pharmaceutical Company Limited

*(Incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Fusen Pharmaceutical Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 109 to 188, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2023 in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board ("IASB"), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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

### KEY AUDIT MATTERS

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



# Independent Auditor's Report *(Continued)*

## KEY AUDIT MATTERS *(Continued)*

### Revenue recognition

Refer to Note 4 to the consolidated financial statements and the accounting policies in Note 2(v).

The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue of the Group mainly comprises sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections to a large number of customers.</p> <p>The Group enters into distribution agreements with most of its customers including the terms of delivery and policies for sales rebates. Purchase orders are then placed with the Group for each purchase by the customers, which specify the terms of sales relating to pricing, return and the location of delivery.</p> <p>Once the products delivered are accepted by the customers, control over the goods is considered to have been transferred to the customers and revenue is recognised accordingly.</p> <p>We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.</p>	<p>Our audit procedures to assess the timing of revenue recognition included the following:</p> <ul style="list-style-type: none"><li>• obtaining an understanding of and assessing the design and implementation of management's key internal controls in relation to revenue recognition;</li><li>• inspecting agreements and purchase orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and/or acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards;</li><li>• comparing the revenue recorded during the financial year, on a sample basis, to the purchase orders, goods delivery notes, customers' acknowledge of receipt and delivery records, where applicable;</li><li>• comparing the quantity of goods delivered during the year to the record of a third-party pharmaceutical products tracking system;</li><li>• inspecting goods delivery notes and/or delivery records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end have been recognised in the appropriate financial period on the basis of the terms of sale as set out in the purchase orders; and</li><li>• inspecting underlying documentation for adjustments relating to revenue raised during the year which met specific risk-based criteria.</li></ul>

# Independent Auditor's Report *(Continued)*

## KEY AUDIT MATTERS *(Continued)*

### Impairment assessment of interest in an associate

Refer to Note 19 to the consolidated financial statements and the accounting policies in Note 2(e).

The Key Audit Matter	How the matter was addressed in our audit
<p>As at 31 December 2023, the carrying amount of the Group's interest in an associate amounted to RMB100,659,000. The associate is engaged in the production and sale of proprietary Chinese medicine in the PRC. Given the operating losses incurred by the associate, management considered that an indication of potential impairment of its interest in an associate existed as at 31 December 2023.</p> <p>In carrying out the impairment assessment, management engaged an external valuer to estimate the recoverable amount of the interest in an associate and compared the carrying value of the interest in an associate with the recoverable amount. The recoverable amount is the greater of its value in use ("VIU") and the fair value less costs of disposal ("FVLCOD") of the interest in an associate.</p> <p>The VIU calculation is determined using a discounted cash flow model. The FVLCOD calculation is determined with reference to recent or expected transaction prices, or based on income method.</p> <p>The key assumptions of the discounted cash flow model included revenue growth rate, gross margin and the discount rate, which required significant management judgement.</p> <p>We identified impairment assessment of interest in an associate as a key audit matter because of its significance to the consolidated financial statements and because assessing the key impairment assumptions involves a significant degree of management judgement.</p>	<p>Our audit procedures to assess the impairment of interest in an associate included the following:</p> <ul style="list-style-type: none"><li>obtaining an understanding of and assessing the design and implementation of key internal controls relating to the assessment process of the recoverable amount of investment in an associate;</li><li>assessing the qualifications, experience and expertise of the external valuer engaged by management and considering their objectivity;</li><li>involving our internal valuation specialists in evaluating the appropriateness of the impairment assessment methodology adopted with reference to the prevailing accounting standards; the appropriateness of the discount rate used in the discounted cash flow forecast by comparing with those of comparable companies and external market data if available; and the appropriateness of the fair value by comparing the key assumptions used to external market data or other supporting documents where available;</li><li>evaluating the appropriateness of the revenue growth rate and gross margin adopted in the discounted cash flow forecasts by comparing with the financial budgets approved by management and those of comparable companies;</li><li>performing a sensitivity analysis of key assumptions, including revenue growth rate, gross margin and discount rate applied in the discounted cash flow forecasts and considering whether there were any indicators of management bias in the selection of these key assumptions; and</li><li>performing a retrospective review by comparing the prior year's financial projection with the current year's results to assess whether there is any indication of management bias.</li></ul>

# Independent Auditor's Report *(Continued)*

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

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

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

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

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

## **RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

# Independent Auditor's Report *(Continued)*

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

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

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

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

# Independent Auditor's Report *(Continued)*

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

### **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
28 March 2024

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Revenue</b>	4	<b>565,608</b>	491,757
Cost of sales		<b>(266,102)</b>	(266,736)
<b>Gross profit</b>		<b>299,506</b>	225,021
Other net income	5	<b>146</b>	7,379
Selling and distribution expenses		<b>(139,541)</b>	(118,721)
General and administrative expenses		<b>(74,898)</b>	(54,745)
Research and development expenses		<b>(65,197)</b>	(15,176)
<b>Profit from operations</b>		<b>20,016</b>	43,758
Finance income		<b>424</b>	1,972
Finance costs		<b>(9,267)</b>	(17,697)
Net finance costs	6	<b>(8,843)</b>	(15,725)
Impairment on interest in a joint venture	18	–	(38,007)
Impairment on interest in an associate	19	<b>(20,329)</b>	–
Share of loss of a joint venture		<b>(11,186)</b>	(11,816)
Share of loss of an associate		<b>(9,106)</b>	(9,203)
<b>Loss before taxation</b>	7	<b>(29,448)</b>	(30,993)
Income tax	8	<b>(6,847)</b>	(3,661)
<b>Loss for the year</b>		<b>(36,295)</b>	(34,654)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>(36,277)</b>	(34,605)
Non-controlling interests		<b>(18)</b>	(49)
<b>Loss for the year</b>		<b>(36,295)</b>	(34,654)

# Consolidated Statement of Profit or Loss and Other Comprehensive Income *(Continued)*

For the year ended 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December	
		2023	2022
		RMB'000	RMB'000
<b>Other comprehensive income for the year (after tax)</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		(54)	1,090
<b>Other comprehensive income for the year</b>		(54)	1,090
<b>Total comprehensive income for the year</b>		(36,349)	(33,564)
<b>Attributable to:</b>			
Equity shareholders of the Company		(36,331)	(33,515)
Non-controlling interests		(18)	(49)
<b>Total comprehensive income for the year</b>		(36,349)	(33,564)
<b>Loss per share</b>	11		
Basic (RMB cents)		(5)	(5)
Diluted (RMB cents)		(5)	(5)

The notes on pages 116 to 188 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 12.

# Consolidated Statement of Financial Position

As at 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

		As at 31 December	
		2023	2022
	Note	RMB'000	RMB'000
<b>Non-current assets</b>			
Investment property	14	15,388	16,497
Other property, plant and equipment	14	350,264	312,108
Right-of-use assets	15	211,918	217,637
Intangible assets	16	22,551	483
Financial assets measured at fair value through profit or loss ("FVPL")	31(e)	11,013	–
Interest in a joint venture	18	37,302	48,433
Interest in an associate	19	100,659	129,876
Deferred tax assets	29(a)	5,021	5,079
Other assets	20	22,827	6,099
		<b>776,943</b>	736,212
<b>Current assets</b>			
Other financial assets	31(e)	1,279	4,595
Inventories	21	161,718	110,649
Trade receivables	22	183,482	247,189
Prepayments and other receivables	23	185,474	103,366
Restricted bank deposit		–	20,151
Cash and cash equivalents	24	34,849	128,106
		<b>566,802</b>	614,056
<b>Current liabilities</b>			
Trade and bills payables	25	167,545	163,613
Lease liabilities		1,087	2,107
Contract liabilities	26	3,895	67,550
Accruals and other payables	27	249,351	255,823
Bank and other loans	28	236,556	225,842
Current taxation		6,086	7,147
		<b>664,520</b>	722,082
<b>Net current liabilities</b>		<b>(97,718)</b>	(108,026)
<b>Total assets less current liabilities</b>		<b>679,225</b>	628,186



# Consolidated Statement of Financial Position *(Continued)*

As at 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
<b>Non-current liabilities</b>			
Deferred income		10,231	11,323
Lease liabilities		772	432
Bank and other loans	28	105,700	–
Deferred tax liabilities	29(a)	296	3,538
		<b>116,999</b>	15,293
<b>Net assets</b>			
		<b>562,226</b>	612,893
<b>Capital and reserves</b>			
Share capital	30(b)	6,310	6,383
Reserves	30(c)	557,208	607,784
Total equity attributable to equity shareholders of the Company		<b>563,518</b>	614,167
Non-controlling interests		<b>(1,292)</b>	(1,274)
<b>Total equity</b>		<b>562,226</b>	612,893

Approved and authorised for issue by the board of directors on 28 March 2024 and signed on behalf of the board by:

**Cao Changcheng**  
Director

**Cao Zhiming**  
Director

The notes on pages 116 to 188 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

	Attributable to equity shareholders of the Company												
	Note	Share capital	Share premium	Treasury shares reserve	Capital redemption reserve	Statutory surplus reserves	Share-based payment reserve	Other reserves	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
		RMB'000 (Note 30(b))	RMB'000 (Note 30(c)(ii))	RMB'000 (Note 30(c)(iii))	RMB'000 (Note 30(c)(iii))	RMB'000 (Note 30(c)(iii))	RMB'000 (Note 30(c)(ii))	RMB'000 (Note 30(c)(iv))	RMB'000 (Note 30(c)(v))	RMB'000 (Note 30(c)(vi))	RMB'000	RMB'000	RMB'000
<b>Balance at 1 January 2022</b>		6,479	259,458	(43)	253	54,071	26,655	(12,466)	14,344	309,418	658,169	(1,225)	656,944
Loss for the year		-	-	-	-	-	-	-	-	(34,605)	(34,605)	(49)	(34,654)
Other comprehensive income		-	-	-	-	-	-	-	1,090	-	1,090	-	1,090
<b>Total comprehensive income for the year</b>		-	-	-	-	-	-	-	1,090	(34,605)	(33,515)	(49)	(33,564)
Equity settled share-based transactions	13	-	-	-	-	-	1,153	-	-	-	1,153	-	1,153
Shares issued under restricted share unit scheme	30(b)	43	(43)	-	-	-	-	-	-	-	-	-	-
Shares granted under restricted share unit scheme		-	43	(43)	-	-	-	-	-	-	-	-	-
Dividends declared	12	-	(2,618)	-	-	-	-	-	-	-	(2,618)	-	(2,618)
Purchase of own shares	30(c)(iii)	-	(9,975)	(98)	-	-	-	-	-	-	(10,073)	-	(10,073)
Cancellation of treasury shares	30(c)(iii)												
— Par value		(139)	-	139	-	-	-	-	-	-	-	-	-
— Transfer between reserves		-	(139)	-	139	-	-	-	-	-	-	-	-
Changes in the share of other reserves of investment in an associate		-	-	-	-	-	-	1,051	-	-	1,051	-	1,051
<b>Balance at 31 December 2022 and 1 January 2023</b>		6,383	246,726	(45)	392	54,071	27,808	(11,415)	15,434	274,813	614,167	(1,274)	612,893
Loss for the year		-	-	-	-	-	-	-	-	(36,277)	(36,277)	(18)	(36,295)
Other comprehensive income		-	-	-	-	-	-	-	(54)	-	(54)	-	(54)
<b>Total comprehensive income for the year</b>		-	-	-	-	-	-	-	(54)	(36,277)	(36,331)	(18)	(36,349)
Equity settled share-based transactions	13	-	-	-	-	-	1,453	-	-	-	1,453	-	1,453
Purchase of own shares	30(c)(iii)	-	(15,877)	(111)	-	-	-	-	-	-	(15,988)	-	(15,988)
Cancellation of treasury shares	30(c)(iii)												
— Par value		(73)	-	73	-	-	-	-	-	-	-	-	-
— Transfer between reserves		-	(73)	-	73	-	-	-	-	-	-	-	-
Changes in the share of other reserves of investment in an associate		-	-	-	-	-	-	217	-	-	217	-	217
<b>Balance at 31 December 2023</b>		6,310	230,776	(83)	465	54,071	29,261	(11,198)	15,380	238,536	563,518	(1,292)	562,226

The notes on pages 116 to 188 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Operating activities</b>			
Loss before taxation		<b>(29,448)</b>	(30,993)
Adjustments for:			
Depreciation and amortisation	7(b)	<b>35,798</b>	34,161
Realisation of deferred income		<b>(1,092)</b>	(1,125)
Net finance costs		<b>8,843</b>	15,725
Recognition/(reversal) of credit losses on trade and other receivables	7(b)	<b>17,042</b>	(4,710)
Rent concessions received		–	(829)
Net losses on disposal of other property, plant and equipment	5	<b>1,124</b>	1,667
Impairment on interest in a joint venture		–	38,007
Impairment on interest in an associate		<b>20,329</b>	–
Share of loss of a joint venture		<b>11,186</b>	11,816
Share of loss of an associate		<b>9,106</b>	9,203
Equity settled share-based transactions	13	<b>1,453</b>	1,153
Net realised and unrealised losses/(gains) of listed trading securities and other financial assets at FVPL	5	<b>312</b>	(13)
Net realised and unrealised losses/(gains) on derivative financial instruments		<b>3,316</b>	(5,312)
Changes in working capital			
Decrease/(increase) in restricted bank deposit		<b>20,151</b>	(20,151)
(Increase)/decrease in inventories		<b>(51,069)</b>	11,196
Decrease/(increase) in trade receivables		<b>49,862</b>	(90,564)
(Increase)/decrease in prepayments and other receivables		<b>(93,305)</b>	2,226
Increase in trade and bills payables		<b>3,932</b>	61,498
(Decrease)/increase in accruals and other payables		<b>(6,128)</b>	9,329
(Decrease)/increase in contract liabilities		<b>(63,655)</b>	62,933
Increase in deferred income		–	1,940
Cash (used in)/generated from operations		<b>(62,243)</b>	107,157
Income tax (paid)/received		<b>(11,091)</b>	3,333
Net cash (used in)/generated from operating activities		<b>(73,334)</b>	110,490

# Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2023 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		<b>(66,241)</b>	(23,862)
Payment for the purchase of intangible assets		<b>(22,270)</b>	–
Payment for the purchase of other assets		<b>(16,955)</b>	(5,700)
Proceeds from sales of property, plant and equipment		<b>169</b>	3
Payment for the financial assets measured at FVPL		<b>(11,325)</b>	–
Proceeds from sale of other financial assets and trading securities		–	715
Interest received		<b>304</b>	413
Repayments from a joint venture	33	<b>8,000</b>	15,300
Net cash used in investing activities		<b>(108,318)</b>	(13,131)
<b>Financing activities</b>			
Proceeds from bank and other loans	24(b)	<b>340,977</b>	206,247
Repayments of bank and other loans	24(b)	<b>(221,247)</b>	(222,632)
Loans from a related party	24(b)	–	78,895
Repayment of loans from a related party	24(b)	–	(83,895)
Borrowing costs paid	24(b)	<b>(12,456)</b>	(12,050)
Dividends paid	12	–	(6,959)
Capital element of lease rentals paid	24(b)	<b>(2,656)</b>	(1,130)
Interest element of lease rentals paid	24(b)	<b>(127)</b>	(169)
Payment for purchase of own shares		<b>(15,988)</b>	(10,073)
Net cash generated from/(used in) financing activities		<b>88,503</b>	(51,766)
Net (decrease)/increase in cash and cash equivalents		<b>(93,149)</b>	45,593
Cash and cash equivalents at the beginning of the year	24(a)	<b>128,106</b>	81,063
Effect of foreign exchange rate changes		<b>(108)</b>	1,450
Cash and cash equivalents at the end of the year	24(a)	<b>34,849</b>	128,106

The notes on pages 116 to 188 form part of these financial statements.

# Notes to the Financial Statements

(Expressed in RMB'000 unless otherwise indicated)

## 1 ORGANISATION AND PRINCIPAL ACTIVITIES

Fusen Pharmaceutical Company Limited (the “Company”) was incorporated in the Cayman Islands on 18 January 2013 as an exempted company with limited liability under the Companies Law (2011 Revision) (as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company. The Company and its subsidiaries (together, “the Group”) are principally engaged in manufacturing and sale of pharmaceutical products. Details of the subsidiaries are set out in Note 17.

## 2 MATERIAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (“IASB”). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Material accounting policies adopted by the Group are disclosed below.

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements

#### **Going concern assumption**

As at 31 December 2023, net current liabilities of the Group was RMB97,718,000, and loss attributable to equity shareholders was RMB36,277,000. The directors, after taking into account of internally generated funds from its operations, successful renewals of bank loans during the year and after the end of reporting period, and considering the cash flow forecast for the year ending 31 December 2024, are of the view that the Group has sufficient funds to meet its working capital commitments, expected capital expenditure and debt obligations. As a result, the consolidated financial statements of the Group for the year ended 31 December 2023 have been prepared on a going concern basis.

The functional currency of the Company is Hong Kong dollars (HKD). The Company's primary subsidiaries were established in the People's Republic of China (the "PRC") and the subsidiaries considered Renminbi (RMB) as their functional currency. As the operations of the Group are conducted in the PRC, the financial statements are presented in RMB, unless otherwise stated.

The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its subsidiaries and the Group's interest in a joint venture and an associate.

The measurement basis used in the preparation of the financial statements is the historical cost except for derivatives and other financial assets measured as FVPL as explained in the accounting policy (see Notes 2(g) and (f)).

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

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

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (c) Changes in accounting policies

The Group has applied the following new and amended IFRS Accounting Standards issued by the IASB to these financial statements for the current accounting period:

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

None of developments have had a material effect on how the Group’s results and financial position for the current year have been prepared or presented in these consolidated financial statements. The Group has not applied any amended standard that is not yet effective for the current accounting period.

### (d) Subsidiaries and non-controlling interests

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

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

For each business combination, the Group can elect to measure any non-controlling interests (“NCI”) either at fair value or at the NCI’s proportionate share of the subsidiary’s net identifiable assets.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (d) Subsidiaries and non-controlling interests *(Continued)*

NCI are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. NCI in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between NCI and the equity shareholders of the Company. Loans from holders of NCI and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Note 2(q) or (r) depending on the nature of the liability.

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(l)(ii)).

### (e) Associates and joint ventures

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

An interest in an associate or a joint venture is accounted for using the equity method, unless it is classified as held for sale (or included in a disposal Group classified as held for sale). They are initially recognised at cost, which includes transaction costs. Subsequently, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income ("OCI") of those investees, until the date on which significant influence or joint control ceases .

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method, together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit loss ("ECL") model to such other long-term interests where applicable (see Note 2(l)(i)).



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (e) Associates and joint ventures *(Continued)*

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

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

### (f) Non-equity investments

Non-equity investments are initially stated at fair value for which the transaction costs are recognised directly in profit or loss. Subsequent changes in the fair value of the investment (including interest) are recognised in profit or loss.

### (g) Derivative financial instruments

The Group holds derivative financial instruments to manage its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Derivatives are initially measured at fair value. Subsequently, they are measured at fair value with changes therein recognised in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation.

### (h) Investment property

Investment property is initially measured at cost, and subsequently at fair value with changes therein recognised in profit or loss.

Investment properties are stated at cost less accumulated depreciation and any accumulated impairment losses (see Note 2(l)(ii)). Depreciation is calculated to write off the cost less estimated residual value if applicable and is charged to profit or loss on a straight-line basis over the estimated useful lives of 20 years. Rental income from investment properties is recognised in accordance with Note 2(v)(ii)(c).

When an item of property, plant and equipment is transferred to investment property evidenced by end of owner-occupation or when an investment property commencement of owner-occupation and reclassified as property, plant and equipment, the carrying value is not remeasured and continues to be measured at cost less accumulated depreciation and impairment.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (i) Other property, plant and equipment

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

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

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

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

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

— Buildings and infrastructure	Buildings held for own use which are situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 20 years after the date of completion
— Machinery and equipment	5–10 years
— Others	5–10 years

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

Construction in progress represents property, plant and equipment under construction and machinery and equipment under installation and testing. Construction in progress is stated at cost less impairment losses (see Note 2(l)). The cost includes cost of construction, cost of purchased plant and equipment and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction periods, to the extent that these are regarded as an adjustment to borrowing costs (see Note 2(x)).

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (j) Intangible assets

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

Other intangible assets, including patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses (see Note 2(l)). Expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Technological know-how consists of rights to technological know-how for the development and production of general pharmaceutical products which are amortised on a straight-line basis over the estimated economic lives of 10 years commencing in the year when the rights are available for use.

### (k) Leased assets

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

#### (i) As a lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for leases that have a short lease term of 12 months or less, and leases of low-value items. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss on a systematic basis over the lease term.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (k) Leased assets *(Continued)*

#### (i) As a lessee *(Continued)*

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

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

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

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

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

Land use rights, which are leasehold land located in Chinese Mainland, have lease terms of 40–50 years.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (k) Leased assets *(Continued)*

#### (ii) As a lessor

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

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

### (l) Credit losses and impairment of assets

#### (i) Credit losses from financial instruments

The Group recognises a loss allowance for ECLs on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

##### *Measurement of ECLs*

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

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

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

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

ECLs are measured on either of the following bases:

- 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (I) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments *(Continued)*

##### *Measurement of ECLs (Continued)*

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

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments (including loan commitments issued) for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

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

For all other financial instruments (including loan commitments issued), the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

##### *Significant increases in credit risk*

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

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (I) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments *(Continued)*

##### *Significant increases in credit risk (Continued)*

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

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is 90 days past due.

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

##### *Credit-impaired financial assets*

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

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

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (I) Credit losses and impairment of assets *(Continued)*

#### (i) Credit losses from financial instruments *(Continued)*

##### *Write-off policy*

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

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

#### (ii) Impairment of other non-current assets

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

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

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

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

#### (iii) Interim financial reporting and impairment

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



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (m) Inventories and other contract costs

#### (i) Inventories

Inventories are measured at the lower of cost and net realisable value as follows:

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

#### (ii) Other contract costs

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventory, property, plant and equipment or intangible assets.

Incremental costs of obtaining a contract e.g. sales commissions, The Group takes advantage of practical expedient in paragraph 94 of IFRS 15 and recognises the incremental costs of obtaining a contract as an expense if the amortisation of the asset is less than one year.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Otherwise, costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised contract costs is recognised in profit or loss when the revenue to which the asset relates is recognised (see Note 2(v)).

### (n) Contract liabilities

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

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(v)).

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (o) Trade and other receivables

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

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs.

All receivables are subsequently stated at amortised cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL (see Note 2(l)(i)).

### (q) Interest-bearing borrowings

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

### (r) Trade and other payables

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (s) Employee benefits

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

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

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

Contributions to appropriate local defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as expenses in profit or loss as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

#### (ii) Share-based payments

The grant-date fair value of equity-settled share-based payments granted to employees is measured using the binomial lattice model. The amount is generally recognised as an expense, with a corresponding increase equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service conditions at the vesting date.

Share-based payment transactions in which the Company grants share-based payment awards to subsidiaries' employees are accounted for as an increase in value of investment in subsidiaries in the Company's statement of financial position.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (t) Income tax

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

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

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

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

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.
- taxable temporary differences arising on the initial recognition of goodwill; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

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

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

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (u) Provisions and contingent liabilities

#### (i) General provisions and contingent liabilities

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

A provision for warranties is recognised when the underlying products or services are sold, based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under that contract and an allocation of other costs directly related to fulfilling that contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract (see Note 2(l)(ii)).

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

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

#### (ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with Note 2(u)(i). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with Note 2(u)(i).

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (v) Revenue and other income

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

The Group is the principal for its revenue transactions and recognises revenue on a gross basis, including the sale of products that are sourced externally. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

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

### (i) Revenue from contracts with customers

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

#### (a) *Sale of products*

Revenue is recognised when the products delivered are accepted by the customers and control over the goods is considered to have been transferred to the customers. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers, but the Group generally provides credit terms to customers within six months upon customer acceptance. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis except when a variable consideration is allocated to a specific performance obligation in the contract. Generally, the Group establishes standalone selling prices with reference to the observable prices of products or services sold separately in comparable circumstances to similar customers.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (v) Revenue and other income *(Continued)*

#### (ii) Revenue from other sources and other income

##### (a) *Interest income*

Interest income is recognised using the effective interest method. The “effective interest rate” is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset.

##### (b) *Government grants*

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

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

Grants that compensate the Group for the cost of an asset are initially recognised as deferred income and are recognised in profit or loss over the useful life of the asset as other income.

##### (c) *Rental income from operating leases*

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

##### (d) *Dividends*

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (w) Translation of foreign currencies

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

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

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

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

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

### (x) Borrowing costs

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



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (y) Related parties

- (i) A person, or a close member of that person's family, is related to the Group if that person:
  - a. has control or joint control over the Group;
  - b. has significant influence over the Group; or
  - c. is a member of the key management personnel of Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
  - a. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - c. Both entities are joint ventures of the same third party.
  - d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - e. The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - f. The entity is controlled or jointly controlled by a person identified in Note 2(y)(i).
  - g. A person identified in Note 2(y)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - h. The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 2 MATERIAL ACCOUNTING POLICIES *(Continued)*

### (z) Segment reporting

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

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

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The material accounting policies are set out in Note 2. Other key sources of estimation uncertainty in the preparation of the financial statements are as follows:

### Impairment of non-financial assets

The Group tests whether non-financial assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2(l)(ii). The recoverable amount of an asset is the higher of its FVLCOB and its VIU. Management estimates VIU based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management's assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-financial assets and the Group's results would be significantly affected. Such impairment losses are recognised in the statement of profit or loss and other comprehensive income. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-financial assets.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Manufacturing products		
Shuanghuanglian Oral Solutions	<b>275,766</b>	236,394
Shuanghuanglian Injections	<b>97,986</b>	73,864
Others	<b>176,870</b>	158,700
	<b>550,622</b>	468,958
Third party products	<b>14,986</b>	22,799
	<b>565,608</b>	491,757

Revenue is recognised at a point in time.

During the year ended 31 December 2023, two of the Group's customers (2022: one customer) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to these two customers amounted to RMB77,069,000 and RMB72,148,000, respectively (2022: RMB64,206,000).

Details of credit risk are set out in Note 31(a).

The Group has applied the practical expedient in paragraph 121(a) of IFRS 15 and does not disclose the remaining performance obligation under existing contracts as the performance obligations under the Group's existing contracts has an original expected duration of one year or less.

### (b) Segment information

The Group has one reportable segment. The Group's revenue is substantially generated from the sales of Shuanghuanglian Oral Solutions, Shuanghuanglian Injections and other pharmaceutical products to customers in the PRC. The Group's operating assets and non-current assets are substantially situated in the PRC. Accordingly, no segment analysis based on geographical locations of the customers and assets is provided.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 5 OTHER NET INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Material and scrap sales income/(losses), net	1,939	(130)
Rental income	495	528
Government grants	6,242	2,358
Net realised and unrealised (losses)/gains of listed trading securities and other financial assets at FVPL	(312)	13
Net realised and unrealised (losses)/gains on derivative financial instruments	(3,316)	5,312
Net losses on disposal of other property plant and equipment and right-of-use assets	(1,124)	(1,667)
Others	(3,778)	965
	<b>146</b>	<b>7,379</b>

## 6 NET FINANCE COSTS

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Interest income on bank deposit	424	413
Interest income on advances to a joint venture	–	1,559
Finance income	<b>424</b>	<b>1,972</b>
Interest on bank loans	(12,456)	(12,213)
Interest on lease liabilities	(127)	(169)
Foreign exchange gains/(losses)	3,316	(5,315)
Finance costs	<b>(9,267)</b>	<b>(17,697)</b>
Net finance costs	<b>(8,843)</b>	<b>(15,725)</b>

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 7 LOSS BEFORE TAXATION

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

### (a) Staff costs

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries, wages and other benefits	<b>92,526</b>	84,051
Contributions to defined contribution retirement schemes	<b>9,902</b>	6,625
Share-based payment expenses	<b>1,453</b>	1,153
	<b>103,881</b>	91,829

Employees of the Group's PRC subsidiaries are required to participate in a defined contribution retirement scheme administrated and operated by the local municipal governments where the subsidiaries are registered. The Group's PRC subsidiaries contribute funds which are calculated based on certain percentages of the average employee salary as agreed by the respective local municipal governments to the scheme to fund the retirement benefits of the employees. Contributions to the scheme vest immediately, there is no forfeited contribution that may be used by the Group to reduce the existing level of contribution.

The Group has no other obligation for the payment of retirement and other post-retirement benefits of employees other than the contributions described above.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 7 LOSS BEFORE TAXATION *(Continued)*

### (b) Other items

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of inventories*	269,244	270,410
Depreciation of investment property and other property, plant and equipment	27,901	26,716
Depreciation of right-of-use assets	7,695	7,245
Amortisation of intangible assets	202	200
Auditors' remuneration — audit services	4,008	3,900
Recognition/(reversal) of credit losses on trade and other receivables	17,042	(4,710)

\* Cost of inventories includes RMB57,551,000 in 2023 (2022: RMB55,359,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current tax		
Provision for the year	12,725	6,579
Over-provision in respect of previous years	(2,694)	(2,328)
	10,031	4,251
Deferred tax		
Origination and reversal of temporary differences	(3,184)	(590)
	6,847	3,661

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

### (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents: *(Continued)*

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

The Group has no assessable profit in Hong Kong for 2023 (2022: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2023 is 16.5% (2022: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC ("the Income Tax Law"), enterprise income tax rate for the Group's PRC subsidiaries for 2023 is 25% (2022: 25%).

According to the Income Tax Law, the Company's subsidiary, Henan Fusen Pharmaceutical Company Limited ("Henan Fusen") was certified as a New and High Technology Enterprise in Henan since 2012 and is entitled to a preferential income tax rate of 15% in 2023 and 2022. The current certification of New and High Technology Enterprise held by Henan Fusen will expire on 27 October 2024.

According to the Income Tax Law and its implementation rules, dividends receivable by non-PRC resident investors from PRC entities are subject to withholding tax at 10%, unless reduced by tax treaties or arrangements, for profit earned since 1 January 2008.

The Group is in the process of making an assessment of the Group's exposure from the enactment of the Pillar Two model rules published by the Organisation and Economic Co-operation and Development and considers that the enactment of the rules is unlikely to have a significant impact on the consolidated financial statements.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

### (b) Reconciliation between income tax and accounting loss at applicable tax rates:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Loss before taxation	<b>(29,448)</b>	(30,993)
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	<b>(7,362)</b>	(7,748)
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	<b>(6,370)</b>	(4,462)
Non-deductible expenses	<b>6,262</b>	2,344
Utilisation of deductible temporary differences not recognised in prior years	<b>(222)</b>	(1,361)
Share of loss of a joint venture	<b>2,797</b>	2,954
Share of loss of an associate	<b>2,276</b>	2,301
Unused tax losses not recognised	<b>13,466</b>	12,800
Over-provision in respect of previous years	<b>(2,694)</b>	(2,328)
PRC dividends withholding tax	<b>(1,306)</b>	(839)
Income tax	<b>6,847</b>	3,661



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 9 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	31 December 2023 total RMB'000
<b>Chairman and executive director</b>					
Mr. Cao Changcheng ("Mr. Cao")	–	65	–	–	65
<b>Executive directors</b>					
Mr. Hou Taisheng	–	74	–	7	81
Mr. Chi Yongsheng	–	71	–	7	78
Ms. Meng Qingfen	–	62	–	–	62
Mr. Cao Zhiming	–	1,620	3,250	127	4,997
<b>Independent non-executive directors</b>					
Mr. Lee Kwok Tung, Louis	162	–	–	–	162
Mr. Sze Wing Chun	162	–	–	–	162
Dr. To Kit Wa	162	–	–	–	162
	<b>486</b>	<b>1,892</b>	<b>3,250</b>	<b>141</b>	<b>5,769</b>

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 9 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	31 December 2022 total RMB'000
<b>Chairman and executive director</b>					
Mr. Cao Changcheng ("Mr. Cao")	–	49	–	–	49
<b>Executive directors</b>					
Mr. Hou Taisheng	–	64	–	6	70
Mr. Chi Yongsheng	–	55	–	6	61
Ms. Meng Qingfen	–	25	–	–	25
Mr. Cao Zhiming	–	1,540	342	31	1,913
<b>Independent non-executive directors</b>					
Mr. Lee Kwok Tung, Louis	154	–	–	–	154
Mr. Sze Wing Chun	154	–	–	–	154
Dr. To Kit Wa	154	–	–	–	154
	462	1,733	342	43	2,580

During the year ended 31 December 2023, no emoluments was paid by the Group to the directors as an inducement to join or upon joining or as compensation for loss of office (2022: Nil) and there was no arrangement under which a director waived or agreed to waive any emoluments (2022: Nil).

All of the executive directors were key management personnel of the Group during the reporting periods and their emoluments disclosed above include those for services rendered by them as the key management personnel.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2022: one) of them is a director whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the four (2022: four) individuals are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries, wages and other benefits	1,506	2,092
Contributions to pension schemes	10	9
Share-based payment expenses	1,453	1,153
	<b>2,969</b>	3,254

The emoluments of the four (2022: four) individuals with the highest emoluments are within the following band:

	Year ended 31 December	
	2023	2022
	Number of individuals	Number of individuals
HKD Nil-HKD1,000,000	3	2
HKD1,000,001-HKD1,500,000	1	2

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 11 LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB36,277,000 (2022: loss of RMB34,605,000) and the weighted average of 752,056,000 ordinary shares (2022: 756,074,000 shares) in issue during the year, calculated as follows:

#### Weighted average number of ordinary shares

	2023 '000	2022 '000
Issued ordinary shares at 1 January	758,439	769,934
Effect of repurchase of shares (Note 30(c)(iii))	(6,383)	(13,860)
Weighted average number of ordinary shares at 31 December	752,056	756,074

### (b) Diluted loss per share

The diluted loss per share for the years ended 31 December 2023 and 2022 has not taken into account the effect of the outstanding share options as its inclusion would have decreased the loss per share, hence anti-dilutive.

## 12 DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year:

The directors of the Company did not propose the payment of any dividend for the year (2022: Nil).

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year:

	2023 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year	–	2,618

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 13 EQUITY SETTLED SHARE-BASED TRANSACTIONS

### (a) Share option scheme adopted on 14 June 2018

On 14 June 2018 (the "Adoption Date"), the Company adopted the Share Option Scheme whereby the Board are authorised, at their discretion, to invite employees, director, consultant, adviser and distributor, contractor, business partner or service provider of the Group, to take up options subscribe for shares of the Company. The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the Shareholders in general meeting. The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of 800,000,000 share.

On 19 July 2019, the Company granted 16,000,000 share options to eligible persons (the "Grantees") under the Share Option Scheme. The options vest after three months from the date of grant and are then exercisable within a period of nine months. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares. In order to encourage long-term commitment to the Company and to align the interests of the eligible grantees with the Company's development, the exercise period of the outstanding options granted under the Share Option Scheme was extended and the expiry date was deferred from 19 July 2020, to 13 June 2028 ("Modification"). The Modification took effect on 30 June 2020 ("Modification Date").

No share options mentioned above has been exercised, forfeited or expired during the year of 2023 (2022: Nil). All the 16,000,000 share options remained outstanding and exercisable as at 31 December 2023 and 2022.

The options outstanding at 31 December 2023 had an exercise price of HKD3.098 (2022: HKD3.098) and a weighted average remaining contractual life of 4.5 years (2022: 5.5 years).

### (b) Restricted share unit scheme ("RSU") adopted in July 2022

On 8 July 2022, the Company adopted an RSU to recognise and reward the contribution of certain eligible participants to the growth and development of the Group through an award of the Company's shares. The Company's shares to be granted under the RSU will be purchased and held by a trustee. The maximum number of shares to be subscribed for and/or purchased by trustee for the purpose of the scheme shall not exceed 10% of the total number of issued shares as at the adoption date.

On 8 July 2022, the Company granted 5,000,000 restricted shares to two of the Group's employees with a fair value of RMB4,147,000. The restricted shares granted shall vest annually on an equal basis within five years with 500,000 shares each year from the grant date of the RSUs. Moreover, up to 300,000 additional RSUs may be granted to each employee at the Board's discretion upon achievement of certain performance target.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 14 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT

### (a) Reconciliation of carrying amount

	Buildings and infrastructure RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Investment property RMB'000	Total RMB'000
<b>Cost:</b>							
At 1 January 2022	220,225	142,726	11,270	4,787	379,008	23,330	402,338
Additions	1,266	2,128	54	56,574	60,022	–	60,022
Transfers from construction in progress	58,269	–	–	(58,269)	–	–	–
Disposals	(1,736)	–	(140)	(2,512)	(4,388)	–	(4,388)
At 31 December 2022 and 1 January 2023	<b>278,024</b>	<b>144,854</b>	<b>11,184</b>	<b>580</b>	<b>434,642</b>	<b>23,330</b>	<b>457,972</b>
Additions	2,467	22,985	302	40,487	66,241	–	66,241
Transfers from construction in progress	52	37,412	–	(37,464)	–	–	–
Disposals	(2,347)	(921)	(684)	(140)	(4,092)	–	(4,092)
At 31 December 2023	<b>278,196</b>	<b>204,330</b>	<b>10,802</b>	<b>3,463</b>	<b>496,791</b>	<b>23,330</b>	<b>520,121</b>
<b>Accumulated amortisation, depreciation and impairment:</b>							
At 1 January 2022	(32,893)	(56,332)	(7,906)	–	(97,131)	(5,725)	(102,856)
Charge for the year	(12,726)	(12,360)	(522)	–	(25,608)	(1,108)	(26,716)
Written back on disposals	73	–	132	–	205	–	205
At 31 December 2022 and 1 January 2023	<b>(45,546)</b>	<b>(68,692)</b>	<b>(8,296)</b>	<b>–</b>	<b>(122,534)</b>	<b>(6,833)</b>	<b>(129,367)</b>
Charge for the year	(12,997)	(13,496)	(299)	–	(26,792)	(1,109)	(27,901)
Written back on disposals	1,771	379	649	–	2,799	–	2,799
At 31 December 2023	<b>(56,772)</b>	<b>(81,809)</b>	<b>(7,946)</b>	<b>–</b>	<b>(146,527)</b>	<b>(7,942)</b>	<b>(154,469)</b>
<b>Net book value:</b>							
At 31 December 2023	<b>221,424</b>	<b>122,521</b>	<b>2,856</b>	<b>3,463</b>	<b>350,264</b>	<b>15,388</b>	<b>365,652</b>
At 31 December 2022	232,478	76,162	2,888	580	312,108	16,497	328,605

As at 31 December 2023, the Group has not yet obtained the ownership certificate of the buildings and the right-of-use asset of the new factory with a carrying amount of RMB125,008,000 (2022: RMB127,771,000).

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 14 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (b) Investment property

The Group leases out certain of its self-owned properties under operating leases. The leases typically run for 1 year.

Undiscounted lease payments under non-cancellable operating leases in place at the end of the reporting period will be receivable by the Group in future periods as follows:

	2023 RMB'000	2022 RMB'000
Within 1 year	668	668

The fair value of investment property determined based on the observable quoted price for the similar items in an active market amounted RMB20,800,000 as at 31 December 2023 (2022: RMB18,750,000). The fair value measure falls into level 3 of the fair value hierarchy.

As at 31 December 2023, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and investment property, which had an aggregate carrying amount of RMB63,564,000 (31 December 2022: Nil).

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 15 RIGHT-OF-USE ASSETS

	Land use right RMB'000	Leased properties RMB'000	Total RMB'000
<b>Cost:</b>			
At 1 January 2022	236,348	4,116	240,464
Additions	–	725	725
At 31 December 2022	<b>236,348</b>	<b>4,841</b>	<b>241,189</b>
Additions	–	<b>1,976</b>	<b>1,976</b>
At 31 December 2023	<b>236,348</b>	<b>6,817</b>	<b>243,165</b>
<b>Accumulated amortisation, depreciation and impairment:</b>			
At 1 January 2022	(15,774)	(533)	(16,307)
Charge for the year	(5,199)	(2,046)	(7,245)
At 31 December 2022	<b>(20,973)</b>	<b>(2,579)</b>	<b>(23,552)</b>
Charge for the year	<b>(5,200)</b>	<b>(2,495)</b>	<b>(7,695)</b>
At 31 December 2023	<b>(26,173)</b>	<b>(5,074)</b>	<b>(31,247)</b>
<b>Net book value:</b>			
At 31 December 2023	<b>210,175</b>	<b>1,743</b>	<b>211,918</b>
At 31 December 2022	215,375	2,262	217,637



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 15 RIGHT-OF-USE ASSETS *(Continued)*

- (i) Right-of-use assets represent lump sum payments prepaid upfront to purchase land use rights from the government in the PRC for finite periods and there are no ongoing payments to be made under the terms of the land lease. As at 31 December 2023, the remaining periods of the land use rights ranged from 32 to 46 years (2022: ranged from 33 to 47 years).

During the year ended 31 December 2023, the Group entered into certain lease agreements for leasehold properties and therefore recognised the additions to right-of-use assets of RMB1,976,000 (2022: RMB725,000).

- (ii) As at 31 December 2023, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB85,167,000 (2022: nil).
- (iii) Details of total cash outflow for leases during the year and future cash outflows arising from leases are set out in Note 24(c) and Note 31(b), respectively.
- (iv) For the year ended 31 December 2023, expense relating to short-term leases were amounted RMB478,000 (2022: RMB452,000), which are recorded in profit or loss as incurred. Interest expense on lease liabilities was disclosed in Note 6.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 16 INTANGIBLE ASSETS

	Technological know-how RMB'000	Software RMB'000	In-progress research and development projects RMB'000	Total RMB'000
<b>Cost:</b>				
At 1 January and 31 December 2022	2,000	–	15,583	17,583
Additions	–	204	22,066	22,270
Write-off	–	–	(15,583)	(15,583)
At 31 December 2023	2,000	204	22,066	24,270
<b>Accumulated amortisation:</b>				
At 1 January 2022	(1,317)	–	–	(1,317)
Charge for the year	(200)	–	–	(200)
At 31 December 2022	(1,517)	–	–	(1,517)
Charge for the year	(200)	(2)	–	(202)
At 31 December 2023	(1,717)	(2)	–	(1,719)
<b>Impairment:</b>				
At 1 January and 31 December 2022	–	–	(15,583)	(15,583)
Write-off	–	–	15,583	15,583
At 31 December 2023	–	–	–	–
<b>Net book value:</b>				
At 31 December 2023	283	202	22,066	22,551
At 31 December 2022	483	–	–	483

The amortisation charge is included in “General and administrative expenses” in the consolidated statement of profit or loss and other comprehensive income.

# Notes to the Financial Statements (Continued)

(Expressed in RMB'000 unless otherwise indicated)

## 17 INVESTMENTS IN SUBSIDIARIES

The particulars of subsidiaries of the Group are as follows. The class of shares held is ordinary unless otherwise stated.

Company name	Place of incorporation/ establishment and operations and nature of legal entity	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Jinli International Limited	British Virgin Islands	1 ordinary share	100%	100%	–	Investing holding company
Wealth Depot (Hong Kong) Limited	Hong Kong	500,000 ordinary shares	100%	–	100%	Investing holding company
Cloud Dollar Investments Limited	Hong Kong	1 ordinary share	100%	–	100%	Investing holding company
Nanyang Hengsheng Enterprise Management Services Limited* 南陽衡盛企業管理服務有限公司	The PRC limited liability company	USD8,000,000	100%	–	100%	Investing holding company
Henan Fusen Pharmaceutical Company Limited* 河南福森藥業有限公司	The PRC limited liability company	RMB76,759,800	100%	–	100%	Manufacturing and sale of pharmaceutical products
Henan Xichuan Fushan Medicinal Packaging Company Limited* 河南省浙川伏山藥用包材有限公司	The PRC limited liability company	RMB2,600,000	100%	–	100%	Manufacturing and sale of pharmaceutical package materials
Beijing Sanye Mingming Pharmaceutical Technology Company Limited* 北京三也明明醫藥科技有限公司	The PRC limited liability company	RMB3,000,000	50%**	–	50%	Research and development of pharmaceutical products
Shanghai Shengkuang Business Management & Consulting Co., Ltd.* 上海盛匡企業管理諮詢有限公司	The PRC limited liability company	RMB1,000,000	100%	–	100%	Business management & consulting
Fusen (Shenzhen) Biomedical R & D Co., Ltd.* 福森(深圳)生物醫藥研發有限公司	The PRC limited liability company	RMB15,000,000	100%	–	100%	Research and development of pharmaceutical products
Jiangxi Ruiyuan Pharmaceutical Company Limited* 江西瑞源藥業有限公司	The PRC limited liability company	RMB2,000,000	100%	–	100%	Sale of pharmaceutical products
Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* 嘉亨(珠海橫琴)醫藥科技有限公司	The PRC limited liability company	RMB10,000,000	100%	–	100%	Research and development of pharmaceutical products
Nanyang Fusen Construction Co., Ltd.* 南陽福森建設有限公司	The PRC limited liability company	RMB100,000,000	100%	–	100%	Sale of construction materials
Henan Hengsheng Pharmaceutical Co., Ltd.* 河南衡盛製藥有限公司	The PRC limited liability company	RMB100,000,000	100%	–	100%	Research and development of pharmaceutical products
Henan Jiaheng Pharmaceutical Co., Ltd.* 河南嘉亨醫藥有限公司	The PRC limited liability company	RMB100,000,000	100%	–	100%	Sale of pharmaceutical products
Henan Fusen Intelligent Energy Conservation Technology Co., Ltd.* 河南福森智慧節能科技有限公司	The PRC limited liability company	RMB50,000,000	100%	–	100%	Sale of electricity
Henan Fusen Pharmacy Co., Ltd.* 河南福森大藥房有限公司	The PRC limited liability company	RMB1,000,000	100%	–	100%	Sale of pharmaceutical products

\* The English translation of the names is for reference only. The official names of these entities are in Chinese.

\*\* The Group is eligible to appoint majority of directors of the Board and direct the relevant activities of Sanye Mingming, and the Group obtained control over Sanye Mingming.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 18 INTEREST IN A JOINT VENTURE

Jiangxi Yongfeng Kangde Pharmaceutical Company Limited (“Jiangxi Kangde”), the only joint venture in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Jiangxi Kangde is principally engaged in importing and sale of a medicine named Kefadim (chemical name: Ceftriaxone for injection) and other medicines in the PRC market.

Details of the Group’s interest in the joint venture are as follows:

Name of the joint venture	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group’s effective interest	Held by the Company	Held by subsidiaries	
Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* 江西永豐康德醫藥有限公司	The PRC	Registered capital RMB14,265,335	35.8%	–	35.8%	Sale of pharmaceutical products

\* The English translation of the names is for reference only. The official names of these entities are in Chinese.

Summarised financial information of Jiangxi Kangde, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

### Gross amounts of Jiangxi Kangde

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue	225,729	151,244
Loss from continuing operations	(31,247)	(33,008)
Total comprehensive income	(31,097)	(32,413)
Included in the above results:		
Depreciation and amortisation	4,399	4,371
Interest income	(54)	(53)
Income tax	(1,274)	(383)

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 18 INTEREST IN A JOINT VENTURE *(Continued)*

### Gross amounts of Jiangxi Kangde *(Continued)*

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current assets	<b>223,993</b>	242,175
Non-current assets	<b>86,631</b>	94,777
Current liabilities	<b>(171,965)</b>	(160,953)
Non-current liabilities	<b>(6,865)</b>	(13,108)
Equity	<b>131,794</b>	162,891
Equity attributable to the shareholders	<b>131,794</b>	162,891
Included in the above assets and liabilities:		
Cash and cash equivalents	<b>14,133</b>	10,516
Gross amounts of Jiangxi Kangde's net assets	<b>131,794</b>	162,891
Group's effective interest	<b>35.8%</b>	35.8%
Group's share of Jiangxi Kangde's net assets	<b>47,183</b>	58,314
Goodwill arisen on the investment	<b>9,399</b>	9,399
Balance due from Jiangxi Kangde	<b>38,007</b>	38,007
Impact of impairment*	<b>(57,287)</b>	(57,287)
Carrying amount in the Group's interest	<b>37,302</b>	48,433

\* During the year ended 31 December 2022, the Group recognised an impairment loss of RMB38,007,000 on the interest in Jiangxi Kangde, based on the estimated recoverable amount of the individual assets of Jiangxi Kangde.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 19 INTEREST IN AN ASSOCIATE

Weihai Rensheng Pharmaceutical Group Company Limited (“Weihai Rensheng”), the only associate in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Weihai Rensheng is principally engaged in manufacturing and sale of traditional herb preparation products in the PRC market.

Name of the associate	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the Company	Held by subsidiaries	
Weihai Rensheng Pharmaceutical Group Company Limited* 威海人生藥業集團股份有限公司	The PRC	Registered capital RMB76,022,155	34.0%	–	34.0%	Manufacturing and sale of traditional herb preparation products

\* The English translation of the names is for reference only. The official names of these entities are in Chinese.

Summarised financial information of Weihai Rensheng, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

### Gross amounts of Weihai Rensheng

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue	<b>186,730</b>	236,494
Loss from continuing operations	<b>(26,781)</b>	(27,066)
Total comprehensive income	<b>(26,781)</b>	(27,066)

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 19 INTEREST IN AN ASSOCIATE *(Continued)*

### Gross amounts of Weihai Rensheng *(Continued)*

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current assets	<b>88,496</b>	144,059
Non-current assets	<b>449,939</b>	483,967
Current liabilities	<b>(174,889)</b>	(212,387)
Non-current liabilities	<b>(232,504)</b>	(257,857)
Equity	<b>131,042</b>	157,782
Equity attributable to the shareholders	<b>62,760</b>	88,904
Gross amounts of Weihai Rensheng's net assets	<b>62,760</b>	88,904
Group's effective interest	<b>34.0%</b>	34.0%
Group's share of Weihai Rensheng's net assets	<b>21,339</b>	30,227
Goodwill arisen on the investment	<b>99,649</b>	99,649
Impact of impairment	<b>(20,329)</b>	–
Carrying amount in the consolidated financial statements	<b>100,659</b>	129,876

As the performance of Weihai Rensheng is less than satisfactory, the management of the Group has carried out an impairment assessment on Weihai Rensheng CGU at 31 December 2023. The recoverable amount of Weihai Rensheng CGU is the greater of its VIU and the FVLCOF of the Group's interest in an associate. When the carrying amount of the CGU exceeds its VIU, the Group also assesses its FVLCOF to determine the Weihai Rensheng CGU's recoverable amount, which is higher than its VIU. The VIU calculation uses cash flow projections covering a five-year period based on financial budgets prepared by the management of Weihai Rensheng and strategic projections representing the best estimated future performance of Weihai Rensheng.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 19 INTEREST IN AN ASSOCIATE *(Continued)*

### Gross amounts of Weihai Rensheng *(Continued)*

The key assumptions for the discounted cash flow calculation are as follows, which are based on either the past experience or external sources of information:

	As at 31 December	
	2023	2022
Steady growth rate used in the extrapolation after budget period	2.2%	2.2%
Pre-tax discount rate	23.0%	23.5%

The FVLCO of Weihai Rensheng CGU is estimated based on the aggregated fair value of the existing business (estimated using the income approach) and the drug licences (estimated using recent or expected transaction price), less costs of disposal. The key unobservable input is pre-tax discount rate and transaction price of drug licences. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used. The recoverable amount of the interest in associate estimated based on the higher of VIU and FVLCO is RMB100,659,000. Impairment loss of RMB20,329,000 was provided during the year ended 31 December 2023. As the interest in associate has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable would result in further impairment losses.

## 20 OTHER ASSETS

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Prepayment for land use right	22,827	–
Technological know-how	–	6,099
	22,827	6,099



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 21 INVENTORIES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials	<b>79,817</b>	54,389
Work in progress	<b>20,105</b>	19,791
Finished goods	<b>61,796</b>	36,469
	<b>161,718</b>	110,649

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Carrying amount of inventories sold		
— charged to cost of sales	<b>266,102</b>	266,736
— charged to other net income	<b>3,142</b>	3,674
Cost of inventories	<b>269,244</b>	270,410

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 22 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Bills receivable*	117,505	177,802
Trade debtors	84,711	74,276
Less: allowance for credit loss	(18,734)	(4,889)
	65,977	69,387
	183,482	247,189

- \* At 31 December 2023, the Group's bills receivable of RMB76,781,000 and RMB12,677,000 (2022: RMB51,665,000 and RMB26,911,000) were endorsed to suppliers and discounted to banks, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables.

### Ageing analysis

Bills receivable are bank acceptance bills received from customers, with maturity dates within 12 months.

As of the end of the year, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current to 3 months	50,473	48,651
4 to 6 months	7,255	5,490
7 to 12 months	6,805	14,879
Over 12 months	1,444	367
	65,977	69,387

Trade debtors are due within 1 month to 6 months from the date of billing. No interests are charged on the trade receivables. Further details on the Group's credit policy are set out in Note 31(a).

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 23 PREPAYMENTS AND OTHER RECEIVABLES

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
Receivables in connection with compensation for relocation of production facilities from local government		<b>42,744</b>	42,744
Prepayments for raw materials and service charges		<b>22,481</b>	12,839
Deposit for raw materials		<b>18,000</b>	–
Advances to a joint venture and accrued interests	33	<b>12,821</b>	23,172
Deductible input VAT		<b>12,530</b>	509
Prepayments to related parties	33	<b>5,494</b>	3,275
Other receivables from a government-related entity		<b>53,158</b>	–
Others		<b>18,246</b>	20,827
		<b>185,474</b>	103,366

## 24 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise of:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Bank deposits	<b>34,849</b>	128,106

(b) Reconciliation of liabilities arising from financing activities

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 24 CASH AND CASH EQUIVALENTS *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank and other loans RMB'000 (Note 28)	Amounts due to related parties RMB'000 (Note 27)	Interests payable RMB'000 (Note 27)	Lease liabilities RMB'000	Total RMB'000
<b>At 1 January 2022</b>	236,915	9,606	1,837	3,773	252,131
<b>Changes from financing cash flows:</b>					
Proceeds from bank and other loans	206,247	78,895	–	–	285,142
Repayment of bank and other loans	(222,632)	(83,895)	–	–	(306,527)
Borrowing costs paid	–	–	(12,050)	–	(12,050)
Capital element of lease rentals paid	–	–	–	(1,130)	(1,130)
Interest element of lease rentals paid	–	–	–	(169)	(169)
Total changes from financing cash flows	(16,385)	(5,000)	(12,050)	(1,299)	(34,734)
<b>Other change</b>					
Interest on bank loans (Note 6)	–	–	12,213	–	12,213
Interest on lease liabilities	–	–	–	169	169
Increase in lease liabilities from entering into new leases during the year	–	–	–	725	725
Rent concessions received	–	–	–	(829)	(829)
Foreign exchange loss, net	5,312	–	–	–	5,312
Total other change	5,312	–	12,213	65	17,590

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 24 CASH AND CASH EQUIVALENTS *(Continued)*

### (b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank and other loans RMB'000 (Note 28)	Amounts due to related parties RMB'000 (Note 27)	Interests payable RMB'000 (Note 27)	Lease liabilities RMB'000	Total RMB'000
<b>At 31 December 2022 and 1 January 2023</b>	<b>225,842</b>	<b>4,606</b>	<b>2,000</b>	<b>2,539</b>	<b>234,987</b>
<b>Changes from financing cash flows:</b>					
Proceeds from bank and other loans	340,977	–	–	–	340,977
Repayment of bank and other loans	(221,247)	–	–	–	(221,247)
Borrowing costs paid	–	–	(12,456)	–	(12,456)
Capital element of lease rentals paid	–	–	–	(2,656)	(2,656)
Interest element of lease rentals paid	–	–	–	(127)	(127)
Total changes from financing cash flows	<b>119,730</b>	<b>–</b>	<b>(12,456)</b>	<b>(2,783)</b>	<b>104,491</b>
<b>Other changes</b>					
Interest on bank loans (Note 6)	–	–	12,456	–	12,456
Interest on lease liabilities	–	–	–	127	127
Increase in lease liabilities from entering into new leases during the year	–	–	–	1,976	1,976
Foreign exchange gain, net	(3,316)	–	–	–	(3,316)
Total other changes	<b>(3,316)</b>	<b>–</b>	<b>12,456</b>	<b>2,103</b>	<b>11,243</b>
<b>At 31 December 2023</b>	<b>342,256</b>	<b>4,606</b>	<b>2,000</b>	<b>1,859</b>	<b>350,721</b>

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 24 CASH AND CASH EQUIVALENTS *(Continued)*

### (c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2023 RMB'000	2022 RMB'000
Within operating cash flows	200	200
Within financing cash flows	2,783	1,299
	<b>2,983</b>	1,499

## 25 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

		As at 31 December	
	Note	2023 RMB'000	2022 RMB'000
Bills payable		52,570	40,000
Trade payables			
Third parties		113,880	118,636
Amounts due to related parties	33	1,095	4,977
		<b>167,545</b>	163,613

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 25 TRADE AND BILLS PAYABLES *(Continued)*

### Ageing analysis

The ageing analysis of trade and bills payables, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers, is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Current to 3 months	129,463	136,920
4 to 6 months	15,710	5,470
7 to 12 months	4,919	2,415
Over 12 months	17,453	18,808
	<b>167,545</b>	163,613

All trade and bills payables are expected to be settled within one year.

For the information of trade payables settled by endorsement of bills receivable, please refer to Note 22.

## 26 CONTRACT LIABILITIES

Contract liabilities primarily represent payments made by customers for purchases of products before the Group satisfying performance obligations. The Group normally requires certain customers to pay 30% — 100% deposits upfront. It would be recognised as revenue upon the delivery of products.

The amount of RMB61,226,000 that was included in the contract liabilities at the beginning of the year has been recognised as revenue in 2023 (2022: RMB2,647,000). All the balances of the contract liabilities at 31 December 2023 are expected to be recognised as revenue within one year.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 27 ACCRUALS AND OTHER PAYABLES

	Note	As at 31 December	
		2023	2022
		RMB'000	RMB'000
Rebate payables		<b>38,061</b>	36,377
Accrued charges		<b>21,319</b>	28,881
Advances from related parties	24(b)&33	<b>4,606</b>	4,606
Other payables to related parties	33	<b>4,894</b>	4,687
Dividends payable		<b>4,522</b>	4,458
Other tax payables		<b>16,256</b>	24,681
Salary, bonus and welfare payable		<b>69,679</b>	65,633
Payables to contractors and equipment suppliers		<b>48,913</b>	49,693
Deposits from sale staff		<b>5,899</b>	4,917
Interests payable	24(b)	<b>2,000</b>	2,000
Housing fund collected from staff		<b>4,286</b>	4,296
Fund from local finance bureau*		<b>5,887</b>	5,887
Others		<b>23,029</b>	19,707
		<b>249,351</b>	255,823

\* The item is interest-free and repayable on demand.

All the accruals and other payables are expected to be settled or recognised as profit or loss within one year or are repayable on demand.



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 28 BANK AND OTHER LOANS

	2023		2022	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
Borrowings from banks				
— secured (Notes 14 and 15)	4.00%-5.20%	110,000	N.A	—
— guaranteed	4.99%-5.05%	179,579	4.99%-5.23%	178,931
— pledged and guaranteed	4.21%-4.60%	40,000	N.A	—
— unsecured	N.A	—	4.70%	20,000
Other borrowings	1.42%	12,677	1.88%	26,911
Total		<b>342,256</b>		<b>225,842</b>

The guaranteed bank loans were guaranteed by entities controlled by the ultimate controlling party of the Company and an entity controlled by a director of the Company. Certain of the patents of the Group were also pledged to secure the bank borrowing. The carrying value of the pledged patents was nil.

The borrowings were repayable as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 1 year or on demand	236,556	225,842
After 1 year but within 2 years	33,700	—
After 2 year but within 5 years	72,000	—
	<b>342,256</b>	<b>225,842</b>

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### (a) Movement of each component of deferred tax assets and liabilities:

- (i) The components of deferred tax assets recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Government grants RMB'000	Allowance of credit loss RMB'000	Depreciation and amortisation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022	1,573	596	1,510	1,950	5,629
Credited/(charged) to profit or loss	125	336	(215)	(796)	(550)
At 31 December 2022 and 1 January 2023	<b>1,698</b>	<b>932</b>	<b>1,295</b>	<b>1,154</b>	<b>5,079</b>
(Charged)/credited to profit or loss	<b>(163)</b>	<b>(393)</b>	<b>(220)</b>	<b>718</b>	<b>(58)</b>
At 31 December 2023	<b>1,535</b>	<b>539</b>	<b>1,075</b>	<b>1,872</b>	<b>5,021</b>

- (ii) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	PRC dividend withholding tax RMB'000	Fair value measurements RMB'000	Total RMB'000
At 1 January 2022	4,678	–	4,678
Credit to profit or loss	(1,140)	–	(1,140)
At 31 December 2022 and 1 January 2023	<b>3,538</b>	<b>–</b>	<b>3,538</b>
(Credit)/charge to profit or loss	<b>(3,386)</b>	<b>144</b>	<b>(3,242)</b>
At 31 December 2023	<b>152</b>	<b>144</b>	<b>296</b>

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

### (b) Deferred tax assets not recognised

As at 31 December 2023, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB56,439,000 (2022: RMB10,335,000) as it is not probable that future taxable profits against which the losses can be utilised will be available.

Tax losses of RMB175,000 and RMB46,102,000 will expire in 2027 and 2028, respectively. The remaining unused tax losses do not expire under current tax legislation.

### (c) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends declared to foreign investors from its PRC subsidiaries.

As at 31 December 2023 temporary differences relating to the reserves of the Company's PRC subsidiaries amounted RMB355,359,000 (2022: RMB378,043,000), comprised retained earnings of RMB301,163,000 (2022: RMB323,847,000) and statutory surplus reserve of RMB54,196,000 (2022: RMB54,196,000).

The Company controls the dividend policy of these subsidiaries, and it has been determined that 85% of the profit for the year ended 31 December 2023 (2022: 85%) will not be distributed in the foreseeable future. Also, the Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised relating to the profits resolved not to be distributed in the foreseeable future as mentioned above.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 30 CAPITAL, RESERVES AND DIVIDENDS

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Note	Share capital RMB'000	Share premium RMB'000	Treasury shares reserve RMB'000	Capital redemption reserve RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2022		6,479	259,458	(43)	253	26,655	(6,784)	(36,557)	249,461
Loss for the year		-	-	-	-	-	-	(8,350)	(8,350)
Other comprehensive income		-	-	-	-	-	19,151	-	19,151
Equity settled share-based transactions		-	-	-	-	1,153	-	-	1,153
Shares Issued under restricted share unit scheme		43	(43)	-	-	-	-	-	-
Shares granted under restricted share unit scheme		-	43	(43)	-	-	-	-	-
Dividends declared	12	-	(2,618)	-	-	-	-	-	(2,618)
Purchase of own shares		-	(9,975)	(98)	-	-	-	-	(10,073)
Cancellation of treasury shares									
— Par value		(139)	-	139	-	-	-	-	-
— Transfer between reserves		-	(139)	-	139	-	-	-	-
Balance at 31 December 2022 and 1 January 2023		<b>6,383</b>	<b>246,726</b>	<b>(45)</b>	<b>392</b>	<b>27,808</b>	<b>12,367</b>	<b>(44,907)</b>	<b>248,724</b>
Loss for the year		-	-	-	-	-	-	(7,346)	(7,346)
Other comprehensive income		-	-	-	-	-	2,617	-	2,617
Equity settled share-based transactions		-	-	-	-	1,453	-	-	1,453
Purchase of own shares		-	(15,877)	(111)	-	-	-	-	(15,988)
Cancellation of treasury shares									
— Par value		(73)	-	73	-	-	-	-	-
— Transfer between reserves		-	(73)	-	73	-	-	-	-
Balance at 31 December 2023		<b>6,310</b>	<b>230,776</b>	<b>(83)</b>	<b>465</b>	<b>29,261</b>	<b>14,984</b>	<b>(52,253)</b>	<b>229,460</b>

Note: The capital redemption reserve comprises the par value of the cancelled shares of the Company transferred from share premium pursuant to Companies Law (2020 Revision) of the Cayman Islands.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (b) Share capital

	2023		2022	
	No. of shares	Amount RMB'000	No. of shares	Amount RMB'000
Authorised-ordinary shares of HKD0.01 each:				
At 1 January and 31 December	<b>2,000,000,000</b>	<b>16,354</b>	2,000,000,000	16,354
Ordinary shares, issued and fully paid:				
At 1 January	<b>758,439,000</b>	<b>6,383</b>	769,934,000	6,479
Shares issued under restricted share unit scheme	–	–	5,000,000	43
Cancellation of treasury shares (Note 30(c)(iii))	<b>(8,483,000)</b>	<b>(73)</b>	(16,495,000)	(139)
At 31 December	<b>749,956,000</b>	<b>6,310</b>	758,439,000	6,383

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

### (c) Reserves

#### (i) Share premium

Share premium represented the difference between the par value of shares issued and the amount of net proceeds received from its shareholders of the Company.

#### (ii) Statutory surplus reserves

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory surplus reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory surplus can be utilised to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (c) Reserves *(Continued)*

#### (iii) Treasury shares reserve and capital redemption reserve

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares. The par value of treasury shares purchased is debited to “treasury shares reserve” and the premium to par value is shown as an adjustment to share premium. The par value of shares cancelled shall be transferred to “capital redemption reserve”, with share premium adjusted accordingly.

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000	Number of shares cancelled	Number of treasury shares
January 2022	3,431,000	1.30	1.11	4,222	–	8,543,000
March 2022	371,000	1.07	1.03	393	–	8,914,000
April 2022	2,545,000	1.02	0.93	2,500	–	11,459,000
May 2022	5,036,000	0.99	0.90	4,752	–	16,495,000
June 2022	229,000	0.94	0.90	213	(16,495,000)	229,000
	11,612,000			12,080	(16,495,000)	
March 2023	<b>1,718,000</b>	<b>1.35</b>	<b>1.25</b>	<b>2,285</b>	–	<b>1,947,000</b>
April 2023	<b>4,756,000</b>	<b>1.35</b>	<b>1.25</b>	<b>6,406</b>	–	<b>6,703,000</b>
May 2023	<b>976,000</b>	<b>1.37</b>	<b>1.28</b>	<b>1,319</b>	–	<b>7,679,000</b>
June 2023	<b>780,000</b>	<b>1.35</b>	<b>1.24</b>	<b>1,018</b>	–	<b>8,459,000</b>
July 2023	<b>24,000</b>	<b>1.30</b>	<b>1.25</b>	<b>30</b>	–	<b>8,483,000</b>
September 2023	–	–	–	–	<b>(8,483,000)</b>	–
November 2023	<b>2,585,000</b>	<b>1.50</b>	<b>1.31</b>	<b>3,672</b>	–	<b>2,585,000</b>
December 2023	<b>2,336,000</b>	<b>1.40</b>	<b>1.28</b>	<b>3,180</b>	–	<b>4,921,000</b>
	<b>13,175,000</b>			<b>17,910</b>	<b>(8,483,000)</b>	

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (c) Reserves *(Continued)*

#### (iii) Treasury shares reserve and capital redemption reserve *(Continued)*

The amount paid for the repurchase of 13,175,000 shares (2022: 11,612,000 shares) during the year ended 31 December 2023 was paid wholly out of share premium. The aggregate consideration was HKD17,910,000 (equivalent to approximately RMB15,988,000) (2022: HKD12,080,000 (equivalent to approximately RMB10,073,000)). In September 2023, the Company cancelled 8,483,000 repurchased shares, the par value of which, amounted to RMB73,000, was transferred to capital redemption reserve. As at 31 December 2023, the Group held 4,921,000 of the Company's shares (2022: 229,000) as treasury shares.

Treasury shares are recognised as deduction from equity in the Group's consolidated statement of financial position.

#### (iv) Share-based payment reserve

The share-based payment reserve represents the cumulative value of the equity settled share-based transactions granted to employees recognised in accordance with the accounting policy adopted for share-based payments in Note 2(s)(ii).

#### (v) Other reserves

Other reserves as at the end of the reporting period mainly included contributions by the shareholders and the difference between the considerations paid by the Group and the share of net assets value of the subsidiary acquired from the non-controlling interests.

#### (vi) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in Note 2(w).

### (d) Distributability of reserves

At 31 December 2023, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as determined under the Companies Law of the Cayman Islands, was RMB222,768,000 (2022: RMB242,831,000).

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 30 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and bank deposits. Adjusted capital comprises all components of equity.

The Group's adjusted net debt-to-capital ratio at 31 December 2023 and 2022 was as follows:

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Bank and other loans	28	342,256	225,842
Less: Cash and cash equivalents	24	34,849	128,106
<b>Adjusted net debt</b>		<b>307,407</b>	97,736
Total equity		<b>562,226</b>	612,893
<b>Adjusted net debt-to-equity ratio</b>		<b>54.68%</b>	15.95%

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, interest rate, currency and equity price risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from amount due from related parties, other receivables and bank deposits is limited because the counterparties are related parties, banks, government authorities and government related entity, for which the Group considers having low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 1.0% (2022: 10.9%) and 38.7% (2022: 37.1%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%- 100% deposits upfront and the remaining trade receivables are normally due within 1 to 6 months from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

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

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (a) Credit risk *(Continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2023		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	0.8%	46,960	379
1-3 months past due	3.3%	13,301	434
4-6 months past due	14%	4,661	663
7-12 months past due	33%	3,365	1,099
More than 1 year past due	98%	16,424	16,159
		<b>84,711</b>	<b>18,734</b>

	2022		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	0.8%	48,048	390
1-3 months past due	3.0%	8,829	268
4-6 months past due	14%	14,527	1,984
7-12 months past due	32%	564	180
More than 1 year past due	90%	2,308	2,067
		<b>74,276</b>	<b>4,889</b>

Expected loss rates are based on historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (a) Credit risk *(Continued)*

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2023 RMB'000	2022 RMB'000
Balance at 1 January	4,889	3,933
Accrual during the year	13,845	956
Balance at 31 December	18,734	4,889

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2023 contractual undiscounted cash outflow					Carrying amounts RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Bank and other loans	246,337	35,072	75,515	–	356,924	342,256
Trade and bills payables	167,545	–	–	–	167,545	167,545
Accruals and other payables	249,351	–	–	–	249,351	249,351
Lease liabilities	1,141	763	–	–	1,904	1,859
Total	664,374	35,835	75,515	–	775,724	761,011

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (b) Liquidity risk *(Continued)*

	As at 31 December 2022 contractual undiscounted cash outflow					Total RMB'000	Carrying amounts RMB'000
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	More than 5 years RMB'000		
Bank and other loans	231,689	–	–	–	–	231,689	225,842
Trade and bills payables	163,613	–	–	–	–	163,613	163,613
Accruals and other payables	255,823	–	–	–	–	255,823	255,823
Lease liabilities	2,150	421	39	–	–	2,610	2,539
<b>Total</b>	<b>653,275</b>	<b>421</b>	<b>39</b>	<b>–</b>	<b>–</b>	<b>653,735</b>	<b>647,817</b>

### (c) Interest rate risk

The Group's interest rate risk arises primarily from bank and other loans. Interest-bearing liabilities issued at variable rates and borrowings at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (c) Interest rate risk *(Continued)*

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's net interest-bearing liabilities at the end of the year:

	2023		2022	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
<b>Fixed rate interest-bearing borrowings:</b>				
Bank loans	4.60%–5.20%	65,000	4.70%	20,000
Other borrowings	1.42%	12,677	1.88%	26,911
<b>Variable rate interest-bearing liabilities:</b>				
Bank loans	4.00%–5.05%	264,579	4.99%–5.23%	178,931
Lease liabilities	4.75%	1,859	4.75%	2,539
Total		<u>344,115</u>		<u>228,381</u>

#### (ii) Sensitivity analysis

Increases in interest rates will increase the cost of interest-bearing liabilities, and therefore could have an adverse effect on the Group's financial position. For the year ended 31 December 2023 and 2022, if interest rates on the variable rate borrowings had increased/decreased 50 basis points while all other variables are held constant, the effect on loss after taxation is approximately RMB1,132,000 and RMB771,000 respectively.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (d) Currency risk

The Group mainly operates in the PRC and is exposed to foreign currency risk, primarily from cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relates. The currencies giving rise to this risk is primarily USD.

The following table details the Group's major exposure as at 31 December 2023 to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure to foreign currencies (expressed in RMB)	
	As at December 2023	As at December 2022
	USD RMB'000	USD RMB'000
Cash and cash equivalents	18	18
Bank loans	(49,579)	(52,931)
Gross exposure arising from recognised assets and liabilities	(49,561)	(52,913)
Notional amounts of a cross-currency swap contract entered	49,579	52,931
Net exposure	18	18

The Group has entered into certain cross-currency swap contract to mitigate the effect of its foreign currency exposure arising from the bank loans denominated in USD, in which the Group agrees to exchange, at specific intervals, USD principal and interest of the bank loans into Renminbi.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (e) Fair values measurement

#### Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at	Fair value measurements as at		
	31 December	31 December 2023 categorised into		
	2023	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets measured at FVPL	11,013	–	–	11,013
Capped cross currency swap	1,279	–	1,279	–
	12,292	–	1,279	11,013

	Fair value at	Fair value measurements as at		
	31 December	31 December 2022 categorised into		
	2022	Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Capped cross currency swap	4,595	–	4,595	–

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 31 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

### (e) Fair values measurement *(Continued)*

#### Financial assets and liabilities measured at fair value *(Continued)*

During the years ended 31 December 2022 and 2023, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of capped cross currency swap is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account the spot exchange rate as at the year end.

The fair value of the financial assets measured at FVPL is approximate to the investment cost due to short duration from the transaction date to the end of the reporting date.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2023 and 2022.

## 32 COMMITMENTS

Capital commitments outstanding at 31 December 2023 and 2022 not provided for in the financial statements were as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Contracted for	82,205	17,634



# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 33 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Transactions with related parties

In addition to the transactions disclosed elsewhere in the financial statements, the Group has entered into the following material related party transactions during the year:

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Sales of goods	(i)	<b>4,228</b>	19,543
Purchase of goods	(ii)	<b>34,450</b>	45,714
Receiving ancillary services	(iii)	<b>290</b>	290
Repayment from a joint venture	(iv)	<b>8,000</b>	15,300
Interest receivable on loan to a joint venture	(iv)	–	1,559
Advance to related parties	(v)	–	500
Repayment of advances to related parties	(v)	–	500
Advance from a related party	(vi)	–	109
Loans from a related party	(vi)	–	78,895
Repayments of loans from related parties	(vi)	–	103,895
Interest paid on loan from a related party	(vi)	–	892
Net (withdrawal)/deposit with a related party	(vii)	<b>(261)</b>	196

Notes:

- (i) Represent the pharmaceutical products sold to its joint venture; construction materials sold to entities controlled by the ultimate controlling party of the Company; and electricity sold to a company controlled by a director.
- (ii) Mainly represent medicinal herbs (*Ionicera japonica*), steams, packaging materials, gift cards and daily necessities purchased from entities controlled by the ultimate controlling party of the Company.
- (iii) Represent ancillary services such as short-term leases of premises, accommodation, catering and other services acquired from entities controlled by the ultimate controlling party of the Company.
- (iv) Represent repayment of advances by the joint venture of the Group. Certain advances bore interest with rate of 5.22% for the year ended 31 December 2023 (2022: 5.22%).
- (v) Represent interest-free advances to an entity controlled by a director. The advance was repaid for the year ended 31 December 2022.
- (vi) Represent of non-interest-bearing advances and fund received from/paid to an entity controlled by the ultimate controlling party of the Company and repayment of a loan with interest rate of 6.98% per annum due from a bank which the ultimate controlling party of the Company has significant influence (the "Bank").
- (vii) Represent net deposits placed in the Bank.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries, wages and other benefits	6,265	3,216
Retirement benefits	141	43
	<b>6,406</b>	3,259

Total remuneration is disclosed in "staff costs" (see Note 7(a)).

### (c) Balances with related parties

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Prepayment and other receivables-advances and accrued interests	15,172	23,172
Prepayment and other receivables-prepayments	5,494	3,275
Trade receivables	14,392	12,742
Trade and bills payables	1,095	4,977
Accruals and other payables-advances	4,606	4,606
Accruals and other payables-other payables	4,894	4,687
Cash and cash equivalents	27	288

Except for advances to a joint venture and bank loans, other amounts due to or from related parties are unsecured, interest-free and repayable or receivable on demand.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 33 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

### (d) Financial guarantees provided by related parties

As disclosed in Note 28, certain bank loans were guaranteed by entities controlled by the ultimately controlling party of the Company and an entity controlled by a director of the Company.

### (e) Applicability of the Listing Rules relating to connected transactions

During the year, the related party transactions in respect of purchase of medicinal herbs, construction materials and packaging materials as mentioned in Note 33(a)(ii), constitute continuing connected transactions and connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Directors' Report.

The advances to a joint venture as disclosed in Note 33(a)(iv) and the deposits placed in the Bank as disclosed in Note 33(a)(vi) and Note 33(a)(vii) do not constitute connected transactions as the directors considered that the joint venture and the Bank are not connected parties of the Group as defined in Chapter 14A of the Listing Rules.

Except for the above, the directors considered all other transactions in 2022 and 2023 disclosed in Note 33(a) are exempted according to 14A.76(1)(c) and 14A.90 of the Listing Rules.

## 34 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2023, the directors consider the immediate parent of the Company to be Full Bliss Holdings Limited and the ultimate controlling party of the Company to be Mr. Cao Changcheng.

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 35 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
<b>Non-current assets</b>			
Right-of-use assets		–	77
Interests in subsidiaries		<b>243,278</b>	239,815
		<b>243,278</b>	239,892
<b>Current assets</b>			
Prepayments and other receivables		<b>32,914</b>	32,846
Inventories		–	1,633
Cash and cash equivalents		<b>1,269</b>	6,046
		<b>34,183</b>	40,525
<b>Current liabilities</b>			
Lease liabilities		–	80
Accruals and other payables		<b>48,001</b>	31,613
		<b>48,001</b>	31,693
<b>Net current (liabilities)/assets</b>		<b>(13,818)</b>	8,832
<b>Net assets</b>		<b>229,460</b>	248,724
<b>Capital and reserves</b>			
Share capital	30(b)	<b>6,310</b>	6,383
Reserves	30(c)	<b>223,150</b>	242,341
<b>Total equity</b>		<b>229,460</b>	248,724

# Notes to the Financial Statements *(Continued)*

(Expressed in RMB'000 unless otherwise indicated)

## 36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2023

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, which are not yet effective for the year ended 31 December 2023 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for years beginning on or after
Amendments to IAS 1, Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")	1 January 2024
Amendments to IAS 1, Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")	1 January 2024
Amendments to IFRS 16, Leases: Lease liability in a sale and leaseback	1 January 2024
Amendments to IAS 7, Statement of cash flows and IFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements	1 January 2024
Amendments to IAS 21, The effects of changes in foreign exchange rates: Lack of exchangeability	1 January 2025

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.