巨子生物
GIANT BIOGENE

巨子生物控股有限公司
GIANT BIOGENE HOLDING CO., LTD

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立之有限公司)
Stock Code 股份代號：2367

2023年報
ANNUAL REPORT

Contents

CORPORATE INFORMATION

As of the date of this Report

DIRECTORS

Executive Directors

Mr. Yan Jianya (嚴建亞)
(Chairman and chief executive officer)
Ms. Ye Juan (葉娟)
Ms. Fang Juan (方娟)
Ms. Zhang Huijuan (張慧娟)
Ms. Yan Yubo (嚴鈺博)

Independent Non-executive Directors

Mr. Huang Jin (黃進)
Mr. Shan Wenhua (單文華)
Ms. Wong Sze Wing (黃斯穎)

AUDIT COMMITTEE

Ms. Wong Sze Wing (黃斯穎) (Chairperson)
Mr. Huang Jin (黃進)
Mr. Shan Wenhua (單文華)

REMUNERATION COMMITTEE

Mr. Shan Wenhua (單文華) (Chairman)
Mr. Yan Jianya (嚴建亞)
Ms. Wong Sze Wing (黃斯穎)

NOMINATION COMMITTEE

Mr. Yan Jianya (嚴建亞) (Chairman)
Mr. Huang Jin (黃進)
Mr. Shan Wenhua (單文華)

CORPORATE GOVERNANCE COMMITTEE

Mr. Yan Jianya (嚴建亞) (Chairman)
Ms. Fang Juan (方娟)
Mr. Shan Wenhua (單文華)

JOINT COMPANY SECRETARIES

Ms. Yan Yubo (嚴鈺博)
Ms. Yuen Wing Yan, Winnie (袁頴欣) (FCG HKFCG (PE))

AUTHORIZED REPRESENTATIVES

Mr. Yan Jianya (嚴建亞)
Ms. Yuen Wing Yan, Winnie (袁頴欣)

REPORTING ACCOUNTANT AND INDEPENDENT AUDITOR

Ernst & Young
Certified Public Accountant
Registered Public Interest Entity Auditor
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

COMPANY'S LEGAL ADVISORS

As to Hong Kong laws:
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27/F, Jardine House
One Connaught Place
Central
Hong Kong

As to Cayman Islands laws:
Maples and Calder (Hong Kong) LLP
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18 Harbour Road
Wanchai
Hong Kong

COMPANY'S WEBSITE

www.xajuzi.com

STOCK CODE

2367

COMPLIANCE ADVISER

Somerley Capital Limited
20th Floor, China Building
29 Queen's Road Central
Hong Kong

Corporate information
As of the date of this Report

HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman
KY1-1102
Cayman Islands

PRINCIPAL BANKERS

China Merchants Bank Co., Ltd.
(Xi'an High-tech Sub-Branch)
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High-tech Development Zone
Yanta District, Xi'an
Shaanxi Province, PRC

Shanghai Pudong Development Bank Co., Ltd.
(Xi'an Branch)
No. 6 Jinye Road
High-tech Development Zone
Yanta District, Xi'an
Shaanxi Province, PRC

Chang'an Bank Co., Ltd.
(Xi'an High-tech Sub-Branch)
Room A101
Entrepreneurship Development Garden
No. 69 Jinye Road
High-tech Development Zone, Xi'an
Shaanxi Province, PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN CHINA

No. 1855, Shanglin Yuan 7th Road
Chang'an District, Xi'an
Shaanxi Province, PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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348 Kwun Tong Road
Kowloon, Hong Kong

REGISTERED OFFICE

PO Box 309, Ugland House
Grand Cayman
KY1-1104
Cayman Islands

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2023 RMB million	2022 RMB million	Changes
Revenue	**3,524.1**	2,364.4	49.0%
Gross profit	**2,947.1**	1,995.2	47.7%
Profit before tax	**1,745.1**	1,177.7	48.2%
Net profit	**1,448.2**	1,001.6	44.6%
Earnings attributable to owners of the parent	**1,451.8**	1,002.0	44.9%
Adjusted net profit for the year (non-IFRS measure)	**1,468.7**	1,056.4	39.0%
Basic earnings per Share	**1.49**	0.99	50.5%
Diluted earnings per Share	**1.48**	0.98	51.0%

The Board proposed to distribute final dividends of RMB0.44 (tax inclusive) per ordinary share and proposed to distribute special dividends of RMB0.45 (tax inclusive) per ordinary share.

5-YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Revenue	**3,524,143**	2,364,445	1,552,486	1,190,479	956,702
Gross profit	**2,947,137**	1,995,240	1,354,337	1,007,069	796,712
Profit before tax	**1,745,089**	1,177,749	972,917	973,242	676,996
Profit for the year	**1,448,202**	1,001,586	828,132	826,485	575,180
Profit for the year attributable to owners of the parent	**1,451,753**	1,002,025	828,132	826,450	552,260
Profit for the year attributable to non-controlling interests	**(3,551)**	(439)	–	35	22,920

ASSETS AND LIABILITIES

	As at 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
Total assets	**4,973,078**	3,138,225	7,878,208	2,651,108	1,796,937
Total liabilities	**602,028**	301,192	6,861,397	2,193,105	645,488
Total equity	**4,371,050**	2,837,033	1,016,811	458,003	1,151,449
Non-current assets	**837,999**	600,490	436,886	367,010	338,682
Current assets	**4,135,079**	2,537,735	7,441,322	2,284,098	1,458,255
Current liabilities	**530,612**	280,905	6,843,042	2,173,890	626,054
Net current assets	**3,604,467**	2,256,830	598,280	110,208	832,201
Non-current liabilities	**71,416**	20,287	18,355	19,215	19,434
Total equity	**4,371,050**	2,837,033	1,016,811	458,003	1,151,449

CHAIRMAN'S STATEMENT

Dear Shareholders,

Time passed by and it has been another extraordinary year. I would like to express our gratitude to you for accompanying us along our journey and witnessing our growth together.

In 2023, we overcame challenges, captured opportunities, and achieved remarkable results. Our R&D and innovation capabilities were significantly enhanced. Our brand image has already been deeply rooted in consumers' hearts. We also saw a rapid expansion of our sale channels, and our sales performance hit a record high. Our industry position has also been further solidified.

We have made substantial investment in innovation. In 2023, the Company increased its investment in research and development by 70% year-on-year. We took the lead in formulating three group standards which have set a new benchmark for the industry. We organized over 60 academic seminars to discuss and share academic results with our peers and to promote the high-quality development of the industry. Our on-going investment has enabled us to continuously strengthen our technological barriers. As of the end of 2023, we had 93 issued patents and patent applications.

We have targeted to build a mass-market brand with professional image. On the one hand, we keep holding and participating in a variety of academic activities, sparing no efforts on promoting the academic research, clinical application and market awareness of recombinant collagen as China Ingredient, and establishing a scientific image for the corporation and its brand; on the other hand, through a series of promotional videos of our communication campaign such as "Ingredient China" (《成分中國》) and the "New Force of Chinese Products" (《國貨新勢力》) to show the scientific proof, we have developed a clearer and more focused brand image which have been deeply rooted in the consumers' hearts, and wholeheartedly communicated with consumers in a sincere and friendly manner.

With regard to our market expansion, we fully seized the opportunities emerged in the market and have our products sold in 4,000 offline hospitals and over 6,000 supermarkets in aggregate. During the year, we also successfully opened our first Comfy offline standard store in China, and have been further exploring new channel scenarios. In 2023, revenue from our direct sales channels increased by over 70% year-on-year, while the brand portfolio in public domain scenario was rapidly expanded. Revenue from distribution channels was on the rise steadily, and our competitive edges on professional mindshare and terminal coverage were also further consolidated.

Looking back to 2023, the Company recorded a revenue of RMB3,520 million, representing a year-on-year increase of 49%. Adjusted net profit amounted to RMB1,470 million, representing a year-on-year increase of 39%. Adjusted net profit margin maintained at an industry-leading level of over 41%. Revenue from Comfy, which has gained more recognition and popularity among consumers, amounted to approximately RMB2,800 million, representing a year-on-year increase over 70%. Revenue from Collgene amounted to RMB620 million and we have also further optimized the products under, and the channels for, this brand. As a token of our appreciation to our Shareholders for their support, the Board proposed to distribute final dividends and special dividends totaling RMB880 million to share the fruits of the Company's growth with the Shareholders.

Looking forward, we will keep upholding our original commitment and make solid and steady strides. In 2024, we will continue to make investment in research and development, to introduce more new material and new products, so as to bring better experience to the consumers. We will continue to make investment in brand-building and marketing to lay a solid foundation for long-term growth of our brand and the Company. We will prioritize the clinical application and market entry of Class III medical device products with a view to creating a next wave of growth for the Company. We will continue to refine customer experience, our products and the scenarios for application in all channels, and make efforts in engaging consumer gathering, scenario building and improving operational efficiency.

Finally, I would like to express my sincere gratitude to our Shareholders from all walks of life for their support and togetherness with us, to our partners for their help and trust, to the consumers for their selection and preference, and to the staff of the Company for their dedications and contributions. Geographical distance will not be a barrier between us and our stakeholders. I am looking forward to, for the days to come, striding forward with you on our journey towards a better tomorrow.

Giant Biogene Holding Co., Ltd
Yan Jianya
Chairman of the Board

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are a leader in bioactive ingredient-based professional skin treatment product industry in China. In 2023, in the midst of a challenging macro and industrial environment, we adhered to our mission of "Biotechnology to Empower Beauty and Health", and continuously strengthened our competitive edges on research and development, promoted the implementation of industry standards, focused on constantly launching more high-quality products to consumers, strengthened our brand awareness among a wider public, established a professional and reliable brand image, and reinforced our omni-channel layout and enhanced our refined operation. Thank to these efforts, we managed to achieve healthy corporate growth and made contribution to the high-quality development of recombinant collagen industry.

During the Reporting Period, our sales revenue amounted to RMB3,524.1 million, representing an increase of 49.0% compared to that of 2022, and our profit for the year amounted to RMB1,448.2 million, representing an increase of 44.6% compared to that of 2022.

Focusing on Research and Development and Taking an Initiating Role in Formulating Industry Standards to Lead Standardized Development of the Industry

Scientific research is the foundation of our business development. Through constant investment in the basic and applied research, we are able to continuously enrich our knowledge and technological reserves, cultivate and incubate new raw materials, new series and new products, bringing more satisfactory experience to the customers and strengthening our leading position in the industry. During the Reporting Period, our research and development expenditure was RMB75.0 million, representing a year-on-year increase of 70.5%. Research and development expenditure accounted for 2.1% of our revenue, representing a year-on-year increase of 0.2 percentage point.

As of the end of the Reporting Period, we had 93 authorized patents and patent applications, of which 13 were newly added during the Reporting Period. Our recombinant collagen molecule library contained over 40 kinds of collagen molecule, allowing us to maintain our leadership in the industry. As of the end of the Reporting Period, we had over 100 projects under research. During the Reporting Period, we advanced four research and development projects and registrations of recombinant collagen skin rejuvenation products successfully.

During the Reporting Period, we launched various self-developed raw materials or raw material combinations. The rare ginsenoside CK monomer has the evident efficacy of oil control, anti-inflammatory and acne treatment by efficiently regulating the expression of anti-inflammatory gene. Comfy Regular Series (可復美秩序系列), which used the rare ginsenoside CK monomer as its core ingredient, has received positive feedback from the customers since its launch. Proprietary Juganyuan (巨苷源) raw material combinations can achieve the repair of key skin protein such as collagen and elastine, which play a role in the efficacy of mitigating skin redness and soothing in our products such as Comfy Collagen Emulsion.

We are not only at the forefront of the research of recombinant collagen, but also actively participate in the drafting and formulating of the industry standards and group standards from differences aspects, leading the industry to healthy, scientific, standardized and high-quality development. In April 2023, the group standard "Recombinant Collagen Raw Materials for Cosmetics" (《化妝品用重組膠原蛋白原料》) formulated under our lead was formally published. This is the first group standard for recombinant collagen in the cosmetics industry in China. In September 2023, two group standards "Test Method for Determination of Collagen Secreted from Human Cells Induced by Recombinant Collagen" (《重組膠原蛋白促人源細胞膠原蛋白分泌測定方法》) and "Test Method for Absorption of Recombinant Collagen through the Skin" (《重組膠原蛋白透皮吸收測定方法》), both formulated under our lead, were formally published, which set out the basis for the standards and a guideline for the methodology for evaluating the biological functions of recombinant collagen, and solved the lack of testing methodology in that regard.

Enriching the Product Series and Matrix, with Star Product Well Received and Recognized by Consumers Continuously

There are lots of emerging and existing brands in the keenly-competitive skincare industry. In the era of information equality, consumers are becoming more and more rational and returning to the concept of quality-first when making decisions, and preference will be given to products with merits, high efficacy and good quality, which will ultimately bring repeat purchase and enhance brand quality. We always pursue a high standard in the production stage, striving to create extraordinary experience for the customers while winning the recognition and trust from them and standing out amidst the industry. Meanwhile, we have accelerated the pace of launching new products, and diversified the series and product matrix of the brands on top of our original product series so as to offer more comprehensive and diversified selections to consumers, expand users scenarios and users base, extend the user consumption cycle, and enhance the intrinsic value of our brands, thereby laying a solid foundation for the long-term and healthy development of our business. As of the end of the Reporting Period, we had over 100 product SKUs.

With the brand position of "Skin problems, find Comfy (肌膚有問題，就找可復美)", Comfy provides comprehensive and high-quality solutions for various skin problems. By implementing the strategy of "synergy of cosmetics and medical device", our star product Comfy Recombinant Collagen Dressing ("Collagen Dressings") of the medical device series has continued to gain popularity among consumers across online and offline channels since its launch in 2011. In the 618 shopping festival ("618 Shopping Festival") and the Singles Day shopping festival ("Singles Day Shopping Festival") in 2023, the Collagen Dressings once again ranked No. 1 in Tmall's Wound Dressing Category and ranked No. 1 in JD.com's Medical Beauty Care Category during the Reporting Period.

Comfy Collagen Repair Series is designed to provide repair and soothing solutions for people with sensitive skin, weak skin barriers, redness and dryness. Since its launch at the end of 2021, Human-like Recombinant Collagen Restoration Single-use Essence (Human-like 重組膠原蛋白肌禦修護次拋精華, "Collagen Stick" (膠原棒)) has gradually grown into a star product on the strength of its excellent product quality, and has steadily boosted its reputation and sales. During the Reporting Period, Collagen Stick was listed in the "Repair Essence of the Year (年度修護精華)" by China's Top Formula (中國好配方), and was listed in the "Enjoyable Skincare List (Essence List) (悅享護膚榜(精華榜))" and the "Light of Domestic Goods List (國貨之光榜)" of the Beauty Evolution 2023. During the 618 Shopping Festival in 2023, the gross merchandise volume (GMV) of Collagen Stick increased by over 700% year-on-year, and it ranked No. 1 on Douyin's Annual Essence Bestseller List (年度精華金榜) and No. 1 in JD.com's home care category; during the Singles Day Shopping Festival, the GMV of Collagen Stick achieved growth of over 200% year-on-year, and it ranked No. 1 in Tmall's facial essence category, No. 1 on JD.com's home care product, and No. 1 in Douyin's Single-use Essence Praise List (品牌次拋精華好評榜).

In 2023, Collagen Repair Series launched two new flagship products: Comfy Collagen Emulsion, which utilizes the proprietary C5HR recombinant collagen bionic combination to optimize the double bionic barrier repair system, strengthens the skin elasticity and helps to build a skin protection system from skin surface to inner dermal layers; and Comfy Collagen Soothing Mask, which utilizes the proprietary C5HS recombinant collagen bionic combination to quickly fade redness and soothe the skin. During the Reporting Period, Collagen Emulsion ranked No. 1 on Tmall's March-April Emulsion New Product List (乳液新品榜), among TOP 3 on Tmall's August-September Repair Emulsion Praise List (修護乳液好評榜) and among TOP 3 on Tmall's Repair Emulsion Top Seller List (修護乳液熱銷榜). During the Singles Day Shopping Festival in 2023, Collagen Emulsion ranked No. 1 on Douyin's Repair Essence Emulsion Praise List (修護精萃乳好評榜), and among TOP 8 on Douyin's Top Selling Facial Cream Gold List in Domestic Products Category (面霜熱賣金榜國貨); Collagen Soothing Mask ranked Douyin's Top 100 Beauty Power Goods Gold List – House Beauty Salon 2023 Gold List of Products (百大美力好物金榜–宅家美容院2023金榜單品).

During the Reporting Period, the product series of Comfy was further enriched. A new series "Regular Series" was launched under the Comfy Acne Clearing and Cleansing Series, which, with the core ingredient of the proprietary rare ginsenoside CK, was specially developed for people with oily, acne-prone and sensitive skin, helping to balance their skin's oil and water and reset the skin's inner balance. The Regular toners, emulsions and creams, the Regular essence and the Regular single-use products under the new series, which were developed based on the causes for oily, acne-prone and sensitive skin, target to solve such problems in different treatment cycles. These reflect our determination to provide the best solution for oily skin. During the Reporting Period, revenue achieved by Comfy amounted to RMB2,788.3 million, representing an increase of 72.9% as compared to that for the same period in 2022.

By establishing the brand position of "Proprietary Recombinant Collagen Anti-Aging", the proprietary recombinant collagen C5HA bionic combination was used in Collgene which is specially developed to bring a gleeful experience of anti-ageing and rejuvenation to our customers. Since the core collection of Collgene LIFTACTIV Tightening relaunched in 2022, its star products such as Pengpeng Single-Use and Collagen Mask King continued to gain popularity among our customers, and the collagen anti-wrinkle brand has gradually left an indelible impression on the hearts of them. During the Reporting Period, Pengpeng Single-Use was awarded the Golden Product Award 2022 – Most Promising Award (金物獎2022－最具潛力獎). During the 618 Shopping Festival in 2023, Pengpeng Single-Use ranked among TOP 8 on JD.com's Facial Essence Bestseller List (修護面部精華榜), and among TOP 10 on Tmall's Firming Liquid Essence Hot-selling List (緊致液態精華熱賣榜); during the Singles Day Shopping Festival, Pengpeng Single-Use ranked among TOP 6 on Douyin's Single-Use Essence Popularity List (抖音品牌次拋精華人氣榜); Collagen Mask King ranked No. 1 on JD.com's Age-Defying Mask List (駐齡面膜榜), among TOP 4 on Douyin's Brand Anti-Wrinkle Mask Well Received List in Domestic Goods Category (品牌抗皺面膜好評榜國貨), and among TOP 7 on Tmall's Smear Mask Hot-selling List in Domestic Goods Category (塗抹面膜熱銷榜).

During the Reporting Period, the product portfolio of Collgene LIFTACTIV series continued to be enriched, with the launch of Age-care Cream (保齡霜) (Refreshing version) and Collagen Mask King (大膜王) (Refreshing version) which balance soft skin feel and anti-wrinkle efficacies and bring better skin conditions and user experience to our customers. In December 2023, a new product, Collgene Recombinant Collagen Revitalizing Lift Firming and Fine Lines Essence Eye Cream ("Film Eye Cream"), was launched under Collgene, which conducted an advanced research on quadruple recombinant collagen bionic combination Plus 3D formulation system to provide an all-rounded solution for core aging issues such as ptosis, wrinkles, dark circles, puffiness, and dryness eyes, and completely repair the eye contour area, remove wrinkles and boost elasticity and firmness in the eye contour area in two weeks, offering a new choice for the consumers who want to weaken the signs of aging around the eye contour area.

In addition to updating and iterating on key products of Collgene, we have optimized and adjusted our channel structure, strengthened expansion and investment in public domain channels. In the future, we will continue to focus on establishing mindshare of Collgene among a wider consumer base. During the Reporting Period, revenue generated from Collgene amounted to RMB616.6 million, remaining stable compared to that for the same period in 2022.

Establishing a Professional and Reliable Brand Image through Communication with Scientific Proof and Mass Advertising

As a leading corporation in the field of recombinant collagen, we are committed to promoting scientific technology and primary ingredient, promoting the development of the basic and application research in the industry, establishing a scientific image for the corporation and its brand with professionalism and stringency. During the Reporting Period, we organized the first Info Session of Recombinant Collagen, Pharmaceutical Industry Standards of China (中國醫藥行業標準《重組膠原蛋白》) with 6 information exchange forums held in Beijing, Shanghai, Shenzhen, Zhengzhou, Chongqing and Chengdu, at which experts and scholars fully exchanged and shared the results of their research and application of recombinant collagen, and set out a direction for scientific, standardized and refined development of the recombinant collagen industry. We together with our brands participated in the 2023 Mevos International Congress of Aesthetic Surgery and Medicine (美沃斯國際醫學美容大會) in May 2023, the 28th Annual Meeting of Chinese Society of Dermatology (CSD) (中華醫學會第二十八次全國皮膚性病學術年會) in July, China Health Ecology Organization (西普會—健康產業(國際)生態大會) in August, the 2023 AMWC China of Aesthetic & Anti-Aging Medicine World Congress (AMWC China 世界美容抗衰老大會) in October, and the 18th Annual Meeting of China Dermatologist Association & National Congress of Cosmetic Dermatology (CDA) (第十八屆中國醫師協會皮膚科醫師年會暨全國美容皮膚科學大會) in December, aiming to make contribution to the in-depth development of the aesthetic medicine industry.

With the continuous expansion of our customer base and the brand portfolio, we put more efforts on the promotion of our brands in mass media. Adhering to the brand positioning of "Technology-based Beauty", we stuck to the ECE brand idea, being "Evidence-Content-Engagement", in mass advertising, emphasized the communication of science and the completeness of logic analysis, and were devoted to communicate with consumers in a bona fide, sincere and scientific manner to facilitate the transmission of the information about our products and brand image to them. In February 2023, Comfy and Collgene cooperated with CCTV and other platforms to launch the "New Force of Chinese Products" (《國貨新勢力》), which demonstrated the strength of technology and innovation of China brands. In May 2023, the Company released a feature film entitled "Ingredient China" (《成分中國》), which narrates a story about how scientists in China broke the monopoly of science and technology and brought the China-developed ingredient of recombinant collagen to the world stage, which has recorded a total of more than 500 million viewers on all platforms. In December 2023, a major release of the results of the empirical scientific research on C5HA recombinant collagen bionic combination was made by us. We were the first in the industry to use the new technology of Confocal laser scanning microscope and two-photon excitation to show the results of skin testing of C5HA recombinant collagen raw materials with two-photon 3D dynamic model, and visually verify its transdermal absorption and its ability to promote the generation of collagen, addressing the cognitive pain point of the industry and the consumers directly.

Expanding Our Online and Offline Layout and Improving Refined Operation Capability

Our uniqueness and competitive edges lie in our omni-channel layout and operation mode of professional medical care + mass consumption covered by offline and online channels. During the Reporting Period, we further broadened and deepened our channel coverage in order to expand our consumer reach and achieve a wider and more multi-dimensional scenario coverage to attract new users; and we enhanced our refined operation capability to strengthen our interaction with the consumers, improve consumer experience, increase user retention, activity and conversion, and achieve more repeat purchase and higher value across the entire life cycle.

In offline scenarios, we continued to strengthen our existing competitive edges on specialty hospitals, while rapidly advancing our coverage on mass markets such as pharmacies and CS/KA. During the Reporting Period, we held more than 1,000 training and information exchange activities for hospitals and pharmacies, including academic conferences, departmental training and salon meetings, to share information on, among others, market demand, product application and new product research and development in face-to-face interaction. We also held regular meetings for, and organized in-depth return information exchange with, the distributors to gain an understanding on the market and customer needs and solve problems in a timely manner for a stable and sound development of the channel. As of the end of the Reporting Period, our products were sold through offline direct sales and distributors channels to approximately 1,500 public hospitals, approximately 2,500 private hospitals and clinics, approximately 650 pharmacy chain brands and about 6,000 CS/KA stores in China. In addition, we increased the number of our offline sale counters during the Reporting Period. In November 2023, the first offline standard outlet of Comfy in the PRC was officially opened in Xi'an Wangfujing Department Store. The outlet was designed to create a unique space with a sense of technology and remarkable aesthetics to satisfy more diversified skincare needs of consumers. From May to December 2023, three Collgene franchised stores were opened in Xi'an Seg International Shopping Center and other commercial complexes, expanding the offline presence of Collgene and enhance our interaction with the consumers.

We also engage in sales and promotions through e-commerce and social media platforms such as Tmall, Douyin, JD.com, Xiaohongshu, Vipshop and Pinduoduo. During the Reporting Period, we continued to optimize our operation capability in each of e-commerce platforms. On Tmall, we are committed to building brand awareness high ground and achieving brand exposure and awareness in more scenes and among a wider range of consumers; and we have also strengthened our operational efficiency by setting up a membership system with Tmall to increase repeat purchases from regular customers. On Douyin, we have made full effort in the field of webcast and leveraged its activity scenarios, such as self-made festival events, to enrich our online contents, optimize the supply of our products and promote sales with the online contents, which eventually improved the conversion rate and average revenue per customer, and at the same time, we focused on the construction of a multi-level platform with the influencers and had initially built a healthier and higher quality cooperation ecosystem with them. On JD.com, we reached more high-net-worth consumer groups and attracted more quality customers through the operation of the PLUS membership system. All major e-commerce channels achieved faster growth during the Reporting Period, with the online omni-channel GMV growth rates of Comfy and Collgene exceeding 165% and 70% respectively during the 618 Shopping Festival, and exceeding 100% and 50% respectively during the Singles Day Shopping Festival, recording a promising growth.

During the Reporting Period, our direct sales channels generated revenue of RMB2,420.5 million, accounting for 68.7% of our revenue; and the distribution channels generated revenue of RMB1,103.6 million, accounting for 31.3% of our revenue. Contribution of revenue from direct sales increased by 9.4 percentage points year on year.

Steadily Expanding Production and Building Quality Benchmark

We have always insisted on self-production of core raw materials and end products. To ensure stable production and to constantly meet consumers' demands, we have expanded our production capacity as planned. During the Reporting Period, the fermentation workshop for recombinant collagen was successfully completed and put into production with two more recombinant collagen production lines. In addition, we added four cosmetics product lines and two medical device lines. During the Reporting Period, we continued our construction of a new medical device factory and a new health product factory, which would lay a solid foundation for the Company to expand its business lines and realize high-quality development in the long run.

We have always regarded product quality and safety as one of the cornerstones for our corporate development. In October 2023, we were awarded honorary titles including National Quality Integrity Benchmark Enterprise (全國質量誠信標杆企業), National Quality Leader in Recombinant Collagen Industry (全國重組膠原蛋白行業質量領先企業), National Product and Service Quality Integrity Enterprise (全國產品和服務質量誠信品牌) and Reliable Products for National Quality Inspection (全國質量檢驗信得過產品), and have set ourselves up as a role model of quality and integrity in the industry. Furthermore, the Company was awarded the honorary title of "Green Factory of Shaanxi Province (陝西省綠色工廠)", which marked our outstanding achievement in green manufacturing and sustainable development.

Actively Shouldering Corporate Social Responsibility

With our grand vision in mind, we are committed to establishing ourselves as an enterprise with kindness and warmth by offering support and care to more underprivileged communities so as to promote the development of social charity and education cause. In March 2023, we organized the Guardian of Educators – Women's Day Activity (守護教育工作者 • 三八節暖春愛心行動), through which thank-you gifts worth of more than RMB10 million donated by the Company were given to nearly 20,000 teaching professionals through Shaanxi Provincial Charity Federation. In May 2023, we continued to support the large-scale charity free clinic event during the National Skincare Day on May 25 for the eighth consecutive year, during which we organized free clinic for the public with the support of dermatologists and donated soothing gifts to promote the concept of scientific and rational skincare. In September 2023, we held the Teachers' Day Public Welfare Activity (用愛心之力，護教育之星), in which we donated products worth of more than RMB3 million to Northwest University through the Northwest University Jubilee Educational Development Foundation of Shaanxi (陝西西北大學朱雀教育發展基金會) to contribute to the development of the education cause.

BUSINESS OUTLOOK

Looking forward to 2024, we will continue to make more investment in research and development, drive ourselves to achieve more breakthroughs in basic technologies, develop new raw materials and launch new products to enrich our product portfolio. We will continue to perform clinical testing and submit the results for examination and approval for skin rejuvenation products for Class III medical devices, so as to lay a solid foundation for the enterprise's multilevel growth. We will further invest in and focus on brand marketing, strive to achieve wider brand exposure while increasing our sales volume, and are committed to promoting a long-term and healthy development of the industry. We will also continue to improve the efficiency of our omni-channel operations, especially the refined operation of e-commerce. Against the backdrop of sluggish sentiment in the broader market, we will make efforts in engaging consumer gathering and scenario building to create a healthier and more sustainable growth model. In an increasingly competitive market, we will always bear in mind our original aspiration, seize the emerging opportunities, and firmly stride forward along the development path that suits us, so as to bring more beauty and health experience to the consumers.

FINANCIAL ANALYSIS

OPERATING RESULTS

Revenue

For the year ended 31 December 2023, our total revenue was RMB3,524.1 million, representing an increase of 49.0% from total revenue of RMB2,364.4 million for the year ended 31 December 2022. Such increase was primarily due to our continued expansion of product types, extensive development of online channels and creation and enhanced marketing of star products during the Reporting Period, which further improved product and brand influence, bringing a faster growth in sales revenue.

(i) Revenue by Product Category

We sell products under multiple product categories in the beauty and health sectors in China, namely (i) professional skin treatment products, and (ii) functional foods and others. The following table sets forth the breakdown of our revenue by product category (medical dressings classified as medical devices) for the years indicated:

	For the year ended 31 December			
	2023		2022	
	Amount	**%**	Amount	%
	(RMB in millions other than percentages)			
Professional skin treatment products				
– functional skincare products	**2,647.3**	**75.1**	1,561.6	66.0
– medical dressings	**860.8**	**24.4**	760.1	32.2
Functional foods and others	**16.0**	**0.5**	42.7	1.8
Total	**3,524.1**	**100.0**	2,364.4	100.0

Our overall growth in revenue was primarily driven by the growth of sales of professional skin treatment products, among which, the revenue from functional skincare products demonstrated a faster growth due to our continued efforts to strengthen marketing activities in our omni-channel sales and stable growth of best-selling classic products and rapid growth of star products.

(ii) Revenue by Sales Channel

During the Reporting Period, we sold our products through direct sales and sales to our distributors. We directly sold products to (i) consumers through direct-to-customer (DTC) stores on e-commerce and social media platforms; (ii) e-commerce platforms; and (iii) hospitals, clinics, pharmacy chains, cosmetic store chains and supermarket chains. We also sell and distribute our products to individual consumers, hospitals, clinics, pharmacy chains, cosmetic store chains and supermarket chains by engaging distributors. The following table sets forth the breakdown of our revenue by sales channel in absolute amounts and as a percentage of our total revenue for the years indicated:

	For the year ended 31 December			
	2023		2022	
	Amount	%	Amount	%
	(RMB in millions other than percentages)			
Direct sales				
– Online direct sales through our DTC stores	**2,154.5**	**61.2**	1,213.9	51.3
– Online direct sales to e-commerce platforms	**177.5**	**5.0**	124.5	5.3
– Offline direct sales	**88.5**	**2.5**	63.4	2.7
Subtotal	**2,420.5**	**68.7**	1,401.8	59.3
Sales to distributors	**1,103.6**	**31.3**	962.6	40.7
Total	**3,524.1**	**100.0**	2,364.4	100.0

Direct sales

Online direct sales through our DTC stores

During the Reporting Period, revenue from online direct sales through our DTC stores amounted to RMB2,154.5 million, representing an increase of 77.5% as compared to 2022 and accounting for 61.2% of total revenue in 2023. Such increase was due to (1) our continuous strengthening of online multi-platform layout and refined operation, which achieved a fast revenue growth on e-commence platforms such as Tmall and Douyin; (2) rapid increase in essence products, such as Comfy Human-like Recombinant Collagen Restoration Single-use Essence (可復美Human-like重組膠原蛋白肌禦修護次拋精華), contributing to rapid revenue growth; and (3) enhanced brand recognition and affection by brand marketing and promotion to drive the growth of sales and revenue.

Online direct sales to e-commerce platforms

During the Reporting Period, revenue from online direct sales to e-commerce platforms amounted to RMB177.5 million, representing an increase of 42.7% as compared to 2022 and accounting for 5.0% of total revenue in 2023. Such increase was due to continued optimization of platform marketing strategies and product mix, which drove the growth of sales and revenue.

Offline direct sales

During the Reporting Period, revenue from offline direct sales amounted to RMB88.5 million, representing an increase of 39.6% as compared to 2022 and accounting for 2.5% of total revenue in 2023. Such increase was due to our continued expansion of number of stores and product coverage of offline direct sales customers, such as pharmacy chains and cosmetic store chains, while strengthening marketing initiatives of stores and personnel training, driving the growth of revenue from this channel.

Sales to distributors

During the Reporting Period, revenue from sales to distributors amounted to RMB1,103.6 million, representing an increase of 14.6% as compared to 2022, showing a stable year-on-year increase and accounting for 31.3% of total revenue in 2023.

(iii) Revenue by Brand

During the Reporting Period, we generated revenue primarily from the sales of products under Comfy and Collgene. The following table sets forth a breakdown of our revenue by brand for the years indicated:

	For the year ended 31 December			
	2023		2022	
	Amount	%	Amount	%
	(RMB in millions other than percentages)			
Professional skin treatment products				
– Comfy	**2,788.3**	**79.1**	1,613.0	68.2
– Collgene	**616.6**	**17.5**	618.4	26.2
– Other brands	**103.2**	**2.9**	90.3	3.8
Functional foods and others	**16.0**	**0.5**	42.7	1.8
Total	**3,524.1**	**100.0**	2,364.4	100.0

Professional skin treatment products

Comfy

During the Reporting Period, the sales revenue from Comfy amounted to RMB2,788.3 million, representing an increase of 72.9% as compared to 2022 and accounting for 79.1% of our total revenue in 2023. Such increase was due to (1) our continued expansion of online and offline sales channels and optimization of marketing strategies, which further enhanced our brand influence; and (2) continued expansion of essence, emulsion, facial mask and other product types, such as Comfy Human-like Recombinant Collagen Restoration Single Use Essence (可復美Human-like重組膠原蛋白肌禦修護次拋精華), Comfy Recombinant Collagen Repair Essence Emulsion (可復美重組膠原蛋白肌禦賦活修護精粹乳), Comfy Recombinant Collagen Repair Patch (可復美重組膠原蛋白修護貼), contributing to increase in revenue.

Collgene

During the Reporting Period, the sales revenue from Collgene amounted to RMB616.6 million, remaining relatively stable as compared to 2022 and accounting for 17.5% of total revenue in 2023.

Other Brands

During the Reporting Period, the sales revenue from other brands amounted to RMB103.2 million, representing an increase of 14.2% as compared to 2022, showing a stable year-on-year growth and accounting for 2.9% of total revenue in 2023. Such increase was due to the growth in revenue of products from other brands such as Ke Yu (可預).

Functional foods and others

During the Reporting Period, the sales revenue from functional foods and others amounted to RMB16.0 million, representing a decrease of 62.4% as compared to 2022 and accounting for 0.5% of total revenue in 2023. Such decrease was mainly due to the adjustments to channel and promotion strategy of functional food.

Cost of sales

For the year ended 31 December 2023, cost of sales was RMB577.0 million, representing an increase of 56.3% from RMB369.2 million for the year ended 31 December 2022. The increase is mainly due to (1) an increase in total costs of materials from RMB264.5 million in 2022 to RMB431.0 million in 2023; (2) a corresponding increase in logistics costs; (3) increases in manufacturing costs and labor costs directly caused by the purchasing of new equipment and increase in number of frontline staff to cope with the expansion of production scale, which were all resulted from the increase in sales of products.

Gross profit and gross profit margin

For the year ended 31 December 2023, gross profit amounted to RMB2,947.1 million, representing an increase of 47.7% from RMB1,995.2 million for the year ended 31 December 2022, mainly due to the increase in sales revenue.

Gross profit margin decreased from 84.4% for the year ended 31 December 2022 to 83.6% for the year ended 31 December 2023, mainly due to the increase in costs of sales and the expansion of product types.

Selling and distribution expenses

For the year ended 31 December 2023, selling and distribution expenses amounted to RMB1,164.5 million, representing an increase of 64.8% from RMB706.4 million for the year ended 31 December 2022. Such increase was mainly due to the increase in online marketing expenses in relation to the rapid expansion of online direct sales channels.

Research and development costs

For the year ended 31 December 2023, research and development costs amounted to RMB75.0 million, representing an increase of 70.5% from RMB44.0 million for the year ended 31 December 2022, and accounting for 2.1% and 1.9% of our revenue in 2023 and 2022, respectively. Such increase was primarily due to our continued investment in research and development in basic research and pipeline products, and the increase in employee compensation expenses resulting from the increase in the number of research and development personnel.

Other income

For the year ended 31 December 2023, other income amounted to RMB103.0 million, representing an increase of 49.9% from RMB68.7 million for the year ended 31 December 2022. Such increase was mainly attributable to government grants received and increase in interest income.

Other gains or losses, net

For the year ended 31 December 2023, other net gains amounted to RMB30.9 million, while other net losses for the year ended 31 December 2022 amounted to RMB23.4 million. Such gain was mainly attributable to fair value gains on financial assets at FVTPL.

Administrative expenses

For the year ended 31 December 2023, administrative expenses amounted to RMB96.7 million, representing a decrease of 13.0% from RMB111.1 million for the year ended 31 December 2022, which was mainly due to the decrease in listing expenses.

Income tax expense

For the year ended 31 December 2023, income tax expense amounted to RMB296.9 million, representing an increase of 68.5% from RMB176.2 million for the year ended 31 December 2022, mainly due to the increase in our taxable revenue.

Profit for the year

As a result of the foregoing, for the year ended 31 December 2023, profit for the year amounted to RMB1,448.2 million, representing an increase of 44.6% from RMB1,001.6 million for the year ended 31 December 2022.

Basic and diluted earnings per share

For the year ended 31 December 2023, the basic earnings per share amounted to RMB1.49, representing an increase of 50.5% from RMB0.99 for the year ended 31 December 2022. For the year ended 31 December 2023, diluted earnings per share amounted to RMB1.48, representing an increase of 51.0% from RMB0.98 for the year ended 31 December 2022. The increase in basic and diluted earnings per share was mainly due to the increase in profit for the year.

Gearing ratio

Gearing ratio represents the percentage of interest-bearing borrowings to total equity. As of 31 December 2023, we did not have any outstanding bank loans or other borrowings. As a result, gearing ratio was not applicable as of 31 December 2023.

INTEREST EXPENSE OF BANK AND OTHER BORROWINGS

As of 31 December 2023, the Group had no bank and other borrowings, and incurred no related interest expenses.

TREASURY POLICY

If the Company determines that its cash requirements exceed the amount of cash and cash equivalents it has on hand by then, it may seek to issue equity or debt securities or obtain credit facilities.

PLEDGE OF ASSETS

As of 31 December 2023, the Group did not pledge any assets.

MATERIAL INVESTMENTS, MATERIAL ACQUISITION AND DISPOSAL

For the year ended 31 December 2023, the Group subscribed wealth management products issued by banks in the PRC with its working capital as part of the Group's fund management to maximize its return on the surplus cash received from its business operation while maintaining flexibility and liquidity. Such wealth management products were with relatively low risk and high liquidity. As at 31 December 2023, wealth management products held by the Group with a value of 5% or more of the Group's total assets as at 31 December 2023 are set out as follows:

Counterparty	Product type	Principal amount as of 31 December 2023 (RMB'000)	Unrealized gain or loss for the year ended 31 December 2023 (RMB'000)	Fair value change as of 31 December 2023 (RMB'000)	Fair value as of 31 December 2023 (RMB'000)	Assets ratio[1]
CMB Wealth Management Co., Ltd.	Fixed income products	2,250	0	0	2,250	0.05%
	Wealth management plan with non-guaranteed principal and floating return	322,750	5,455	5,455	328,205	6.60%
Bank of Xi'an Co., Ltd.	Wealth management plan with non-guaranteed principal and floating return	309,473	11,959	12,523	321,996	6.47%
Chang'an Bank Co., Ltd.	Wealth management plan with non-guaranteed principal and floating return	310,000	13,651	11,712	321,712	6.47%

Note:

1. The assets ratios set out in this table are computed by dividing the fair value of the relevant products as at 31 December 2023 by the total assets of the Company as at 31 December 2023.

During the Reporting Period, the Company's subscriptions of wealth management products from financial institutions have complied with the disclosure requirements under Chapter 14 of the Listing Rules. For details, please refer to the Company's announcement dated 8 June 2023. Save as disclosed above, for the year ended 31 December 2023, the Group had no material investments with a value of 5% or more of the Group's total assets as of 31 December 2023 (including any investment in an investee company with a value of 5% or more of the Group's total assets as of 31 December 2023), nor had any material acquisitions or disposals of subsidiaries, associates and joint ventures. The subscription of the wealth management products above was conducted without application of the Company's proceeds from the initial public offering.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group had no specific plan for material investments and purchase of capital assets as of 31 December 2023.

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2023, our liquidity amounted to RMB2,504.0 million, which consisted of cash and cash equivalents, representing an increase of 88.1% from RMB1,331.0 million for the year ended 31 December 2022.

CONTINGENT LIABILITIES

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

CAPITAL COMMITMENTS AND CAPITAL EXPENDITURES

As of 31 December 2023, our capital commitments mainly consisted of plant, machinery and buildings amounting to RMB490.2 million in total. The Company recorded capital expenditures of RMB229.6 million for the year ended 31 December 2023, which were primarily used for construction of new plants and purchase of production line equipment.

DIRECTORS' REPORT

The Board hereby presents the audited financial statements of the Group for the year ended 31 December 2023.

MAJOR BUSINESS

We are a leader in bioactive ingredient-based professional skin treatment product industry in China. We design, develop and manufacture professional skin treatment products with recombinant collagen as the key bioactive ingredient. We also develop and manufacture rare ginsenosides technology-based functional foods. We utilize proprietary synthetic biology technology to develop and manufacture multiple types of recombinant collagen and rare ginsenosides in-house.

BUSINESS REVIEW AND ANALYSIS OF KEY FINANCIAL INDICATORS

Please refer to the "Management Discussion and Analysis" section in this annual report, which forms part of this Directors' Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS OF THE COMPANY

We are of the view that establishing and implementing sound ESG principles and practices increase the investment value of our Company and provide a long-term return to our stakeholders. Our Board has the overall responsibility for ensuring an effective risk management and internal control mechanism and for reviewing its effectiveness to safeguard our assets and our Shareholders' interests. Upon the Listing, an enterprise risk assessment is conducted at least once each year to cover the current and potential risks in our business, including but not limited to the risks arising from ESG and climate-related matters. Our Board will continuously assess or engage qualified independent third parties to evaluate the risks and review our existing strategy, metrics and targets as well as internal control measures, and implement necessary improvement measures to manage and mitigate such risks.

In order to effectively conduct ESG work, the Board of the Company established the Corporate Governance Committee which is responsible for reporting to the Board on ESG-related matters on a regular basis. We also set up ESG work targets, covering ESG performance indicators such as three wastes emissions, greenhouse gas emissions, energy use, quality and safety, etc. The Board of the Company regularly reviews the progress of achieving ESG targets and considers it as part of the key performance indicators and gives relevant action suggestions in respect of the indicators that require improvement.

For details of the Company's environmental protection, social responsibility and care for employees, please refer to the "Environmental, Social and Governance Report" separately published by the Company.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

To the best knowledge of the Board and the management, during the Reporting Period, the Group had complied with, in all material respects, the relevant laws and regulations that have a significant impact on the business and operations of the Group. For the year ended 31 December 2023, there was no material breach or non-compliance of applicable laws and regulations by the Group.

MAJOR RISKS AND UNCERTAINTIES

Risks Relating to Our Business and Industry

We operate in an industry that is subject to rapid and unpredictable changes in consumer demand and trends. The success of our business depends significantly on the continued demand for our products, which in turn depends on the level of acceptance and satisfaction from mass consumers and medical institutions for our products (such as products based on recombinant collagen and ginsenosides) within China' s beauty and health product market. The industry of and market for such products have been developing rapidly in recent years. However, the prospects of the industry and the market depend on many factors that are beyond our control. Our success is also dependent on our ability to identify and respond to such shifting consumer demand and trends, develop new and appealing products on a timely basis, and achieve acceptance of such new products by our customers. A number of factors could affect the market acceptance of our products, including but not limited to the following:

1. Our ability to address the evolving needs and preferences of our customers and consumers, part of which could in turn be impacted by the changes in Chinese regulatory environment;

2. The progress of our R&D efforts, as well as the time our products commence commercialization relative to competing products;

3. The safety and efficacy of our products and product candidates, including but not limited to the prevalence and severity of adverse reactions, if any;

4. Pricing and cost effectiveness of our products relative to competing products;

5. Public perception, perceived advantages and brand recognition of our products over competing products;

6. Effectiveness of our sales and marketing efforts and distribution network, as well as the general applicability of our products relative to competing products.

In addition, we operate in an industry that is highly regulated and evolving in China. Changes in such regulations may affect the approval and commercialization of our product candidates or cause us to be subject to new or more stringent policies.

Financial Risks

Foreign Currency Risk

The Group has transactional currency exposures. Such exposures arise from currencies other than the units' functional currencies. As the Board considered foreign currency exposure to be insignificant to the Group, it did not adopt financial instruments such as forward exchange rate contract to hedge the risks.

Credit Risk

Receivable balances are monitored on an on-going basis, and the Group' s exposure to bad debts risk is not significant. As of the end of the Reporting Period, the Group was subject to concentrations of credit risk at a certain level, as our cash and cash equivalents were deposited in a few financial institutions. As of the end the Reporting Period, the cash and cash equivalents were deposited in high quality financial institutions without significant credit risk. There are no significant concentrations of credit risk within the Group in respect of trade and other receivables.

Liquidity Risk

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to Shareholders as a result of their holding of securities of the Company.

SHARE CAPITAL

See note 26 to the financial statements for details of the changes in the Company's total share capital for the year ended 31 December 2023.

RESERVES AVAILABLE FOR DISTRIBUTION

As of the end of the Reporting Period, the Company's retained profit available for distribution to our Shareholders amounted to RMB2,483 million.

PROPERTY, PLANT AND EQUIPMENT

The property, plant and equipment movements of the Group during the Reporting Period are set out in note 13 to the financial statements.

As at the end of the Reporting Period, save as disclosed above, the Group had no other investment properties or properties held for development and/or sale with percentage ratios (as defined in Rule 14.07 of the Hong Kong Listing Rules) exceeding 5%.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2023, the total sales to the Company's top five customers accounted for less than 30%.

For the year ended 31 December 2023, the total purchases from the Company's top five suppliers accounted for less than 30%.

For the year ended 31 December 2023, to the best of the knowledge of the Directors, none of the Directors, their associates or Shareholders of the Company (whom to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in any of the Group's top five customers or top five suppliers during the year.

PRINCIPAL RELATIONSHIP WITH STAKEHOLDERS

The Group understands the importance of maintaining good relationships with its stakeholders (including Shareholders, employees, suppliers, customers and other business partners), which is the key to the Group's success. The Group will continue to ensure effective communications and maintain sound relationships with its respective stakeholders. For the Company's principal relationships with its key stakeholders, please refer to the "Environmental, Social and Governance Report" separately published by the Company.

CONNECTED TRANSACTION

Details of the related party transactions for the year ended 31 December 2023 are set out in note 31 to the financial statements. None of these related party transactions constitutes a "connected transaction" or a "continuing connected transaction" which requires to be disclosed in this annual report under Chapter 14A of the Listing Rules.

During the Reporting Period, the Group had no connected transactions or continuing connected transactions that are disclosable under the Listing Rules. No contract of significance or contract of significance for the provision of services has been entered into between the Company or any of its subsidiaries and the Controlling Shareholders or any of its subsidiaries during the Reporting Period.

PRE-EMPTIVE RIGHT

There is no provision for pre-emptive rights under the Articles of Association or the Companies Law of the Cayman Islands which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

GROSS PROCEEDS FROM THE GLOBAL OFFERING

On 4 November 2022, the Company was listed on the Main Board of the Hong Kong Stock Exchange. The number of Shares under Global Offering was 22,608,800 Shares, comprising the offer of 2,261,200 Shares under Hong Kong Public Offering and the offer of 20,347,600 Shares under International Offering at a par value of US$0.00001 each. Based on the final Offer Price of HK$24.30 per Offer Share, the net proceeds received by the Company from the Global Offering, after deduction of underwriting fees and commissions and the estimated expenses payable by the Company in connection with the Global Offering, amounting to approximately HK$573.7 million (including the net proceeds from the full exercise of the Over-allotment Option), will be used in accordance with the use of proceeds as disclosed in the Prospectus as following:

- approximately 11% of the net proceeds will be used for the investment in R&D to enlarge our R&D team through recruitment, expand our R&D facilities and conduct testing and validation studies;
- approximately 28% of the net proceeds will be used for the expansion of manufacturing capacity with respect to our product portfolios and bioactive ingredients;
- approximately 46% of the net proceeds will be used to enhance our omni-channel sales and distribution network, and implement our science – and knowledge-driven marketing initiatives to enhance our brand recognition;
- approximately 5% of the net proceeds will be used for the enhancement of our operation and information systems; and
- approximately 10% of the net proceeds will be used for working capital and general corporate uses.

During the Reporting Period and up to the date of this annual report, there is no change to the intended use of the net proceeds disclosed above.

As of 31 December 2023, the use of net proceeds by the Group is set out below:

Purpose	% of use of proceeds raised	Net proceeds (HK$ million)	Unutilized amount as at 1 January 2023 (HK$ million)	Utilized amount in 2023 (HK$ million)	Accumulated amount utilized as at 31 December 2023 (HK$ million)	Unutilized amount as at 31 December 2023 (HK$ million)	Expected timetable of utilization of remaining net proceeds in full
Investment in our research and development to enlarge our research and development team through recruitment, expand our research and development facilities and conduct testing and validation studies	11%	63.1	62.7	43.1	43.5	19.6	31 December 2027
Expansion of manufacturing capacity with respect to our product portfolios and bioactive ingredients	28%	160.6	149	109.3	120.9	39.7	31 December 2027
Enhance our omni-channel sales and distribution network, and implement our science – and knowledge-driven marketing activities to enhance our brand recognition	46%	263.9	261.1	192.9	195.7	68.2	31 December 2027
Enhancement of our operation and information systems	5%	28.7	28.7	5.5	5.5	23.2	31 December 2027
Working capital and general corporate uses	10%	57.4	55.5	32.9	34.8	22.6	31 December 2027
Total	**100%**	**573.7**	**557**	**383.6**	**400.3**	**173.4**	

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

During the Reporting Period, neither the Company nor its subsidiaries has purchased, sold or redeemed any of its securities listed on the Stock Exchange.

DEBENTURES ISSUED

During the Reporting Period and up to the date of this annual report, the Group did not issue any debentures.

CHARITABLE AND OTHER DONATIONS

During the Reporting Period, the Group made charitable and other donations totaling approximately RMB13.98 million.

DIRECTORS

During the Reporting Period and up to the date of this annual report, the Directors were as follows:

Executive Directors

Mr. Yan Jianya (Chairman and chief executive officer)
Dr. Fan Daidi *(resigned on 7 July 2023)*
Ms. Ye Juan
Ms. Fang Juan
Ms. Zhang Huijuan *(appointed on 3 October 2023)*
Ms. Yan Yubo *(appointed on 3 October 2023)*

Non-executive Director

Mr. Chen Jinhao *(resigned on 3 October 2023)*

Independent Non-executive Directors

Mr. Huang Jin
Mr. Shan Wenhua
Ms. Wong Sze Wing

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SERVICE CONTRACTS OF DIRECTORS

During the Reporting Period, none of the Directors had entered into any service contract with the Company or its subsidiaries which cannot be terminated within one year without compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN MATERIAL TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

During the Reporting Period, none of the Directors or their connected entities had a material interest, either directly or indirectly, in any transaction, arrangement or contract entered into by the Company or its subsidiaries which was significant to the Company.

PERMITTED INDEMNITY

Subject to the relevant regulations, each Director shall be indemnified by the Company against all costs, charges, expenses, losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or which may attach thereto. The Company has purchased insurance against the liabilities and costs associated with proceedings which may be against the Directors.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES OR DEBENTURES

Save for the Employee Incentive Plans disclosed in this annual report, during the Reporting Period, neither the Company nor its subsidiaries has entered into any arrangements which enable the Directors to acquire benefits by means of acquisition of Shares in, or debentures of, the Company or any other legal entities.

EQUITY-LINKED AGREEMENTS

Save for the Employee Incentive Plans disclosed in this annual report, no equity-linked agreement was entered into by the Company or existed during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Reporting Period, none of the Directors had engaged in or had any interest in any business which, directly or indirectly, competes or is likely to compete with the businesses of the Group and would require disclosure pursuant to the Hong Kong Listing Rules.

ADMINISTRATION AND MANAGEMENT CONTRACTS

During the Reporting Period, the Company had not entered into any administration and management contracts with respect to the entire or principal business of the Company.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" chapter in this annual report.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

AUDITORS

At the annual general meeting held on 13 June 2023, Ernst & Young was re-appointed as the auditor. There has been no change in the Company's auditors in the last three years. The financial statements of the Company for the year ended 31 December 2023, prepared in accordance with International Financial Reporting Standards, have been audited by Ernst & Young.

Ernst & Young will retire at the forthcoming annual general meeting of the Company for the year 2023. The Company will propose a resolution at its annual general meeting for the year 2023 to re-appoint Ernst & Young as its auditor, with a term commencing on the date of the conclusion of the annual general meeting for the year 2023 to the date of the conclusion of the annual general meeting for the year 2024 of the Company.

RESULTS AND DIVIDENDS

The audited consolidated results of the Company for the year ended 31 December 2023 are set out in the consolidated statements of comprehensive income.

The Board has resolved to recommend the distribution of final dividends of RMB0.44 (tax inclusive) per share and special dividends of RMB0.45 (tax inclusive) per share for the year ended 31 December 2023, subject to approval by the shareholders at the annual general meeting. The date for distribution of dividends is expected to be on or around 5 July 2024. The Group is not aware of any arrangement under which any shareholder has waived or agreed to waive any dividends.

The forthcoming annual general meeting is scheduled to be held on 13 June 2024. To determine the entitlement to attend and vote at the annual general meeting, the register of members of the Company will be closed from 7 June 2024 to 13 June 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 6 June 2024. The proposed final dividends and special dividends are subject to the approval of the shareholders at the forthcoming annual general meeting. The record date for entitlement to the proposed final dividends and special dividends is 21 June 2024. For determining the entitlement to the proposed final dividends and special dividends, the register of members of the Company will be closed from 19 June 2024 to 21 June 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividends and special dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 18 June 2024.

During the Reporting Period, there was no arrangement under which a Shareholder has waived or agreed to waive any dividends.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As of 31 December 2023, the Group had 1,164 full-time employees, the majority of whom are based in Shaanxi Province, China. The following table sets forth the number of employees of the Group categorized by function as of 31 December 2023:

Function	Number of Employees	% of Total
Manufacturing	393	33.8
Research and development	165	14.2
Sales and marketing	390	33.5
General and administration	216	18.5
Total	**1,164**	**100.0**

Our success depends on our ability to attract, retain and motivate qualified personnel. We recruit employees through channels such as campus recruitment and experienced personnel hiring to reach talents with education background in relevant subjects or work experiences in relevant industries for our research and development, sales, management, operation and other teams. We evaluate each candidate based on their educational background, expertise, necessary skills, interview performance, relevant experience, and professional ethics. As part of our human resources strategy, we offer employees competitive salaries, performance-based cash bonuses and other incentives. We have adopted a comprehensive training protocol, pursuant to which we provide pre-employment training to our new employees and internal transfer employees, and continuing technical training to our employees on a regular basis. We also provide necessary training to employees who are responsible for quality control to ensure that they are competent for their work.

INTERESTS AND/OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

So far as is known to the Directors or chief executives of the Company, as of 31 December 2023, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which are required to be (a) 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 he/she is taken or deemed to have under such provisions of the SFO); or (b) recorded in a register required to be kept by the Company pursuant to section 352 of the SFO; or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code are set out in the table in the paragraph headed "Interests and/or Short Positions of Substantial Shareholders in the Shares and Underlying Shares of the Company" below.

Name of Director or chief executive	Nature of interest	Number of Shares interested[1]	Approximate percentage of shareholding in the Company as of 31 December 2023[2]
Mr. Yan Jianya ("Mr. Yan")	Interest of spouse; beneficiary of a trust [3][4]	589,350,972	59.23%
Ms. Ye Juan[5]	Beneficiary of a trust	1,049,800	0.11%
Ms. Fang Juan[6]	Beneficiary of a trust	1,157,601	0.12%
Ms. Zhang Huijuan[7]	Beneficiary of a trust	1,240,000	0.12%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 995,000,000 Shares in issue as at 31 December 2023.

(3) Mr. Yan is the spouse of Dr. Fan Daidi ("Dr. Fan"). As such, he is deemed to be interested in the 582,004,935 Shares held by Dr. Fan in the Company.

(4) As at 31 December 2023, under the RSU Scheme adopted by the Company on 8 December 2021, Mr. Yan, the executive Director, is entitled to RSUs equivalent to 7,346,037 Shares (subject to vesting conditions), which are held under a trust pursuant to the RSU Scheme.

(5) As at 31 December 2023, under the RSU Scheme adopted by the Company on 8 December 2021, Ms. Ye Juan, the executive Director, is entitled to RSUs equivalent to 449,800 Shares (subject to vesting conditions), which are held under a trust pursuant to the RSU Scheme. On 28 December 2023, Ms. Ye Juan was granted 600,000 options pursuant to the share option scheme adopted by the Company on 17 August 2023.

(6) As at 31 December 2023, under the RSU Scheme adopted by the Company on 8 December 2021, Ms. Fang Juan, the executive Director, is entitled to RSUs equivalent to 557,601 Shares (subject to vesting conditions), which are held under a trust pursuant to the RSU Scheme. On 28 December 2023, Ms. Fang Juan was granted 600,000 options pursuant to the share option scheme adopted by the Company on 17 August 2023.

(7) As at 31 December 2023, under the RSU Scheme adopted by the Company on 8 December 2021, Ms. Zhang Huijuan, the executive Director, is entitled to RSUs equivalent to 640,000 Shares (subject to vesting conditions), which are held under a trust pursuant to the RSU Scheme. On 28 December 2023, Ms. Zhang Huijuan was granted 600,000 options pursuant to the share option scheme adopted by the Company on 17 August 2023.

INTERESTS AND/OR SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors or chief executive of the Company, as of 31 December 2023, the following persons (other than Directors or chief executive of the Company) had the following interests and/or short positions in the Shares or underlying Shares of our Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Shareholder	Capacity and nature of interest	Number of Shares(1)	Approximate percentage of shareholding in the Company as of 31 December 2023(2)
Dr. Fan	Interest in controlled corporation(3)	581,104,935	58.40%
	Interest in controlled corporation(4)	900,000	0.09%
	Interest of spouse(5)	7,346,037	0.74%
Juzi Holding(3)	Beneficial owner	581,104,935	58.40%
Refulgence Holding(3)	Interest in controlled corporation	581,104,935	58.40%
Trident Trust Company (B.V.I.) Limited(3)	Trustee	581,104,935	58.40%

Notes:

(1) All interests stated are long positions.

(2) The calculation is based on the total number of 995,000,000 Shares in issue as at 31 December 2023.

(3) Juzi Holding is wholly owned by Refulgence Holding, the holding vehicle for the benefit of the FY Family Trust with Dr. Fan as the settlor and beneficiary. Refulgence Holding is legally owned by Trident Trust Company (B.V.I.) Limited as trustee for the benefit of the FY Family Trust. As such, each of Dr. Fan, Refulgence Holding and Trident Trust Company (B.V.I.) Limited is deemed to be interested in the 581,104,935 Shares held by Juzi Holding in the Company.

(4) Healing Holding is wholly owned by Dr. Fan. As such, Dr. Fan is deemed to be interested in the 900,000 Shares held by Healing Holding in the Company.

(5) As at 31 December 2023, under the RSU Scheme adopted by the Company on 8 December 2021, Mr. Yan, the executive Director, is entitled to RSUs equivalent to 7,346,037 Shares (subject to vesting conditions), which are held under a trust pursuant to the RSU Scheme. Dr. Fan. is the spouse of Mr. Yan. As such, she is deemed to be interested in the 7,346,037 Shares.

Except as disclosed above, the Directors or chief executive of the Company are not aware of any other person who had any interests or short positions in the Shares or underlying shares of our Company as at 31 December 2023 which would fall to be disclosed to us pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of our Company.

EMPLOYEE INCENTIVE PLANS

RSU Scheme

The following is a summary of the principal terms of the RSU Scheme adopted by us on 8 December 2021. No further RSUs will be granted under the RSU Scheme after the Listing.

Purposes. The purposes of the RSU Scheme are to (i) improve the employee incentive and remuneration mechanism of our Group and align the interests of our Shareholders and employees to promote the Group's development in the long run; and (ii) attract and retain our senior management team and core talents, motivate their initiatives and creativity so as to enhance the operation efficiency and management performance of the Group.

RSU Scheme Limit. The maximum number of Shares underlying all RSUs to be granted under the RSU Scheme in aggregate shall not exceed 19,000,000 Shares, representing approximately 1.91% of the total issued share capital of the Company as of the date of this annual report. All the RSUs with a total of 19,000,000 underlying Shares had been granted prior to the Listing, and no further RSUs will be granted under the RSU Scheme after the Listing. There is no maximum entitlement for each participant under the RSU Scheme as the RSU Scheme was adopted before the adoption date of the current effective Chapter 17 of the Listing Rules.

Term of the RSU Scheme. Subject to any early termination upon occurrence of any termination events, the RSU Scheme shall be valid and effective for a period of ten years, commencing on the date of adoption of the RSU Scheme by the Board. The remaining life of the RSU Scheme is eight years.

Grant Price. The grant prices of RSUs granted to each participant of the RSU Scheme are RMB4.74 per share (granted on 8 December 2021) and RMB20 per share (granted on 26 September 2022), respectively. The grant price is determined by multiplying the latest round of financing price by a certain discount, and in principle, it shall not be lower than the audited net carrying amount of asset per share and the par value per share. The Grantee shall pay the grant price within the period stated in the Grant Notice.

Participants. Participants of the RSU Scheme (the "RSU Participant(s)") include (i) the Directors, members of senior and middle level management team, core talents of the Group and any other persons as the Board may deem necessary to incentivize; and (ii) any professional consultant to the Group as recognized by the Board and other person who, in the opinion of the Board, has contributed or will contribute to the Group.

Vesting of RSUs. The RSUs granted to each RSU Participant are expected to be vested in five equal installments, with 20% of the total number of Shares granted to such RSU Participant being vested after each of the twelve months starting from the date of grant, subject to any adjustment by the Board taking into consideration, among others, the business performance of the Company and results of the annual performance review of such RSU Participant.

Prior to the vesting date, the Board will review whether the vesting conditions are satisfied. If the vesting conditions are satisfied, the Board will serve a vesting notice to such RSU Participant. If such RSU Participant fails to satisfy the vesting conditions, the Board will decide whether to delay the vesting of the relevant RSUs or declare the relevant RSUs to be lapsed.

Details of the RSUs granted to Directors, connected persons of our Company and the five highest paid employees of the Group are set out as below:

RSU Participants	Relationship with the Company	Date of grant	Number of underlying Shares granted	Shares that are not vested and subject to the unlocking conditions as of 1 January 2023	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Shares that are not vested and subject to the unlocking conditions as of 31 December 2023
Mr. Yan	Chairman of the Board, executive Director and chief executive officer	2021/12/8	5,107,833	5,107,833	–	2,043,133	–	–	3,064,700
		2022/9/26	5,351,669	5,351,669	–	1,070,332	–	–	4,281,337
Ms. Ye Juan	Executive Director and senior vice president	2021/12/8	475,000	475,000	–	190,000	–	–	285,000
		2022/9/26	206,000	206,000	–	41,200	–	–	164,800
Ms. Fang Juan	Executive Director and senior vice president	2021/12/8	633,333	633,333	–	253,333	–	–	380,000
		2022/9/26	222,000	222,000	–	44,399	–	–	177,601
Ms. Yan Yajuan	Senior vice president, an associate of Mr. Yan	2021/12/8	522,500	522,500	–	209,000	–	–	313,500
		2022/9/26	215,000	215,000	–	43,000	–	–	172,000
Ms. Zhang Huijuan	Executive Director and Chief financial officer	2022/9/26	800,000	800,000	–	160,000	–	–	640,000
Sub-total			*13,533,335*	*13,533,335*	–	*4,054,397*	–	–	*9,478,938*
Employees other than the Directors, connected persons or the five highest paid employees of the Group		2021/12/8	2,615,665	2,615,665	–	1,046,266	–	–	1,569,399
		2022/9/26	2,851,000	2,851,000	–	537,736	–	–	2,313,264
Total			**19,000,000**	**19,000,000**	**-**	**5,638,399**	**-**	**-**	**13,361,601**

As of 31 December 2023, a total of 10,459,502 underlying Shares, representing 1.05% of the total number of issued Shares, were granted to Mr. Yan, the Chairman, executive Director and chief executive officer of the Company under the RSU Scheme; in which, a total of 3,113,465 underlying Shares have been vested and sold during the Reporting Period. Save as disclosed above, as of 31 December 2023, there were no RSU Participants to whom the number of underlying Shares granted or to be granted exceeded 1% of the total number of issued Shares.

During the Reporting Period, a total of 5,638,399 underlying Shares have been vested, among which, (i) a total of 3,741,732 vested underlying Shares, and the weighted average closing price per underlying Share immediately before the date on which the RSUs were vested was HK$31.5 per Share. The grant price of these underlying Shares was RMB4.74; and (ii) a total of 1,896,667 vested underlying Shares, and the weighted average closing price per underlying Share immediately before the date on which the RSUs were vested was HK$34.15 per Share. The grant price of these underlying Shares was RMB20.

2023 Share Option Scheme and 2023 Share Award Scheme

The following summarizes the principal terms of the 2023 Share Option Scheme and 2023 Share Award Scheme (collectively, "2023 Schemes") adopted by us on 17 August 2023. Terms used herein shall have the same meaning as those defined in the circular of the Company dated 31 July 2023.

Purposes. The purposes of the 2023 Schemes are to provide an opportunity for the Participants to have a personal stake in the Company, to recognize, motivate and provide incentives to the Participants, to attract and retain the best available personnel, to provide additional incentives to the Participants, to promote the success of the business of the Group, and for such other purposes as the Board may approve from time to time.

Participant(s). Including: (i) Employee Participant(s): director (excluding the independent non-executive directors) or employee (whether full time or part time) of any member of the Group (including any person who is granted Option(s) or Awarded Share(s) as an inducement to enter into employment contract with any member of the Group); (ii) Related Entity Participant(s): director, supervisor or employee of the following: a "holding company" of the Company (as defined in the SFO); a "subsidiary" of a holding company of the Company (as defined in the SFO) other than the Group; or an "associate" of the Company (as defined in the Listing Rules); and (iii) Service Provider Participant(s): persons (including entities) providing services to the Group on a continuing basis in its ordinary and usual course of business which are in the interests of the long term growth of the Group as determined by the Board (or CEO, a committee or any other authorized agent(s) as deemed appropriate at the sole discretion of the Board) pursuant to criteria in the 2023 Schemes.

Scheme Limit and Service Provider Sublimit. The maximum number of Shares issuable pursuant to the 2023 Schemes in aggregate will be 99,500,000 Shares, being 10% of the total number of Shares in issue as at the date of this report. The maximum number of Shares issuable to Service Provider Participants pursuant to the 2023 Schemes in aggregate will be 19,900,000 Shares, being 2% of the total number of Shares in issue as at the date of this report.

Maximum Entitlement for Each Participant. Where any grant of Options or Awarded Shares to a Participant would result in the total number of Shares issued and to be issued in respect of all Options and awards granted (excluding any Options and awards lapsed in accordance with the terms of the 2023 Schemes or any other schemes of the Company) under the 2023 Schemes in the 12-month period up to and including the date of such grant representing in aggregate over 1% of the total number of Shares in issue, such grant must be separately approved by the Shareholders in general meeting with such Participant and his/her close associates (or associates if the Participant is a connected person) abstaining from voting.

Vesting Period. The minimum vesting period for an Option or an Awarded Share, in general, is 12 months before the Option or the Awarded Share can be exercised. A shorter vesting period may be granted to a Participant at the discretion of the Board (or the CEO, a committee or any other authorized agent(s) as deemed appropriate at the sole discretion of the Board) as deemed appropriate at the sole discretion of the Board if such grants are:

(a) grants of "make-whole" Options or Awarded Shares to new joiners to replace the share awards they forfeited when leaving the previous employer;

(b) grants to a Participant whose employment is terminated due to death or disability or occurrence of any out-of-control event, which includes scenarios as illustrated in the terms of 2023 Schemes and would serve as compassionate arrangements for relevant Participants in line with market practice;

(c) grants that are made in batches during a year for administrative and compliance reasons, which include Option(s) or Awarded Share(s) that should have been granted earlier if not for such administrative or compliance reasons but had to wait for subsequent batch. In such case, the vesting period may be shorter to reflect the time from which Option(s) or Awarded Share(s) would have been granted;

(d) grants with a mixed or accelerated vesting schedule such as where Option(s) or Awarded Share(s) may vest evenly over a period of 12 months under, including but not limited to, the circumstances set out in the terms of 2023 Schemes, which gives the Company more flexibility in providing incentives to the Participants and is in line with market practice; or

(e) grants with performance-based vesting conditions in lieu of time-based vesting criteria, in which the Company expects the Participants to achieve their performance targets as soon as possible by offering immediate vesting upon fulfilment of the performance targets, and the Participants could be incentivized to the largest extent.

Option exercise period. Option exercise period shall be a period to be determined and notified by the CEO or any other authorized agent(s) as deemed appropriate at the sole discretion of the Board in its absolute discretion to each Grantee as being the period during which an Option may be exercised, and in any event, such period shall expire at the close of business on the business day immediately preceding the tenth anniversary of the date of the grant of the Options.

Option Exercise Price. No amount shall be payable for the application or acceptance of any Option. The Option Exercise Price shall be a price to be solely determined by the Board (or CEO, a committee or any other authorized agent(s) as deemed appropriate at the sole discretion of the Board) in its absolute discretion and notified to a Participant, but in any case the Option Exercise Price shall be at least the highest of:

(a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Share Option Offer Date;

(b) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Share Option Offer Date; and

(c) the par value per Share on the date of grant, provided that in the event of fractional prices, the Exercise Price per Share shall be rounded upwards to the nearest whole cent.

Awarded Share Purchase Price. The purchase price (if any) in respect of any particular Award shall be such price as the Board (or CEO, a committee or any other authorized agent(s) as deemed appropriate at the sole discretion of the Board) may in its absolute discretion determine at the time of grant of the relevant Award (and shall be stated in the Grant Notice) and taking into consideration of the factors such as prevailing closing price of the Shares, the purpose of the 2023 Share Award Scheme, the performance of the relevant Participant(s) and his/her potential and expected contribution to the growth and development of the Company. For avoidance of doubt, the Awards under the 2023 Share Award Scheme could be exercised at nil consideration or at certain price. If there is purchase price for the Awarded Shares, the Grantee shall pay the price within the period stated in the Grant Notice.

Remaining Lives of Schemes. The 2023 Schemes shall be valid and effective for a period of 10 years commencing on the Adoption Date. The remaining lives of the 2023 Schemes are 10 years as of the date of this report.

The Company granted an aggregate of 20,000,000 Options (the "Option(s)") to 128 eligible Participants (the "Grantees") on 28 December 2023 to subscribe for ordinary shares of US$0.00001 each in share capital of the Company. From the Adoption Date to the end of the Reporting Period, no share award has been granted under the 2023 Share Award Scheme.

Details of Options granted to Directors and senior management of the Company and associates of Directors are set out as below:

Grantees	Relationship with the Company	Date of grant	Number of Options granted	Outstanding as of 1 January 2023	Granted during the Reporting Period	Vested during the Reporting Period	Exercised during the Reporting Period	Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as of 31 December 2023
Ms. Fang Juan	Executive Director and senior vice president	2023/12/28	600,000	–	600,000	–	–	–	–	600,000
Ms. Ye Juan	Executive Director and senior vice president	2023/12/28	600,000	–	600,000	–	–	–	–	600,000
Ms. Zhang Huijuan	Executive Director and chief financial officer	2023/12/28	600,000	–	600,000	–	–	–	–	600,000
Ms. Yan Yajuan	Senior vice president and associate of Mr. Yan Jianya, Chairman of the Board	2023/12/28	600,000	–	600,000	–	–	–	–	600,000
Other employees	–	2023/12/28	17,600,000	–	17,600,000	–	–	–	–	17,600,000
Total	**-**	**-**	**20,000,000**	**-**	**20,000,000**	**-**	**-**	**-**	**-**	**20,000,000**

For the aggregate of 20,000,000 Options granted on 28 December 2023, (1) the vesting period is: 40% of the Options granted shall be vested after one year from the date of grant; 30% of the Options granted shall be vested after two years from the date of grant; and the remaining 30% of the Options granted shall be vested after three years from the date of grant; (2) the exercise period will be subject to the respective letters of grant to the Grantees (and their respective vesting periods as stipulated thereunder), provided that under any circumstance such period shall not exceed 10 years from the date of grant and the Options shall lapse upon the expiry of such period; (3) no purchase price is payable by the Grantees on acceptance of the Options; (4) Exercise Price of Options granted is HK$35.05 per Share, and the closing price of the Shares of the Company on the date immediately preceding the grant of Options (being 27 December 2023) is HK$33.7 per Share; (5) each Grantee shall fulfill his/her respective appraisal targets during the vesting period, including (i) annual results and performance of the Group; (ii) the key performance indicators of respective department and/or business unit that the Grantee belongs to; and (iii) his/her individual position, annual appraisal result and other factors relevant to such Grantee; and (6) the fair value of relevant Options on the date of grant was HK$6.25 per Share, and for the accounting standards and policies adopted in respect thereof, please refer to note 28 to the financial statements.

As at the beginning of the Reporting Period, the 2023 Share Option Scheme and the 2023 Share Award Scheme have not yet been adopted and, therefore, there were no Options and Award Shares available for grant. As at the end of the Reporting Period, the number of Shares available for future grant under the Scheme Mandate Limit of the 2023 Share Option Scheme and the 2023 Share Award Scheme is 79,500,000, and the number of Shares available for future grant under the Service Provider Sublimit of the 2023 Share Option Scheme and the 2023 Share Award Scheme is 19,900,000. During the Reporting Period, the number of Shares (being 20,000,000) that may be issued in respect of Options and awards granted under all the share schemes of the Company divided by the weighted average number of Shares in issue for the Reporting Period of 995,000,000 is around 2.01%.

Save as disclosed above, as at the date of this annual report, none of the Grantees is (i) a Director, chief executive or substantial shareholder of the Company, or an associate (as defined under the Listing Rules) of any of them; (ii) a Participant with Options granted and to be granted exceeding the individual limit of 1% of the Shares in issue under Rule 17.03D of the Listing Rules within the 12-month period up to and including the date of grant; or (iii) a Related Entity Participant or Service Provider with Options granted and to be granted in any 12-month period exceeding 0.1% of the Shares in issue.

MATERIAL LITIGATIONS

The Company was not involved in any material litigation or arbitration during the Reporting Period.

SUBSEQUENT EVENTS AFTER THE PERIOD

After the Reporting Period and up to the date of this annual report, there was no other significant events that would have a material adverse impact on the performance and value of the Group.

AUDIT COMMITTEE

The Company's Audit Committee is comprised of Ms. Wong Sze Wing (chairperson), Mr. Huang Jin and Mr. Shan Wenhua, all of whom are independent non-executive Directors. The Company's Audit Committee has reviewed the annual results of the Group for the year ended 31 December 2023.

PUBLICATION OF THE ANNUAL REPORT

The Company's annual report has been published on the website of the Stock Exchange www.hkexnews.hk and the website of the Company www.xajuzi.com.

SUFFICIENT PUBLIC FLOAT

According to the information publicly available to the Company and to the best knowledge of the Directors of the Company, the Company has maintained the sufficient public float required by the Listing Rules during the Reporting Period and up to the date of this annual report.

APPRECIATION

The Company would like to express its sincere gratitude to all employees for their outstanding contributions to the development of the Group. The Board would like to express its profound appreciation to the management for their dedication and diligence, which are the key to the Company's continuous success in the future. In addition, the Company would like to express its genuine gratitude to our Shareholders, customers and business partners for their continuous support. The Company will remain committed to sustainable businesses, so as to create more value for Shareholders.

By order of the Board
Giant Biogene Holding Co., Ltd
YAN Jianya
Chairman of the Board

DIRECTORS AND SENIOR MANAGEMENT

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Yan Jianya, aged 57, was appointed as a Director of the Company on 30 November 2021 and is currently an executive Director, the chairman of the Board, the chief executive officer, chairman of both the Nomination Committee and the Corporate Governance Committee and a member of the Remuneration Committee of the Company. Mr. Yan founded our Group in May 2000. He is a director and general manager of certain operating subsidiaries of our Group, including Xi'an Giant Biogene and Shaanxi Giant Biotechnology. In 2002, Mr. Yan founded Xi'an Weili Communication Co., Ltd. (西安威力通信有限責任公司) (the predecessor of Xi'an Triangle Defense Incorporated Company (西安三角防務股份有限公司) (a company listed on the ChiNext Market of Shenzhen Stock Exchange, stock code: 300775) ("Triangle Defense")) and has been serving as the chairman of the board of Triangle Defense since September 2015. He served as a director of Xi'an Libang Clinical Nutrition Corporation., Ltd. (西安力邦臨床營養股份有限公司) (a company listed on the National Equities Exchange and Quotations, stock code: 835791) from August 2019 to March 2020. Mr. Yan obtained a bachelor's degree in chemical engineering from Northwest University (西北大學) in the PRC in July 1988. Mr. Yan is (i) the father of Ms. Yan Yubo, the executive Director and joint company secretary and board secretary and the chief product officer of the Company, (ii) the spouse of Dr. Fan Daidi, the controlling Shareholder and the chief scientific officer of the Company, and (iii) the brother of Ms. Yan Yajuan, the senior vice president of the Company.

Ms. Ye Juan, aged 53, was appointed as a Director of the Company on 30 November 2021 and is currently an executive Director and a senior vice president of our Company. Ms. Ye has around 21 years of experience in the biotechnology and technical engineering industries. Prior to joining our Group, Ms. Ye worked in the risk management department in China Construction Bank Corporation (a company listed on the Shanghai Stock Exchange (stock code: 601939) and the Hong Kong Stock Exchange (stock code: 939)) from July 1993 to May 2003. She then served as a deputy general manager and subsequently a board secretary in Xi'an Starwave (USA) Communication Equipment Co., Ltd. (西安達威(美國)通信設備有限公司) from July 2003 to February 2010. She then served as a board secretary in Well Logging Energy Technology Xi'an Co., Ltd. (西安威爾羅根能源科技有限公司) from April 2010 to December 2015. She joined our Group in April 2016 as a deputy general manager of Xi'an Giant Biogene and has served as its director since May 2020. Ms. Ye obtained a bachelor's degree in law from Northwestern Polytechnical University (西北工業大學) in the PRC in July 2002.

Ms. Fang Juan, aged 51, was appointed as a Director of the Company on 30 November 2021 and is currently an executive Director and a senior vice president and a member of the Corporate Governance Committee of the Company. Ms. Fang has over 21 years of experience in the biotechnology industry. She joined our Group in December 2000 as a manager of Xi'an Giant Biogene and has served as its deputy general manager and director since December 2003 and May 2020, respectively. Ms. Fang obtained a college degree in international enterprise management from Shaanxi College of Finance and Economics (陝西財經學院) (currently known as School of Economics and Finance of Xi'an Jiaotong University (西安交通大學經濟與金融學院)) in July 1995.

Ms. Zhang Huijuan, aged 37, is currently the chief financial officer of the Company and appointed as executive Director on 3 October 2023. Ms. Zhang has approximately 15 years of experience in accounting and financial management. Prior to joining the Group, she was a senior auditor in Tianjin Branch of Deloitte Touche Tohmatsu Certified Public Accountants LLP (德勤華永會計師事務所(特殊普通合夥)) from July 2008 to December 2010. She then joined Xi'an Branch of PricewaterhouseCoopers Zhong Tian LLP (普華永道中天會計師事務所(特殊普通合夥)) as an audit manager from January 2011 to September 2018. She served as the director of financial department at Easy Click Worldwide Network Technology Co., Ltd. (易點天下網絡科技股份有限公司) from April 2019 to January 2022. Ms. Zhang obtained the certificate of certified public accountant from the PRC Ministry of Finance in December 2017, the certificate of certified internal auditor from the Institute of Internal Auditors in March 2015, and the certificate of intermediate accountant from the PRC Ministry of Human Resources and Social Security and the PRC Ministry of Finance in October 2013. Ms. Zhang obtained a bachelor's degree in Japanese (international business) from Tianjin Foreign Studies University (天津外國語大學) in July 2008.

Ms. Yan Yubo, aged 28, is currently a joint company secretary and the Board secretary of the Company and appointed as executive Director and the chief product officer on 3 October 2023. Ms. Yan joined Xi'an Giant Biogene Technology Co., Ltd. in October 2018 as the board secretary and has been responsible for the affairs related to the Group's financing, investor relationship management and corporate governance since then. Ms. Yan obtained the certificate of Financial Risk Manager (FRM) from the Global Association of Risk Professionals in March 2021, the securities qualification certificate from the Securities Association of China in April 2021, the certificate of board secretary from Shanghai Stock Exchange in September 2020, the certificate of board secretary from Shenzhen Stock Exchange in July 2020, and the qualification certificate of fund practitioner from the Asset Management Association of China in November 2019. Ms. Yan obtained a bachelor's degree from the University of Toronto in Canada in June 2017, double majoring in financial economics and statistics. Ms. Yan obtained a master's degree in applied economics from the University of California, Los Angeles in the United States in June 2018. Ms. Yan is (i) the daughter of Mr. Yan Jianya, the chairman of the Board, executive Director and chief executive officer, and Dr. Fan Daidi, the controlling Shareholder and the chief scientific officer of the Company; and (ii) a niece of Ms. Yan Yajuan, a senior vice president of the Company.

Mr. Huang Jin, aged 65, was appointed as independent non-executive Director on 21 April 2022, with effect from 6 October 2022. Mr. Huang is currently a member of the Audit Committee and Nomination Committee of the Company respectively. Mr. Huang has around 41 years of experience in the field of law. He has held various positions in Wuhan University (武漢大學) from December 1984 to February 2009, including teaching assistant, lecturer, associate professor, professor, and vice principal. He then was appointed as a professor and the principal of China University of Political Science and Law (中國政法大學) from February 2009 to April 2019. He has been the president of the China Society of Private International Law (中國國際私法學會) since 2003. He is currently a professor of the Academy for the Rule of Law (China University of Political Science and Law) (中國政法大學全面依法治國研究院). He has served as an independent director of Beijing Baimtec Material Co., Ltd. (北京航空材料研究院股份有限公司) since December 2021 and an independent director of CINDA Securities Co., Ltd. (信達證券股份有限公司) since June 2023. Mr. Huang obtained a bachelor's degree in law from Hubei College of Finance and Economics (湖北財經學院) (currently known as the Zhongnan University of Economics and Law (中南財經政法大學)) in the PRC in January 1982. He obtained a master's degree in December 1984 and a doctoral degree in June 1988, both in international law, from Wuhan University in the PRC.

Mr. Shan Wenhua, aged 53, was appointed as an independent non-executive Director on 21 April 2022, with effect from 6 October 2022. Mr. Shan is currently the chairman of the Remuneration Committee of the Company and a member of each of the Audit Committee, the Nomination Committee and the Corporate Governance Committee of the Company. Mr. Shan has extensive experience in the field of law. He was a lecturer and a vice researcher at the School of Law at Xiamen University (廈門大學) from 1996 to 1998. He was a visiting researcher at the Lauterpacht Centre for International Law at the University of Cambridge from 1998 to 1999. He then held various positions including lecturer, senior lecturer, reader, and professor in the Law School of Oxford Brookes University from 2002 to 2013. He was a visiting researcher at the National University of Singapore from 2004 to 2005. From 2005 to 2007, he served as the dean of the School of Humanities and Social Science at Xi'an Jiaotong University (西安交通大學), during which he was appointed as The Distinguished Professor for the Soar Scholar Talent Program (騰飛學者特聘教授). He assisted Xi'an Jiaotong University to found its School of Law in 2008 and was appointed as its first dean. He served as a Senior Fellow at the Lauterpacht Centre for International Law at the University of Cambridge from 2013 to 2020, and the assistant to the principal of Xi'an Jiaotong University from 2016 to 2018. He concurrently served as the dean of the School of International Education at Xi'an Jiaotong University from 2016 to 2021. Mr. Shan obtained the PRC lawyer certificate from the PRC Ministry of Justice in 1994. He was selected as a Special Government Allowance Expert by the PRC State Council in 2009 and as a Changjiang Scholar Chair Professor by the PRC Ministry of Education in 2008. Mr. Shan obtained the Qian Duansheng Award for Legal Research in 2014 from the Fund of Qian Duansheng Award for Legal Research, the First Pioneer Award for Innovative Talents in Chinese Think Tanks from the Chinese Academy of Social Sciences and the Chinese Academy of Social Science Evaluation Studies in 2018, and the Springer-Nature Award for New Developments in China from Springer-Nature in 2019. He was awarded with the First Prize for Outstanding Achievements in Philosophy and Social Sciences of Shaanxi Province by the Shaanxi Provincial People's Government in 2019 and the First-class prize of Excellent Achievements in Scientific Research (Humanities and Social Sciences) of Higher Education Institutions by the PRC Ministry of Education in 2020. Mr. Shan obtained a bachelor's degree in law in July 1991 from the Sun Yet-Sen University in the PRC, a master's degree in corporate management from Jinan University (暨南大學) in the PRC in June 1994, a doctoral degree in international economic law from Xiamen University in July 1996, and a doctoral degree in international law from the University of Cambridge in the United Kingdom in May 2004.

Ms. Wong Sze Wing, aged 45, was appointed as independent non-executive Director on 21 April 2022, with effect from 6 October 2022. Ms. Wong is currently the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Ms. Wong has over 21 years of experience in accounting and management. She served as a manager at PricewaterhouseCoopers from September 2001 to October 2006. She then successively served as the chief financial officer of Orange Sky Entertainment Group (International) Holding Company Limited (橙天娛樂集團(國際)控股有限公司) from August 2007 to July 2008. She served as the joint company secretary of Yingde Gases Group Company Limited (盈德氣體集團有限公司) from February 2009 to March 2017 and has served as its chief financial officer since July 2010. She has been an independent non-executive director of Orange Sky Golden Harvest Entertainment (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1132) since April 2010, an independent non-executive director of Rici Healthcare Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1526) since June 2016, an independent non-executive director of REPT BATTERO Energy Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 0666) since November 2022, and an independent non-executive director of Ganfeng Lithium Group Co., Ltd. (a company listed in Hong Kong Stock Exchange (stock code: 1772) and Shenzhen Stock Exchange (stock code: 002460)) since July 2018. She also served as an independent director of Zhejiang Dahua Technology Co., Ltd. (浙江大華技術股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002236) from April 2017 to August 2020 and an independent non-executive director of Xinjiang La Chapelle Fashion Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 06116) from January 2021 to June 2021. Ms. Wong obtained a bachelor's degree in business administration from the University of Hong Kong (香港大學) in Hong Kong in November 2001. She also obtained an EMBA from the China Europe International Business School (中歐國際工商學院) in the PRC in July 2012. Ms. Wong became a chartered member and then a fellow of the Hong Kong Institute of Certified Public Accountants in February 2004 and July 2016, respectively.

BIOGRAPHICAL DETAILS OF SENIOR MANAGEMENT

For the biographies of Mr. Yan Jianya, Ms. Ye Juan, Ms. Fang Juan, Ms. Zhang Huijuan and Ms. Yan Yubo, please refer to the "Biographical Details of Directors" section above.

Mr. Duan Zhiguang, aged 43, is a senior vice president of our Company. Mr. Duan has around 16 years of experience in the development of biomedical materials and related medical devices, biomanufacturing research of highly active natural products and the development of related products. He has been the director of R&D at Shaanxi Giant Biotechnology since February 2012 and has taken charge of the development of rare ginsenosides and other highly active natural products, medical device products, functional foods and anti-tumor drugs. Before joining our Group, Mr. Duan was a lecturer of Northwest University from July 2012 to June 2018 and has been an associate professor of Northwest University since July 2018. He was a reviewer of Fine Chemicals from March 2019 to August 2022 and has been serving as a member of the Third Council of Xi'an Chemical and Pharmaceutical Association since 2019. Mr. Duan was awarded with the First Prize of Shaanxi Provincial Technical Invention and the First Prize of Science and Technology Award of Shaanxi Province by the People's Government of Shaanxi Province, respectively in December 2021 and in February 2018. He was awarded with the First Prize of Science and Technology Award of Shaanxi Higher Education Institution by the Department of Education of Shaanxi Province in April 2017, the First Prize of China Petroleum and Chemical Industry Federation Science and Technology Award by the China Petroleum and Chemical Industry Federation in November 2016, the First Prize of Xi'an City Science and Technology Award by the Xi'an People's Government in March 2016. Mr. Duan obtained a bachelor's degree in biotechnology from Henan Agricultural University (河南農業大學) in the PRC in July 2005, a master's degree in microbiology from Northwest University in the PRC in June 2008, and a doctoral degree in biochemical engineering from Northwest University in the PRC in June 2012.

Ms. Yan Yajuan, aged 55, is a senior vice president of our Company. Ms. Yan has over 30 years of experience in the biotechnology and technical engineering industries. Prior to joining our Group, Ms. Yan worked as a technician in Wugong Chemical Plant (武功化工廠) from July 1990 to July 1994, and subsequently as a workshop manager in Xianyang Great Wall Group Corporation (咸陽市長城集團總公司) from March 1994 to July 2002. Ms. Yan has been serving as the production technology director and deputy general manager of Xi'an Giant Biogene since March 2002, and its director since December 2020. Ms. Yan obtained a diploma in inorganic chemical engineering from the Northwest University in the PRC in December 1990.

DISCLOSURE OF CHANGES IN INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT UNDER RULE 13.51B(1) OF THE LISTING RULES

As of the date of this annual report, save as disclosed above, there is no change in the information of Directors and senior management required to be disclosed pursuant to the Rule 13.51B(1) of the Listing Rules.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its Shareholders. The principles of the Company's corporate governance are to promote effective internal controls and to enhance the transparency and accountability of the Board to all shareholders. The Directors are aware of the importance of incorporating elements of good corporate governance into the Group's management structure and internal control procedures to achieve effective accountability.

The Company has adopted the Corporate Governance Code contained in Appendix C1 to the Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions set out in the Corporate Governance Code during the Reporting Period, save for the deviations from code provision C.2.1, as further explained in the section on "Chairman and Chief Executive Officer" below.

The Board will continue to enhance its corporate governance practices appropriate to the conduct and development of its business and to review such practices from time to time to ensure that they comply with statutory and professional standards and are in line with latest development.

CORPORATE CULTURE

The Company is committed to cultivate its corporate culture on the basis of "correct direction, unity and perseverance, front line experience, active collaboration, efficient execution and sincere altruism". Such corporate culture is based on the mission of "biotechnology to empower beauty and health" and the value of "the relentless pursuit of innovative technologies and product R&D for natural beauty and health", enabling the employees in all levels across the Group to achieve development by acting lawfully, ethically and responsibly, and fully unleash their potential, which allows the Company to deliver sustainable long-term results and operate in a way that benefits society and environment.

Our Company's mission and values serve as a guidance for the conduct and behavior of employees, ensuring that they are integrated into its business practices, workplace policies and routine as well as stakeholder relationships. The management is responsible for setting the tone and establishing the corporate culture for the Company, defining the mission, values, and strategic direction of the Group, which are reviewed by the Board. Considering that corporate culture is reflected in various occasions, such as labor participation, employee retention and training, legal and regulatory compliance, employee safety, welfare and support, the Group's culture, mission, values and strategy are aligned.

BOARD OF DIRECTORS

Composition of the Board

As of the date of this annual report, the members of the Board are set out below:

Executive Directors

Mr. Yan Jianya *(chairman of the Board and chief executive officer)*
Ms. Ye Juan
Ms. Fang Juan
Ms. Zhang Huijuan
Ms. Yan Yubo

Independent Non-executive Directors

Mr. Huang Jin
Mr. Shan Wenhua
Ms. Wong Sze Wing

Ms. Zhang Huijuan and Ms. Yan Yubo were appointed as executive Directors on 3 October 2023 when Rule 3.09D of the Listing Rules was not effective.

Upon appointment, Ms. Zhang Huijuan and Ms. Yan Yubo had obtained legal advice from the Company's legal adviser to advise on all requirements under the Listing Rules that are applicable to them as directors of the Company and the possible consequences of making a false declaration or giving false information to the Stock Exchange.

An updated list of Directors and information on their roles and functions is available on the websites of the Company and the Hong Kong Stock Exchange. Biographical details of the Directors are set out in the chapter headed "Directors and Senior Management".

Save as disclosed in the chapter headed "Directors and Senior Management", to the best knowledge of the Company, there are no relationships (including financial, business, family or other material/relevant relationships) between the Directors and senior management.

Independent Non-executive Directors

During the Reporting Period, the Board has complied with the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in relation to the appointment of at least three independent non-executive Directors (representing at least one-third of the Board), with at least one of whom possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Board has received an annual written confirmation from each of the independent non-executive Directors in respect of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company is of the view that all of them are independent.

The Board and Our Management

The Board is responsible for, and has the general authority of, the management and operation of the Company. It is in charge of all major decisions of the Company, including the approval and monitoring of all major policies and overall strategies of the Group, internal control and risk management systems, notifiable and connected transactions, nomination of Directors and joint company secretaries and other significant financial and operational matters. The senior management as delegated by the Board, is responsible for the day-to-day management of the business of the Company.

Chairman and Chief Executive Officer

According to code provision C.2.1 under the Corporate Governance Code, the roles of chairman of the Board and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman of the Board and chief executive officer should be clearly established and set out in writing. The roles of chairman of the Board and the chief executive officer are currently performed by Mr. Yan Jianya as the two functions have not been separated by the Company. In view of Mr. Yan Jianya's substantial contribution to the Group since its establishment and his extensive experience, the Company considers that having Mr. Yan Jianya acting as both the chairman of the Board and chief executive officer will provide strong and consistent leadership to the Group and facilitate the efficient execution of the business strategies of the Company. The Company considers it appropriate and beneficial to its business development and prospects that Mr. Yan Jianya continues to act as both the chairman of the Board and chief executive officer, and therefore it is currently not proposed to separate the functions of chairman of the Board and chief executive officer.

Board Meetings/General Meetings and Attendance of Directors

The Company adopts the practice of holding Board meetings regularly, at least four times a year and at approximately quarterly intervals. Notices of not less than 14 days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for regular Board meetings.

For other Board meetings and Board committee meetings, reasonable notice is generally given. The agenda and accompanying board papers are despatched to the Directors or Board committee members at least three days before the date of such meeting to ensure that they have sufficient time to review the papers and are adequately prepared for the meeting. If a Director or Board committee member is unable to attend a meeting, they will be advised of the matters to be discussed and given an opportunity to inform the chairman of their views prior to the meeting.

The matters considered and decisions reached by the Board and Board committees during the meetings are recorded in sufficient details in the minutes of the meetings. Details of such minutes include, but are not limited to, any concerns raised by the Directors. Draft minutes of each Board meeting and Board committee meeting should have been sent to the relevant Directors for their comments within a reasonable time after the meeting is held. All minutes shall be maintained by the joint company secretaries and are available for inspection by the Directors and Board committee members.

The Company held 5 Board meetings, 2 Audit Committee meetings, 2 Nomination Committee meetings, 2 Remuneration Committee meetings and 1 Corporate Governance Committee meeting during the Reporting Period. The Company held 2 general meetings during the Reporting Period. The attendance of each Directors at the above meetings is shown as below:

	Attendance/Number of Meetings					
Name of Directors	**Board**	**Audit Committee**	**Nomination Committee**	**Remuneration Committee**	**Corporate Governance Committee**	**General Meeting**
Mr. Yan Jianya	5/5	–	2/2	2/2	1/1	2/2
Dr. Fan Daidi(1)	1/1	–	–	–	–	1/1
Ms. Ye Juan	5/5	–	–	–	–	2/2
Ms. Fang Juan	5/5	–	–	–	1/1	2/2
Ms. Zhang Huijuan(2)	2/2	–	–	–	–	–
Ms. Yan Yubo(3)	2/2	–	–	–	–	–
Mr. Chen Jinhao(4)	3/3	–	–	–	–	2/2
Mr. Huang Jin	5/5	2/2	2/2	–	–	2/2
Mr. Shan Wenhua	5/5	2/2	2/2	2/2	1/1	2/2
Ms. Wong Sze Wing	5/5	2/2	–	2/2	–	2/2

Notes:

(1) Dr. Fan Daidi resigned as an executive Director of the Company on 7 July 2023.

(2) Ms. Zhang Huijuan was appointed as an executive Director of the Company on 3 October 2023.

(3) Ms. Yan Yubo was appointed as an executive Director of the Company on 3 October 2023.

(4) Mr. Chen Jinhao resigned as a non-executive Director of the Company on 3 October 2023.

In addition to the above meetings, during the Reporting Period, Mr. Yan Jianya, the chairman of the Board, held one meeting with the independent non-executive Directors without the presence of the other Directors.

Directors' Service Agreement

Each of the executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from 30 November 2021 (for Mr. Yan Jianya, Ms. Ye Juan and Ms. Fang Juan) and 3 October 2023 (for Ms. Zhang Huijuan and Ms. Yan Yubo) or until the third annual general meeting of the Company from the Listing Date, whichever is earlier, subject always to re-election in accordance with the Articles of Association. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for an initial term of three years commencing from 6 October 2022 or until the third annual general meeting of the Company from the Listing Date, whichever is earlier, subject always to re-election in accordance with the Articles of Association.

During the Reporting Period, none of the Directors had entered into any service contract with the Company or its subsidiaries which is not determinable within one year without the payment of compensation (other than statutory compensation).

Appointment and Re-election of Directors

Ms. Zhang Huijuan and Ms. Yan Yubo were appointed as executive Directors of the Company on 3 October 2023.

Pursuant to Article 26.3 of the Articles of Association, the Directors may appoint any person to be a Director, either to fill a vacancy or as an additional Director provided that the appointment does not cause the number of Directors to exceed any number fixed by or in accordance with the Articles of Association as the maximum number of Directors. Any Director appointed in this way shall hold office only until the first annual general meeting of the Company after such Director's appointment and shall then be eligible for re-election at that meeting.

Pursuant to Article 26.4 of the Articles of Association, at every annual general meeting of the Company one-third of the Directors for the time being (or, if their number is not three or multiple of three, then the number nearest to, but not less than, one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

Mr. Yan Jianya, Ms. Ye Juan, Ms. Zhang Huijian and Ms. Yan Yubo will retire by rotation at the annual general meeting in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Details of the re-election are set out in the circular regarding general meeting to be published by the Company in due course.

Training and Professional Development

In accordance with code provision C.1.4 of the Corporate Governance Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills, in order to ensure that their contribution to the Board remains informed and relevant.

To assist Directors in developing and updating their knowledge and skills, internally-facilitated Board briefings will be arranged and, where appropriate, written materials on relevant topics will be made available to Directors. All Directors are encouraged to attend relevant training courses at the Company's expense.

During the Reporting Period, the Company also arranged for its Hong Kong listing legal advisers to conduct training for all Directors, including independent non-executive Directors. The training sessions covered a wide range of relevant topics, including Directors' duties and responsibilities, corporate governance and the requirements of the Listing Rules.

Directors are required to provide the Company with details of the training they have received during each financial year in order to maintain appropriate training records. The training received by the Directors during the Reporting Period is as follows:

Name of Directors	Continuing Professional Development Training Categories(1)
Mr. Yan Jianya	A & B
Ms. Fan Daidi(2)	A & B
Ms. Ye Juan	A & B
Ms. Fang Juan	A & B
Ms. Zhang Huijuan(3)	A & B
Ms. Yan Yubo(4)	A & B
Mr. Chen Jinhao(5)	A & B
Mr. Huang Jin	A & B
Mr. Shan Wenhua	A & B
Ms. Wong Sze Wing	A & B

Notes:

(1) Training Categories

A: Attend seminars, conferences, forums and/or training courses arranged by the Company or external organizations.

B: Read carefully materials provided by the Company or external parties, such as those relating to the Company's business updates, Directors' duties and responsibilities, corporate governance and regulatory updates and other applicable regulatory requirements.

(2) Dr. Fan Daidi resigned as an executive Director of the Company on 7 July 2023.

(3) Ms. Zhang Huijuan was appointed as an executive Director of the Company on 3 October 2023.

(4) Ms. Yan Yubo was appointed as an executive Director of the Company on 3 October 2023.

(5) Mr. Chen Jinhao resigned as a non-executive Director of the Company on 3 October 2023.

Mechanism for Directors to Obtain Independent Views and Opinions

At Board meetings, the Directors are free to express their views and important decisions are subject to detailed discussion before they are made. If the Directors consider it necessary to seek advice from an independent professional institution, they may engage an independent professional institution in accordance with the procedures and at the expense of the Company. If a Director has an interest in a matter proposed by the Board, the relevant Director must withdraw from the discussion of the relevant proposal and abstain from voting, and the Director will not be counted in the quorum for voting on the resolution. In addition, the independent non-executive Directors should also express an objective and impartial independent opinion on matters discussed by the Company. The independent non-executive Directors of the Company do not hold any position in the Company other than that of a Director, do not have any relationship with the Company and the Company's substantial shareholders that might influence their independent and objective judgement, and do not have any business or financial interests in the Company or the Company's subsidiaries. During the Reporting Period, the participation of independent non-executive Directors therefore effectively ensures that there is a strong and sufficient element of independence on the Board. The Board will review the implementation and effectiveness of the above mechanism annually.

Board Committees

The Company has established four Board committees in accordance with the relevant laws and regulations and the corporate governance practice under the Listing Rules, including the Audit Committee, the Nomination Committee, the Remuneration Committee and the Corporate Governance Committee.

Audit Committee

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code. During the Reporting Period, the Audit Committee comprises Ms. Wong Sze Wing, Mr. Huang Jin and Mr. Shan Wenhua, each of whom is an independent non-executive Director of the Company. Ms. Wong Sze Wing, being the chairperson of the Audit Committee, has appropriate accounting and related financial management expertise as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The Audit Committee is responsible for reviewing and monitoring the financial reporting, risk management and internal control systems of the Company, and assist the Board to fulfill its responsibility over the audit. The principal terms of reference of the Audit Committee include (but not limited to):

(a) to be responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; and to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences;

(c) to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

(d) to review the Company's financial controls, and to review the Company's risk management and internal control systems;

(e) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems;

(f) to review the Company's internal audit function to ensure co-ordination between the internal and external auditors; and to ensure that the internal audit function is adequately resourced and has appropriate standing within the issuer; and to review and monitor its effectiveness.

The Audit Committee is also responsible for performing the Company's corporate governance functions, including (but not limited to):

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management of the Company;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Company and Directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report of the Company.

During the Reporting Period, the Audit Committee held 2 meetings to review the audited consolidated financial statements, results announcement and annual report draft of the Group for the year ended 31 December 2022; the consolidated financial statements, results announcement and interim report for the six months ended 30 June 2023; to review and discuss key internal audit matters, financial reporting system, and risk management and internal control systems; to review and discuss the effectiveness of internal audit function; to discuss the re-appointment of the external auditor and made recommendations to the Board.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibility for preparing financial statements which should give a true and fair view of the state of affairs of the Company and of the results and cash flows for the relevant reporting period.

In preparing the financial statements, the Board has adopted International Financial Reporting Standards and appropriate accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable, and prepared the financial statements on a going concern basis. The Board is responsible for ensuring that the Company maintains proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

The auditor is responsible for auditing and reporting its opinion on the financial statements of the Company. The independent auditor's report for the Reporting Period is set out in the chapter headed "Independent Auditor's Report" of this annual report.

Auditor's Remuneration

The Company appointed Ernst & Young, Certified Public Accountants and Registered Public Interest Entity Auditor, as the auditor for the year ended 31 December 2023. A statement by Ernst & Young about their reporting responsibilities for the financial statements is included in the Independent Auditor's Report on pages 57 to 61.

Audit fees of the Group for the year ended 31 December 2023 payable to the external auditor were approximately RMB2.3 million and the Group incurred approximately RMB0.13 million in 2023 for non-audit services related to internal control review.

Details of the fees paid or payable to the Company's auditor, in respect of the audit and non-audit services for the year ended 31 December 2023 are set out in the table below:

Services rendered for the Company	**RMB'000**
Audit service	2,300
Non-audit service	130

Nomination Committee

The Company has established the Nomination Committee in compliance with Rule 3.27A of the Listing Rules and the Corporate Governance Code. During the Reporting Period, the Nomination Committee comprises Mr. Yan Jianya, Mr. Huang Jin and Mr. Shan Wenhua. Mr. Yan Jianya currently serves as the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee include (but not limited to):

(a) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships;

(c) to assess the independence of independent non-executive Directors;

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (in particular the chairman or chairlady and the chief executive); and

(e) to review the Board Diversity Policy and any measurable objectives for implementing such Board Diversity Policy as may be adopted by the Board from time to time and to review the progress on achieving the objectives; and to make disclosures of its progress on its review results in the annual report of the Company annually.

During the Reporting Period, the Nomination Committee held 2 meetings to nominate new director(s) and make recommendations to the Board, assess the independence of the independent non-executive Directors, review the effectiveness of the Board Diversity Policy and make recommendations to the Board for re-election of Directors at the annual general meeting.

Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve and maintain diversity in the Board. Pursuant to the Board Diversity Policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, industry experience, technical capabilities, professional qualifications and skills, knowledge, length of service and other related factors. The Company has also considered its own business model and special needs. The ultimate selection of Director candidates is based on merits of the candidates and contribution that the candidates will bring to the Board.

The Board has a balanced mix of experience and skills, including but not limited to overall business management, research and development, and finance and accounting. As of the date of this annual report, the Board has three male and five female Directors, achieving gender diversity on the Board. The Board will maintain the number of female Directors if suitable candidates are available in the future to ensure that gender diversity on the Board continues to be met in the coming years. The Board considers that the current composition of the Board is consistent with the Board Diversity Policy based on the principle of meritocracy, and the Board Diversity Policy of the Company ensures that the Board will have the potential candidates for succession to extend the existing gender diversity of the Board.

The Nomination Committee of the Company is responsible for the implementation of the Board Diversity Policy. During the Reporting Period, the Nomination Committee of the Company reviewed the Board Diversity Policy from time to time to ensure its continued effectiveness.

The Company is committed to promoting gender diversity, not only within the Board but also among its workforce. As of the end of the Reporting Period, the gender ratio of the Company's employees (including senior management) is as follows:

Male	40.5%
Female	59.5%
Total	**100%**

Based on the above, the composition of the Company's employees has met and is expected to maintain a reasonable level of gender diversity.

Nomination Procedure

If a Shareholder wishes to propose a person other than a Director of the Company for election as a Director, the Shareholder must deposit a written notice (the "Notice") to the principal office and principal place of business in Hong Kong, 5/F Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, for the attention of the joint company secretaries of the Company. The Notice must state clearly the name, the contact information of the Shareholder and his/her/their shareholding, the full name of the person proposed for election as a Director, including the person's biographical details as required by Rule 13.51(2) of the Listing Rules, and be signed by the Shareholder concerned (not by the person to be proposed). The Notice must also be accompanied by a letter of consent (the "Letter of Consent") signed by the person proposed to be elected on his/her willingness to be elected as a Director.

The period for lodgement of the Notice and the Letter of Consent will commence from the day after the dispatch of the notice by the Company of the general meeting appointed for election of Directors and end no later than seven days prior to the date of such general meetings and the minimum length of the period during which the Notice to the Company may be given will be at least seven days.

The Notice will be verified by the joint company secretaries with the Company's branch share registrar and upon their confirmation that the request is proper and in order, the joint company secretaries will ask the Nomination Committee and the Board of the Company to consider to include the particulars of such proposed person for election as a Director in its announcement or supplementary circular and to include the resolution in the agenda for the general meeting proposing such person to be elected as a Director.

Remuneration Committee

The Company has established the Remuneration Committee in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code. During the Reporting Period, the Remuneration Committee comprises Mr. Shan Wenhua, Mr. Yan Jianya and Ms. Wong Sze Wing. Mr. Shan Wenhua currently serves as the chairman of the Remuneration Committee.

The principal terms of reference of the Remuneration Committee include (but are not limited to):

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

(c) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to review and approve the compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(h) to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration; and

(i) to review and/or approve the matters relevant to the share scheme under Chapter 17 of the Listing Rules.

During the Reporting Period, the Remuneration Committee held 2 meetings to recommendations to the Board on the remuneration packages of individual executive Directors and senior management, review the remuneration of non-executive Directors and remuneration policies and structures of all Directors and senior management, assess performance of executive Directors and approve the terms of executive Directors' service contracts, and review and/or approve matters relating to share schemes and the options or awards granted under Chapter 17 of the Listing Rules.

Remuneration Policy

The Company offers the executive Directors and senior management, as its employees, with remuneration in the form of salaries, allowances, benefits in kind, performance-related bonuses, equity-settled share award, pensions, and other social insurance benefits, which is determined based on the factors such as market conditions, the Company's performance and their performance assessment results by the Board. Non-executive Directors and independent non-executive Directors also receive compensation according to their duties with reference to prevailing market terms (including serving as member or chairperson of the Board committees).

The Company recruits new employees through campus recruitment and experienced personnel hiring to seek talents with education background in relevant subjects or work experiences in relevant industries for its R&D, sales, management and operation team. The Company evaluates each candidate based on his/her educational background, professional knowledge, necessary skills, interview performance, relevant experience, and professional ethics. As part of its human resources strategy, the Company offers employees competitive salaries, performance-based cash bonuses and other incentives. The Company has adopted a comprehensive training protocol, pursuant to which the Company provides pre-employment training to its new employees and internal transfer employees, and continuing technical training to its employees on a regular basis. The Company also provides necessary training to employees who are responsible for quality controls to ensure that they are competent for their work.

As required under PRC regulations, the Company participates in various employee social security plans that are organized by applicable local municipal and provincial governments, including housing, pension, medical, work-related injury, maternity, and unemployment benefit plans. During the Reporting Period, no forfeited contributions had been used by the Group to reduce the existing level of contributions.

In accordance with code provision E.1.5 of the Corporate Governance Code, the annual remuneration (including share-based compensation) payable to members of senior management (including senior management who are also executive Directors) by band for the Reporting Period is as follows:

Annual Remuneration	Number of Individuals
Nil to RMB1,500,000	3
RMB1,500,001 to RMB2,000,000	2
Above RMB2,000,001	2

Further details of Directors' remuneration during the Reporting Period are set out in note 8 to the consolidated financial statements of this annual report. The Company confirmed that none of the Directors had waived or agreed to waive any emoluments during the Reporting Period and that no emoluments were paid by the Group to any Director or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Corporate Governance Committee

The Company has established the Corporate Governance Committee with written terms of reference. During the Reporting Period, the Corporate Governance Committee comprises Mr. Yan Jianya, Ms. Fang Juan and Mr. Shan Wenhua. Mr. Yan Jianya currently serves as the chairman of the Corporate Governance Committee.

The terms of reference of the Corporate Governance Committee are as follows:

(a) to develop and review the Company's policies and practices on corporate governance and Environmental, Social and Governance (ESG) and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) that are applicable to the Directors and employees of the Group (excluding for this purpose any special purpose bankruptcy remote entity);

(e) to review the Company's compliance with the Corporate Governance Code and the ESG Reporting Guide in accordance with the Listing Rules and disclosures in the Corporate Governance Report and the ESG Report in accordance with the Listing Rules;

(f) to review and monitor whether the Company is operated and managed for the interests of all Shareholders;

(g) to discuss and respond to the impacts of the Company's operations on the economy, environment, society and various stakeholders, especially the major ESG issues which are most concerned by the management of the Company and various stakeholders; and

(h) to review and inspect the ESG-related risks and opportunities which have a potential material impact on the Company, and report to the Board and make recommendations on annual ESG strategic objectives.

During the Reporting Period, the Corporate Governance Committee held 1 meeting to review the corporate governance and draft of the ESG Report.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

The Board is responsible for the risk management and internal control systems and has a duty to review the effectiveness of these systems. These systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and provide only reasonable but not absolute assurance against material misstatement or loss. The Board has overall responsibility for assessing and determining the nature and extent of the risks it is willing to assume in achieving the Company's strategic objectives and in establishing and maintaining an appropriate and effective system of risk management and internal control. The Audit Committee is responsible for assisting the Board, guiding the management and overseeing the design, implementation and control of the risk management and internal control systems. The Company has established an internal audit function to provide internal control over certain significant areas of the Group.

The Company is exposed to various risks during its operation. Key operational risks faced by the Company include, among others, changes in the regulatory environment in China, the ability to offer quality products, safe production, and competition from other market players. In addition, the Company faces numerous market risks, such as interest rate, credit and liquidity risks that arise in the normal course of the business.

In order to address these risks, the Company has established, and currently maintains, risk management and internal control systems consisting of policies and procedures that the Company considers appropriate for its business operations. There is a division of labor and co-ordination between the Board, the Audit Committee, the management and various functional departments of the Company. The Company is dedicated to continually improving these systems.

From an operational standpoint, the Company continually identifies and evaluates risks relating to its operations, such as the risk to its plants, general operational layout, transportation, buildings, production technology, logistics, main equipment, operating environment, quality management, safety management, and all personnel who enter its plants, and formulates its risk control measures accordingly. The Company also have various methods to identify its major potential hazards, including, but not limited to, events that may occur during the course of its daily activities, such as potential hazardous events during normal business operations, production and service activities; unforeseeable accidents, such as power outages, water outages, shutdowns and maintenance; activities relating to personnel entering the workplace; and infrastructures at the workplace, such as buildings, production equipment, raw materials and other leased infrastructures.

The Company's analysis methods include work safety analysis, field experience analysis, a safety checklist and exposure likelihood and consequences analysis. The Company's personnel are responsible for identifying as many actual and potential risk factors as possible through on-site observation and collected data, including, but not limited to, unsafe behaviors, unsafe state of the object, management defects and the impacts from the environment.

The Company's administrative department is responsible for evaluating the risks to determine the severity and likelihood, and preparing the lists of major risk factors, which is reviewed by the technology department and approved by the representatives of managers. The Company conducts the identification and evaluation of risk factors and reviews the effectiveness of identification, risk evaluation and control measures once a year to improve the relevant risk management system. The Company's departments also consider whether to include establishing occupational health and safety goals and indicators into the KPIs for the Company's management from time to time depending on the situation, such as the need to implement or replace certain major risks.

The Company generally updates the risk evaluation and corresponding control measures according to the development of production, operations and management. The Company timely updates those measures in terms of changes such as occupational health and safety policy, laws, regulations, standards and related requirements, requirements for internal audit, external audit, and management review, and raw and auxiliary materials.

The Company is exposed to a variety of financial risks, including foreign exchange risk, credit risk and liquidity risk. The Group's principal financial instruments comprise cash and cash equivalents and financial assets at fair value through profit or less. The major risks arising from the Group's financial instruments are credit risk, foreign currency risk and liquidity risk. The Directors reviewed and agreed policies for managing each of these risks and for summary of such risks, please refer to the section headed "Directors' Report – Financial Risks".

Internal Control

The Company has designated responsible personnel in the Group to monitor the ongoing compliance by the Company with the relevant PRC laws and regulations that govern its business operations and oversee the implementation of any necessary measures. In addition, the Company plans to provide its Directors, senior management and relevant employees with continuous training programs and/or updates regarding the relevant PRC laws and regulations on a regular basis with a view to proactively identify any concerns and issues relating to any potential non-compliance. The Company offers on-board training to its new employees and continuing training to its existing employees to enhance their knowledge and awareness of the relevant policies and regulations. The Company also generally discusses with external advisory firm and legal counsel on a monthly basis in relation to (i) the latest regulatory requirements in China, (ii) any ad hoc queries from the Company, and (iii) review of advertising content before publication. For instance, the Company received trainings related to the governance practice series of listed companies from Tricor Services Limited in July 2023.

Anti-Corruption and Bribery

The Company has adopted a set of internal rules and policies governing the conduct of its employees. The Company has placed anti-bribery and anti-corruption clauses in its employees' handbooks to ensure that its employees comply with its internal rules and policies as well as the applicable laws and regulations. In particular, the clauses stipulate that the employees of the Company are prohibited from offering any bribery in the form of cash or other interests to medical professionals in exchange for their recommendations, purchase or prescription of the products of the Company. The Company also includes anti-bribery and anti-corruption clauses in its business contracts, confidential and non-competition agreements with its Directors and senior management, key technology personnel, and other key personnel. Furthermore, the Company includes anti-bribery requirements in its sales management policies, which explicitly prohibit the sales personnel of the Company from offering or accepting bribery (including any form of kickbacks and rebates that may constitute bribery) to or from any customers, and prohibit the distributors of the Company from offering bribery to medical institutions, doctors and their other customers.

False Advertising and Efficacy-related Misrepresentations

The Company has also adopted measures to mitigate the risks relating to false advertising and efficacy-related misrepresentations. The Company has established an internal system relating to the compliance of its advertising activities. Before the publication of the advertising and marketing content of the Company, such content must be reviewed by the dedicated officers of the marketing and legal functions of the Company, so as to ensure that such content (in particular, any efficacy-related information) is true, accurate and in compliance with applicable laws and regulations. Certain product descriptions on efficacy are independently verified by external third-party testing service providers as required by the applicable regulations, so as to prevent any product misrepresentation including any potential efficacy claims. In addition, the branding director and legal director of the Company regularly monitor and from time to time spot-check the marketing and advertising activities of the Company every week in order to prevent false advertising. Once a non-compliance issue is identified, the relevant advertising and marketing content would be removed from the relevant channels.

Moreover, in light of the extensive marketing activities of the Company, the Company consults with external advisory firm and legal counsel, from time to time, to evaluate appropriateness of advertising content, promulgated or proposed regulations, and general regulatory development updates. Such topics include the Guiding Opinion on the Strengthening Supervision and Administration of Classification of Production and Operation of Medical Devices (《關於加強醫療器械生產經營分級監管工作的指導意見》) issued by the Department of Comprehensive Affairs of the NMPA, the Provisions on the Management of Internet Pop-up Window Information Pushing Services (《互聯網彈窗信息推送服務管理規定》) jointly issued by the CAC and two other PRC regulatory authorities, and the Guiding Principles for Technical Guidance on Freckle-removing and Whitening Special Cosmetics (Draft for Comments) (《祛斑美白類特殊化妝品技術指導原則(徵求意見稿)》) issued by relevant authorities. The Company regularly organizes online and offline trainings for its employees on relevant PRC laws regarding advertising, e-commerce, and unfair competition.

Ongoing Review

The Company has established the Audit Committee to review and monitor the financial reporting process and internal control system, and the Corporate Governance Committee to ensure the adequacy and effectiveness of the regulatory compliance process and internal control system. Both the Audit Committee and the Corporate Governance Committee report the results of their audits to the Board, and confirm the effectiveness of risk management and internal control process to the Board.

The Board conducted a review of the Company's risk management and internal controls during the Reporting Period on an annual basis, which covered all significant aspects of controls, including financial, operational and compliance controls. The Board concluded that the Company's risk management and internal control systems were effective and adequate during the Reporting Period.

SECURITIES DEALING AND HANDLING OF INSIDER INFORMATION

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix C3 to the Listing Rules as the code of conduct regarding dealings by Directors in the securities of the Company. Having made specific enquiry of all Directors, all Directors have confirmed that they have complied with the provisions of the Model Code during the Reporting Period.

The Company has also established and implemented policies and procedures for the disclosure of information, including but not limited to the disclosure of inside information, including monitoring potential inside information, ensuring that relevant facts and circumstances that are material to the Company's share price are promptly identified and assessed, and bringing such matters to the attention of the Board as necessary to determine whether a disclosure is required. Directors, senior management and relevant employees who are in possession of inside information or potential inside information are required to take reasonable steps to preserve confidentiality and ensure that its recipients are aware of their obligations to maintain confidentiality.

Joint Company Secretaries

The joint company secretaries are responsible for advising the Board on corporate governance matters to ensure a good information exchange among members of the Board and the compliance with the Board's policies and procedures and applicable laws, rules and regulations. The joint company secretaries of the Company were Ms. Yan Yubo and Ms. Yiu Suk Han as of 28 August 2023. On 28 August 2023, Ms. Yiu Suk Han resigned as the joint company secretary of the Company, and Ms. Yuen Wing Yan, Winnie was appointed as the joint company secretary of the Company on the same date. From 28 August 2023 to the date of this annual report, the joint company secretaries of the Company were Ms. Yan Yubo and Ms. Yuen Wing Yan, Winnie. Ms. Yuen Wing Yan, Winnie is a Director of Corporate Services of Tricor Services Limited and a Fellow of both The Hong Kong Chartered Governance Institute ("HKCGI") and The Chartered Governance Institute in the United Kingdom. Ms. Yan Yubo is the principal contact person of the Company and will communicate with Ms. Yuen Wing Yan, Winnie on corporate governance and secretarial and administrative matters of the Company.

For the biographical details of Ms. Yan Yubo, please refer to the "Directors and Senior Management – Biographical Details of Directors" section of this annual report. The biographical details of Ms. Yuen Wing Yan, Winnie are set out below:

Ms. Yuen Wing Yan, Winnie was appointed as the joint company secretary of the Company on 28 August 2023. Ms. Yuen is a Director of Corporate Services of Tricor Services Limited, and has over 25 years of experience in the corporate secretarial field. She has been providing professional corporate services to Hong Kong listed companies as well as multinational, private and offshore companies. Ms. Yuen is currently acting as the company secretary or joint company secretary of a few listed companies on the Stock Exchange. Ms. Yuen is a Chartered Secretary, a Chartered Governance Professional and a Fellow of both HKCGI and The Chartered Governance Institute in the United Kingdom. She is a holder of the Practitioner's Endorsement from HKCGI.

During the Reporting Period, each of the joint company secretaries attended a total of not less than 15 hours of training courses on the Listing Rules, corporate governance, information disclosure, investor relations and the functions and duties of a company secretary of a Hong Kong listed issuer as required under Rule 3.29 of the Listing Rules.

RELATIONSHIP WITH SHAREHOLDERS

Communication with Shareholders

The Board believes that effective communication with Shareholders is essential to enhance investor relations and investors' understanding of the Group's business performance and strategy. The Group also recognizes the importance of transparency and timely disclosure of its corporate information to enable the Shareholders and investors to make the best investment decisions.

The Company communicates with its Shareholders and the investment community primarily through the Company's financial reports (including interim and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the disclosures submitted to the Hong Kong Stock Exchange and its corporate communications and other corporate publications on the Company's website.

General Meetings

The general meetings of the Company serve as opportunities for the Directors and senior management to communicate with the Shareholders. Shareholders are encouraged to attend or, if unable to attend, to appoint a proxy to attend and vote on their behalf at meetings. Notice in writing is given by the Company to the Shareholders at least 21 clear days prior to the annual general meeting and at least 14 clear days prior to any extraordinary general meetings.

Board members, in particular the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend annual general meetings to answer questions from the Shareholders.

The proceedings of the Company's general meetings are regularly monitored and reviewed. Changes will be made, if necessary, to ensure that the needs of Shareholders are best served.

Corporate Communications

Corporate communications are made available to Shareholders in plain languages and in both English and Chinese versions to facilitate their understanding about the content of the communications. Shareholders have the right to choose the language (either English or Chinese) or means of receipt (in hard copy or through electronic means) of the corporate communications. Shareholders are encouraged to provide their email addresses to the Company in particular to facilitate timely and effective communication.

Company's Website

The Company maintains a website at www.xajuzi.com, as a platform for communication with the Shareholders and investors. The information on the website of the Company is updated on a regular basis. Information published on the website of the Stock Exchange by the Company is also posted on the website of the Company for corporate communications immediately thereafter, including financial statements, results announcements, circulars and notices of general meetings and related explanatory documents, etc.

Shareholders' Enquiries

Shareholders and investors may send written enquiries or requests to the Company, for the attention of the Board. The contact details are as follows:

Address: No. 1855, Shanglin Yuan 7th Road,
Chang'an District, Xi'an, Shaanxi Province, PRC
Email: ir@xajuzi.com

Shareholders may raise questions about their shareholdings with the Company's Hong Kong Share Registrar, Tricor Investor Services Limited. The Company ensures that the Hong Kong Share Registrar maintains up-to-date information relating to the Shares at all times in order to respond effectively to the Shareholders' enquiries.

Policies Relating to Shareholders

Shareholders' Communication Policy

The Company has established a Shareholders' Communication Policy which aims to ensure that Shareholders and the investment community at large are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner, and to enhance communication among the Shareholders, the investment community and the Company.

The Board regularly reviews the Shareholders' Communication Policy to ensure its effectiveness, in particular in relation to the requirements of Part II of the Corporate Governance Code in Appendix C1 to the Listing Rules. The Board committee has reviewed the implementation and effectiveness of the Shareholders' Communication Policy during its meetings and is of the view that the Shareholders' Communication Policy has been effectively implemented and that the dissemination of information to the Shareholders are effective.

Dividend Policy

In accordance with code provision F.1.1 of the Corporate Governance Code, the Company has adopted a policy in respect of the declaration, payment or distribution of the net profit of the Company as dividends to the Shareholders ("Dividend Policy").

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

Shareholders' Rights

To safeguard the interests and rights of the Shareholders, separate resolutions are proposed at general meetings on each major issue, including the election of individual Directors, for consideration and voting by the Shareholders. All resolutions proposed at the general meetings will be voted on by poll in accordance with the Listing Rules and the poll results will be announced on the Company's website (www.xajuzi.com/) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) after each general meeting.

According to the Articles of Association, the Directors may call general meetings, and they shall on a Members' requisition forthwith proceed to convene an extraordinary general meeting of the Company. A Members' requisition is a requisition of one or more Members holding at the date of deposit of the requisition not less than 10% of the voting rights, on a one vote per share basis, of the issued Shares which as at that date carry the right to vote at general meetings of the Company. The Members' requisition must state the objects and the resolutions to be added to the agenda of the meeting and must be signed by the requisitionists and deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office. Shareholders may propose a resolution at the general meeting by sending a written motion notice to the Company's principal office and principal place of business in Hong Kong, at 5/F, Manulife Place, 348 Kwun Tong Road, Kowloon, Hong Kong, for the attention of the joint company secretaries of the Company. Requisitions may consist of several documents in like form each signed by one or more requisitionists. If there are no Directors as at the date of the deposit of the Members' requisition or if the Directors do not within 21 days from the date of the deposit of the Members' requisition duly proceed to convene a general meeting to be held within a further 21 days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said 21-day period.

EFFECTIVE COMMUNICATION WITH INVESTORS

The Group's investor relations efforts were effectively conducted under the leadership and support of the Board and the operational management. During the Reporting Period, the Group has participated in a number of investor/analysts exchange sessions, investment summits and investor events to facilitate communication between the Company and its Shareholders and investors. The Company will also continue to maintain effective communication with investors through the roadshows after interim results, annual results and general meetings in the future.

CONSTITUTIONAL DOCUMENTS

The amended and restated Memorandum and Articles of Association of the Company have been effective since the Listing Date and are available on the websites of the Company and the Stock Exchange. There were no other changes to the Company's constitutional documents during the Reporting Period.

On 25 March 2024, the Board proposed certain amendments (the "Proposed Amendments") to the Existing Memorandum and Articles of Association (the "Existing Memorandum and Articles of Association") of the Company in order to (i) update and bring the Existing Memorandum and Articles of Association in line with the relevant amendments to the Listing Rules in respect of the electronic dissemination of corporate communications by listed issuers (effective from 31 December 2023); and (ii) make other consequential and housekeeping amendments to better align with the wordings and requirements under the applicable laws of the Cayman Islands and the Listing Rules. The Board also proposed for the Company to adopt the amended and restated memorandum and articles of association (the "Amended and Restated Memorandum and Articles of Association") of the Company, incorporating and consolidating all Proposed Amendments, in substitution for and to the exclusion of the Existing Memorandum and Articles of Association. The adoption of the Amended and Restated Memorandum and Articles of Association is subject to the approval by the shareholders of the Company by way of a special resolution at the forthcoming annual general meeting of the Company.

INDEPENDENT AUDITOR'S REPORT

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Independent auditor's report
To the shareholders of Giant Biogene Holding Co., Ltd
(Incorporated in Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Giant Biogene Holding Co., Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 129, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy 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 then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS *(cont'd)*

Key audit matter

Revenue recognition

– ***Online sales through the Group's direct-to-customers store***

– ***Sales to distributors***

The Group recognised revenue of RMB3,524 million for the year ended 31 December 2023, mainly including online sales through the Group's direct-to-customers ("DTC") stores and sales to distributors. The revenue is recognised as follows:

i) Online sales through the Group's DTC stores accounted for around 61.2% of the total revenue for the year ended 31 December 2023. We focused on this area due to the risks arising from the large volume of transactions generated from the sale of different products to a significant number of customers online. This area required significant audit attention to test the occurrence of this kind of transactions.

ii) Sales to distributors accounted for around 31.3% of the total revenue for the year ended 31 December 2023. We focused on this area due to the risk of revenue being recongised inappropriately close to the year-end.

The Group's related disclosures are included in note 2.4 *MATERIAL ACCOUNTING POLICIES – Revenue recognition*, note 5 *Revenue and other income recognition*.

How our audit addressed the key audit matter

Our procedures in relation to the Revenue recognition of online sales through the Group's DTC stores included:

- Obtained an understanding of the key controls over the revenue recognition of online sales through the Group's DTC stores and evaluated the design and implementation of these controls;
- With the assistance of our IT specialists, we tested the general IT controls and related automated controls of the Group's system; and
- With the assistance of our data analytic specialists, we performed following procedures:
  - Data analytical procedures of orders generated from online sales through the Group's DTC stores, such as concentration analysis of orders made by each account user in terms of amounts and quantities during the year and etc.
  - Reconciliation between the revenue recorded of online sales through the Group's DTC stores and cash collection.

Our procedures in relation to the Revenue recognition of sales to the distributors included:

- Obtained an understanding of the key controls over the revenue recognition of sales to distributors and evaluated the design and implementation of these controls;
- Obtained and checked major financial terms of sales agreements with major distributors, on a sampling basis;
- Performed background search of additional major distributors during the year, on a sampling basis;

KEY AUDIT MATTERS *(cont'd)*

Key audit matter	How our audit addressed the key audit matter
Revenue recognition – ***Online sales through the Group's direct-to-customers store*** – ***Sales to distributors***	
	• Performed analytical procedures of sales to distributors, such as sales analysis of top 10 distributors and by months and etc; • Selected samples and performed test of details by agreeing to related supporting documents, such as goods delivered notes, invoices and etc; • Performed cut-off test of sales to distributors; and • Obtained goods return list subsequent to the year-end to identify any significant sales return incurred subsequently.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

In preparing the consolidated financial statements, the directors of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(cont'd)*

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 Hooi Wan Yee.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2024

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2023

	Notes	Year ended 31 December 2023 RMB'000	2022 RMB'000
REVENUE	5	**3,524,143**	2,364,445
Cost of sales		**(577,006)**	(369,205)
Gross profit		**2,947,137**	1,995,240
Selling and distribution expenses		**(1,164,499)**	(706,370)
Administrative expenses		**(96,661)**	(111,073)
Research and development costs		**(74,968)**	(44,043)
Other expense		**(398)**	(704)
Other income	5	**102,963**	68,712
Other gains or losses, net	6	**30,927**	(23,378)
Finance cost		**(112)**	(21)
Provision for impairment losses on financial assets, net		**700**	(614)
PROFIT BEFORE TAX	7	**1,745,089**	1,177,749
Income tax expense	10	**(296,887)**	(176,163)
PROFIT FOR THE YEAR		**1,448,202**	1,001,586
Attributable to:			
Owners of the parent		**1,451,753**	1,002,025
Non-controlling interests		**(3,551)**	(439)
		1,448,202	1,001,586
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,448,202**	1,001,586
Attributable to:			
Owners of the parent:			
Ordinary shares holders of the parent		**1,451,753**	695,998
Preferred shares holders of the parent		**–**	306,027
Non-controlling interests		**(3,551)**	(439)
		1,448,202	1,001,586
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic (RMB yuan)		**1.49**	0.99
Diluted (RMB yuan)		**1.48**	0.98

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

		As at 31 December	
	Notes	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**663,469**	491,421
Other intangible assets	14	**7,357**	6,751
Right-of-use assets	15	**48,155**	60,233
Prepayments, other receivables and other assets, non-current	18	**117,908**	40,895
Deferred tax assets	25	**1,110**	1,190
Total non-current assets		**837,999**	600,490
CURRENT ASSETS			
Inventories	16	**200,440**	183,895
Trade and bills receivables	17	**102,029**	69,420
Prepayments, other receivables and other assets, current	18	**53,835**	87,496
Financial assets at fair value through profit or loss ("FVTPL")	19	**1,274,776**	865,973
Cash and cash equivalents	20	**2,503,999**	1,330,951
Total current assets		**4,135,079**	2,537,735
CURRENT LIABILITIES			
Trade payables	21	**133,109**	54,653
Other payables and accruals	22	**241,966**	136,399
Tax payable		**116,720**	75,020
Lease liabilities-current	15	**1,563**	881
Deferred income	24	**1,503**	1,503
Contract liabilities	23	**35,751**	12,449
Total current liabilities		**530,612**	280,905
NET CURRENT ASSETS		**3,604,467**	2,256,830
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,442,466**	2,857,320

Consolidated statement of financial position
31 December 2023

	Notes	As at 31 December 2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities-non current	15	**1,166**	1,705
Deferred income	24	**19,575**	18,179
Deferred tax liabilities	25	**50,675**	403
Total non-current liabilities		**71,416**	20,287
Net assets		**4,371,050**	2,837,033
EQUITY			
Equity attributable to owners of the parent			
Ordinary share capital	26	**63**	63
Treasury shares	26	**(1)**	(1)
Reserves	27	**4,362,078**	2,833,410
		4,362,140	2,833,472
Non-controlling interests		**8,910**	3,561
Total equity		**4,371,050**	2,837,033

Executive Director: Yan Jianya

Executive Director: Fang Juan

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent								Non-controlling interests	Total equity
	Ordinary share capital	Preferred share capital	Treasury shares	Share premium*	Surplus reserve*	Other reserve*	Retained profits*	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2022	58	23	(1)	7,159,716	46,277	(6,307,781)	118,519	1,016,811	–	1,016,811
Profit and total comprehensive income for the year	–	–	–	–	–	–	1,002,025	1,002,025	(439)	1,001,586
Transfer from retained profits	–	–	–	–	41,817	–	(41,817)	–	–	–
Capital contribution from Series A preferred shareholders (note 26)	–	1	–	241,890	–	–	–	241,891	–	241,891
Shares issued upon the initial public offering ("IPO") and over-allotment (note 26)	2	–	–	583,503	–	–	–	583,505	–	583,505
Redemption of ordinary shares (note 26)	(21)	–	–	(6,359,817)	–	6,359,838	–	–	–	–
Automatic conversion of Series A preferred shares upon IPO (note 26)	24	(24)	–	–	–	–	–	–	–	–
Transaction costs attributable to issue of new shares	–	–	–	(28,423)	–	–	–	(28,423)	–	(28,423)
Capital injection into a subsidiary by non-controlling interests	–	–	–	–	–	–	–	–	4,000	4,000
Recognition of equity-settled share-based payments (note 28)	–	–	–	–	–	17,663	–	17,663	–	17,663
As at 31 December 2022	63	–	(1)	1,596,869	88,094	69,720	1,078,727	2,833,472	3,561	2,837,033

Consolidated statement of changes in equity
Year ended 31 December 2023

	Attributable to owners of the parent								
	Ordinary share capital RMB'000	Treasury shares RMB'000	Share premium* RMB'000	Surplus reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Subtotal RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2023	63	(1)	1,596,869	88,094	69,720	1,078,727	2,833,472	3,561	2,837,033
Profit and total comprehensive income for the year	–	–	–	–	–	1,451,753	1,451,753	(3,551)	1,448,202
Transfer from retained profits	–	–	–	47,443	–	(47,443)	–	–	–
Transfer of treasury shares to employees under RSU Scheme	–	–	97,821	–	(41,423)	–	56,398	–	56,398
Capital injection by non-controlling interests	–	–	–	–	–	–	–	8,900	8,900
Recognition of equity-settled share-based payments (note 28)	–	–	–	–	20,517	–	20,517	–	20,517
As at 31 December 2023	63	(1)	1,694,690	135,527	48,814	2,483,037	4,362,140	8,910	4,371,050

* These reserve accounts comprise the consolidated reserves of RMB4,362,078,000 (2022: RMB2,833,410,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended 31 December 2023

		Year ended 31 December	
	Notes	**2023** **RMB'000**	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**1,745,089**	1,177,749
Adjustments for:			
Finance costs		**112**	21
Interest income	5	**(47,491)**	(13,159)
Reversal of for impairment of trade and bills receivables	7	**(27)**	(145)
(Reversal of)/Provision for impairment of prepayments, other receivables and other assets	7	**(673)**	759
Provision for/(Reversal of) impairment of inventories	7	**1,221**	(145)
Fair value (gains)/losses on financial assets at FVTPL	6	**(29,329)**	8,281
Depreciation of property, plant and equipment	7	**30,572**	24,008
Depreciation of investment properties	7	**–**	479
Amortization of other intangible assets	7	**1,527**	1,433
Depreciation of right-of-use assets	7	**2,076**	1,708
Loss on disposal of property, plant and equipment		**2,876**	2,914
Foreign exchange (gains)/losses, net	6	**(1,091)**	14,446
Equity-settled share award expenses	7	**20,517**	17,663
Increase in inventories		**(17,766)**	(94,356)
Increase in trade and bills receivables		**(32,582)**	(3,636)
Decrease in prepayments and other receivables		**34,322**	(61,746)
Increase in trade payables		**78,456**	31,041
Increase in other payables and accruals		**40,685**	257
Increase in deferred income		**1,396**	598
Decrease in contract liabilities		**23,302**	(3,829)
Cash generated from operations		**1,853,192**	1,104,341
Income tax paid		**(205,761)**	(172,704)
Net cash flows generated from operating activities		**1,647,431**	931,637

Consolidated statements of cash flows
Year ended 31 December 2023

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	**(226,300)**	(152,663)
Disposal of a subsidiary net of cash	**33,134**	–
Purchase of financial assets at FVTPL	**(1,058,300)**	(2,199,176)
Proceeds from disposal of financial assets at FVTPL	**678,826**	1,480,529
Additions to other intangible assets	**(2,133)**	(586)
Interest received	**47,491**	13,159
Net cash flows used in investing activities	**(527,282)**	(858,737)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid to the Co-founders	**–**	(367,460)
Capital contribution from series A preferred shareholders	**–**	241,891
Proceeds from issuance of ordinary shares upon completion of the initial public offering ("IPO")	**–**	507,799
Proceeds from exercise of over-allotment option upon completion of the IPO	**–**	75,706
Proceeds from exercise of equity-settled share-based payments	**56,398**	–
Share issue expenses	**(12,444)**	(15,668)
Capital injection by non-controlling interests	**8,900**	4,000
Payment of lease liabilities	**(1,046)**	(186)
Redemption of ordinary shares	**–**	(6,235,848)
Net cash flows generated from/(used in) financing activities	**51,808**	(5,789,766)
NET INCREASE/(DECREASE) IN CASH AND CASH EUIVALENTS	**1,171,957**	(5,716,866)
Effect of foreign exchange rate changes	**1,091**	(55,183)
Cash and cash equivalents at beginning of the year	**1,330,951**	7,103,000
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**2,503,999**	1,330,951
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**2,503,999**	1,330,951

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2023

1. CORPORATE INFORMATION

Giant Biogene Holding Co., Ltd (the "Company") was incorporated in the Cayman Islands on 28 July 2021 as a limited liability company. The registered office of the Company is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 November 2022.

The Company is an investment holding company. During the year, the Company's subsidiaries were principally engaged in the research, development, manufacture and sale of bioactive material-based beauty and health products in the People's Republic of China (the "PRC").

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Notes	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Giant Beauty Holding Co., Ltd.	(a)	BVI 30 July 2021	USD1	100.00%	–	Investment holding
Hongkong Yaxin Holding Co., Ltd.	(a)	Hong Kong 17 August 2021	HKD1	–	100.00%	Investment holding
Giant Biogene Hong Kong Limited	(a)	Hong Kong 18 August 2021	HKD1	–	100.00%	Investment holding
Xi'an Giant Biogene Technology Co., Ltd.* ("Xi'an Giant Biogene") (西安巨子生物基因技術股份有限公司)	(a)	Xi'an, PRC 8 May 2000	RMB328,141,790	–	100.00%	Research and development, manufacturing and sale of functional skincare products
Shaanxi Giant Biotechnology Co., Ltd.* ("Shaanxi Giant Biotechnology") (陝西巨子生物技術有限公司)	(a)	Xi'an, PRC 12 March 2009	RMB30,000,000	–	100.00%	Research and development, manufacturing and sale of medical products
Hainan Giant Biotechnology Co.,Ltd.* ("Hainan Giant Biotechnology") (海南巨子生物科技有限公司)	(a)	Wanning, PRC 25 March 2020	RMB10,000,000	–	100.00%	Sale of functional skincare products
Xi'an Giant Medical Device Co., Ltd.* ("Xi'an Giant Medical Device") (西安巨子醫療器械有限公司)	(a)	Xi'an, PRC 11 March 2019	RMB30,000,000	–	100.00%	Sale of medical devices

1. CORPORATE INFORMATION *(cont'd)*

Information about subsidiaries *(cont'd)*

Particulars of the Company's principal subsidiaries are as follows: (cont'd)

Name	Notes	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
				Direct	Indirect	
Xi'an Giant Medicine Co., Ltd.* ("Xi'an Giant Medicine") (西安巨子醫藥有限公司)	(a)	Xi'an, PRC 19 May 2021	RMB30,000,000	–	100.00%	Sale of functional skincare products
Xi'an Xingan Biotechnology Co., Ltd.* ("Xi'an Xingan Biotechnology") (西安欣苷生物技術有限公司)	(a)	Xi'an, PRC 20 March 2018	RMB15,000,000	–	100.00%	Sale of functional skincare products
Shanghai Lizhi Biotechnology Co., Ltd* ("Shanghai Lizhi") (上海俐志生物科技有限公司)	(a)	Xian, PRC 8 August 2023	RMB3,000,000	–	100.00%	Sale of functional skincare products
Julikang Biotechnology Co., Ltd* ("Julikang Biotechnology") (陝西巨麗康生物技術有限公司)	(a)	Xi'an, PRC 15 May 2023	RMB100,000,000	–	98.00%	Research and development of new materials
Shaanxi Juyou Xingan Biotechnology Co., Ltd.* ("Shaanxi Juyou Xingan") (陝西巨悠欣苷生物科技有限公司)	(a)	Xi'an, PRC 13 July 2022	RMB10,000,000	–	60.00%	Sale of food and functional skincare products
Xi'an Juheng Network Technology Co., Ltd.* ("Xi'an Juheng") (西安巨衡網路科技有限公司)	(a)	Xi'an, PRC 7 February 2023	RMB10,000,000	–	60.00%	Sale of functional skincare products
Xi'an Juzi Qiyuan Brand Operation Management Co., Ltd* ("Xi'an Juzi Qiyuan") (西安巨子啟原品牌運營管理有限公司)	(a)	Xi'an, PRC 12 June 2023	RMB10,000,000	–	51.00%	Sale of functional skincare products

Note:

* The English names of these entities registered in the PRC represent the best efforts made by the management of the Company to directly translate their Chinese names as they did not register any official English names.

2. ACCOUNTING POLICIES

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), (which include all IFRSs, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the exchange fluctuation reserve; and recognises the fair value of any investment retained and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 17	*Insurance Contracts*
Amendments to IAS 1 and IFRS Practice Statement 2	*Disclosure of Accounting Policies*
Amendments to IAS 8	*Definition of Accounting Estimates*
Amendments to IAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
Amendments to IAS 12	*International Tax Reform – Pillar Two Model Rules*

The nature and the impact of the new and revised IFRSs that are applicable to the Group are described below:

(a) Amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to IFRS Practice Statement 2 Making Materiality Judgements provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.

(b) Amendments to IAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.

(c) Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction narrow the scope of the initial recognition exception in IAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments did not have material impact to the Group.

(d) Amendments to IAS 12 International Tax Reform – Pillar Two Model Rules introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organization for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following revised IFRSs, that have been issued but are not yet effective, in the consolidated financial statements. The Group intends to apply these revised IFRSs, if applicable, when they become effective.

Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[1]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current (the "2020 Amendments")*[1]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2020 Amendments")*[1]
Amendments to IAS 7 and IFRS 7	*Supplier Finance Arrangements*[1]
Amendments to IAS 21	*Lack of Exchangeability*[2]

1 Effective for annual periods beginning on or after 1 January 2024
2 Effective for annual periods beginning on or after 1 January 2025
3 No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below.

Amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 was removed by the HKICPA. However, the amendments are available for adoption now.

Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively to sale and leaseback transactions entered into after the date of initial application of IFRS 16 (i.e., 1 January 2019). Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs *(cont'd)*

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with early application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 MATERIAL ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Related parties *(cont'd)*

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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

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

Property, plant and equipment and depreciation

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

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

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

Category	**Annual rates**
Buildings	4.75% – 9.50%
Leasehold improvement	9.50% –31.67%
Plant and machinery	9.50% – 19.00%
Motor vehicles	19.00%
Furniture, fixtures and equipment	19.00% – 31.67%

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Property, plant and equipment and depreciation *(cont'd)*

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end reporting period.

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

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Acquired software is capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over its estimated useful life of 3 to 10 years, based on estimated useful life, considering the technology updates in the market and the development stage of the Group.

Patent

Purchased patent is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 20 years, based on the validity term of 20 years.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

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

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Leases *(cont'd)*

Group as a lessee

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

(a) *Right-of-use assets*

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

Categories	**Estimated useful lives**
Leasehold land	50 years
Plant and office premises	3 years

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

(b) *Lease liabilities*

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Leases *(cont'd)*

Group as a lessee (cont'd)

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of offices (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets that is considered to be of low value.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Investments and other financial assets *(cont'd)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

This category includes equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on the equity investments are also recognised as other income in profit or loss when the right of payment has been established.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Impairment of financial assets *(cont'd)*

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

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

The Group's financial liabilities include trade payables and other payables and accruals.

Subsequent measurement

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

Financial liabilities at amortised cost (trade payables and other payables and accruals)

After initial recognition, trade payables and other payables and accruals are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

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

Derecognition of financial liabilities

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Offsetting of financial instruments

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

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

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Income tax *(cont'd)*

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Revenue recognition *(cont'd)*

Revenue from contracts with customers (cont'd)

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on customers' acceptance of the products upon delivery, or upon customers' online confirmation.

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

The Company operates restricted share unit scheme and share option scheme. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value of share option is determined using a binomial model, further details are included in note 28 to the consolidated financial statements.

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

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

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Share-based payments *(cont'd)*

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Social pension plans

The Group has social pension plans for its employees arranged by local government labour and security authorities. The Group makes contributions on a monthly basis to the social pension plans. The contributions are charged to profit or loss as they become payable in accordance with the rules of the social pension plans. Under the plans, the Group has no further obligations beyond the contributions made.

Housing fund and other social insurances

The Group has participated in defined social security contribution schemes for its employees pursuant to the relevant laws and regulations of the PRC. These include housing fund, basic medical insurance, unemployment insurance, injury insurance and maternity insurance. The Group makes monthly contributions to the housing fund and other social insurances. The contributions are charged to profit or loss on an accrual basis. The Group has no further obligations beyond the contributions made.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Proposed final dividends are disclosed in the note 11 to the financial statements.

2.4 MATERIAL ACCOUNTING POLICIES *(cont'd)*

Foreign currencies

The consolidated financial statements is presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into RMB at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates or the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

Variable consideration for volume rebates

The Group estimates variable consideration to be included in the transaction price for the sale of products with volume rebates.

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset and the legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way.

Provision for expected credit losses of trade and bills receivables

The Group uses a provision matrix to calculate ECLs for trade and bills receivables. The provision rates are based on days past due for the customer.

The provision matrix is initially based on the market historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At the end of the reporting period, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade and bills receivables is disclosed in note 18 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(cont'd)*

Impairment of non-financial assets

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

Fair value measurements of equity settled share-based payments

Estimating the fair value of equity settled share-based payment transactions requires the determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires the determination of the most appropriate inputs to the valuation model including the expected life of the shares or share options, volatility and dividend yield and making assumptions about them.

For the measurement of the fair value of equity settled share-based payment transactions with employees at the grant date, the Group uses a binomial model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 29 to the consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into one single business unit that primarily includes the research, development, manufacture and sale of bioactive material-based beauty and health products.

The information reported to the directors of the Company, who are the chief operating decision makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors review the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

Geographical information

During the year, all of the Group's revenue was derived from customers located in Chinese Mainland and all of the Group's non-current assets were located in Chinese Mainland, and therefore no geographical segment information in accordance with IFRS 8 Operation Segments is presented.

4. OPERATING SEGMENT INFORMATION *(cont'd)*

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the years ended 31 December 2023 and 2022 is set out below:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Customer A	**N/A***	416,827

* The corresponding revenue of the customer is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue during the year.

5. REVENUE AND OTHER INCOME

Revenue

An analysis of revenue is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Revenue from contracts with customers	**3,524,143**	2,364,445

Revenue from contracts with customers

(a) Disaggregated revenue information

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Type of goods or services		
Sale of goods	**3,524,143**	2,364,445
Geographical market		
Chinese Mainland	**3,524,143**	2,364,445
Timing of revenue recognition		
Goods transferred at a point in time	**3,524,143**	2,364,445

5. REVENUE AND OTHER INCOME *(cont'd)*

Revenue from contracts with customers *(cont'd)*

(a) Disaggregated revenue information (cont'd)

The following table shows the amounts of revenue recognised in current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of goods	**12,449**	16,278

(b) Performance obligations

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

Sale of goods

The performance obligation is satisfied upon control of the asset is transferred to the customer, generally on customers' acceptance of the products upon delivery, or upon customers' online confirmation. Payment is generally made before goods delivery, except for certain customers where payment is due within 7 days but not later than the end of the month, or within 7 days to 180 days from goods delivery.

5. REVENUE AND OTHER INCOME *(cont'd)*

Other income

An analysis of other income is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Other income		
Government grants*	**53,864**	44,871
Interest income	**47,491**	13,159
Others	**1,608**	10,682
Total other income	**102,963**	68,712

* The government grants related to income represent (i) subsidies received from local government authorities for the Group's contribution to the local economic growth. These grants related to income are mainly recognised in profit or loss upon receipt of these rewards with consideration of no unfulfilled conditions or contingencies relating to these grants; and (ii) subsidies received to compensate for the Group's expenses for research projects. The grants related to income were recognised in profit or loss when the Group complied with the conditions attached to the grant and the government acknowledged acceptance.

The government grants related to assets represent subsidies received from local government authorities for the Group's investments in long-term assets in production and research and development bases. The grants related to assets were recognised in profit or loss over the remaining useful lives of relevant assets.

6. OTHER GAINS OR LOSSES, NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Foreign exchange gains/(losses), net	**1,091**	(14,446)
Fair value gains/(losses) on financial assets at FVTPL	**29,329**	(8,281)
Others	**507**	(651)
Total other gains or losses, net	**30,927**	(23,378)

7. PROFIT BEFORE TAX

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

		Year ended 31 December	
	Notes	**2023 RMB'000**	2022 RMB'000
Cost of inventories, consumables and customised products		**431,034**	264,463
Depreciation of property, plant and equipment	13	**30,572**	24,008
Depreciation of investment properties		**–**	479
Depreciation of right-of-use assets	15	**2,076**	1,708
Amortization of intangible assets	14	**1,527**	1,433
Reversal of for impairment of trade and bills receivables	17	**(27)**	(145)
(Reversal of)/Provision for impairment of prepayments, other receivables and other assets	18	**(673)**	759
Government grants	5	**(53,864)**	(44,871)
Marketing and promotion expenses		**1,093,862**	672,309
Bank interest income	5	**(47,491)**	(13,159)
Foreign exchange (gains)/losses, net	6	**(1,091)**	14,446
Provision for/(Reversal of) impairment of inventories		**1,221**	(145)
Employee benefit expenses (including directors' and chief executive's remuneration (note 8)):			
– Wages, salaries and allowances		**115,492**	75,777
– Pension scheme contributions, social welfare and other welfare		**26,286**	18,264
– Equity-settled share award expense (note 28)		**20,517**	17,663
Other outsourcing labor costs		**12,917**	7,725
Auditor's remuneration		**2,300**	2,000
Listing expenses		**–**	37,111

Note: Equity-settled share award expense was included in cost of sales, research and development costs, selling and distribution expenses and administrative expenses in the amounts as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Administrative expenses	**16,100**	13,982
Research and development costs	**2,411**	2,136
Selling and distribution expenses	**1,253**	843
Cost of sales	**753**	702
Total	**20,517**	17,663

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Fees:	396	33
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	2,257	2,156
Pension scheme contributions	291	237
Equity-settled share award expense	13,372	11,735
Subtotal	15,920	14,128
Total	16,316	14,161

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Mr. Huang Jin (a)	108	9
Mr. Shan Wenhua (a)	108	9
Ms. Wong Sze Wing (a)	180	15
Total	396	33

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(cont'd)*

(b) Executive directors, non-executive directors and the chief executive

	Salaries, bonus, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
Year ended 31 December 2023				
Executive directors				
Dr. Fan Daidi (b)	–	–	–	–
Mr. Yan Jianya (c)	606	93	11,186	11,885
Ms. Ye Juan (d)	798	84	941	1,823
Ms. Fang Juan (e)	800	84	1,227	2,111
Ms. Zhang Huijuan (g)	188	35	18	241
Ms. Yan Yubo (h)	135	5	–	140
Subtotal	2,257	291	13,372	16,200
Non-executive directors				
Mr. Chen Jinhao (f)	–	–	–	–
Total	2,257	291	13,372	16,200

	Salaries, bonus, allowances and benefits in kind	Pension scheme contributions	Equity-settled share award expense	Total remuneration
Year ended 31 December 2022				
Executive directors				
Dr. Fan Daidi (b)	–	–	–	–
Mr. Yan Jianya (c)	600	79	9,715	10,394
Ms. Ye Juan (d)	777	79	868	1,724
Ms. Fang Juan (e)	779	79	1,152	2,010
Subtotal	2,156	237	11,735	14,128
Non-executive directors				
Mr. Chen Jinhao (f)	–	–	–	–
Total	2,156	237	11,735	14,128

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(cont'd)*

(b) Executive directors, non-executive directors and the chief executive *(cont'd)*

(a) Mr. Huang Jin, Mr. Shan Wenhua and Ms. Wong Sze Wing were appointed as independent non-executive directors on 21 April 2022 and were re-designated as independent non-executive directors on 13 June 2023.

(b) Dr. Fan Daidi is one of the Co-founders and joined the Group in May 2000. She was re-designated as an executive director and the chief scientific officer of the Company on 21 April 2022 and tendered her resignation as an executive director on 7 July 2023.

(c) Mr. Yan Jianya is one of the Co-founders and joined the Group in May 2000. He was appointed as a director on 30 November 2021 and was re-designated as an executive director, the chairman of the board and the chief executive officer of the Company on 21 April 2022.

(d) Ms. Ye Juan was appointed as a director on 30 November 2021 and was re-designated as an executive director and a senior vice president of the Company on 13 June 2023.

(e) Ms. Fang Juan was appointed as a director on 30 November 2021 and was re-designated as an executive director and a senior vice president of the Company on 13 June 2023.

(f) Mr. Chen Jinhao was appointed as a director on 30 November 2021 and was re-designated as a non-executive director on 13 June 2023. He tendered his resignation as a non-executive director on 3 October 2023.

(g) Ms. Zhang Huijuan is currently the chief financial officer of the Company and was appointed as an executive director on 3 October 2023. The amounts for the year ended 31 December 2023 represented the remuneration of Ms. Zhang Huijuan in respect of her qualifying services as the chief financial officer and an executive director since 3 October 2023.

(h) Ms. Yan Yubo is currently a joint company secretary and the board secretary of the Company and was appointed as an executive director and the chief product officer of the Company on 3 October 2023. The amounts for the year ended 31 December 2023 represented the remuneration of Ms. Yan Yubo in respect of her qualifying services as the chief product officer and an executive director since 3 October 2023.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

During the year and in prior years, certain directors were granted share options and shares, in respect of their services to the Group, under the 2023 Share Option Scheme and the RSU Scheme of the Company, further details of which are set out in note 28 to the consolidated financial statements. The fair value of such options and restricted share units, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four directors (2022: three), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2022: two) highest paid employee who is neither a director nor chief executive of the Company is as follows:

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Salaries, bonuses, allowances and benefits in kind	**806**	1,555
Pension scheme contributions	**84**	189
Equity-settled share award expense	**1,028**	1,051
Total	**1,918**	2,795

9. FIVE HIGHEST PAID EMPLOYEES *(cont'd)*

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Nil to HKD1,000,000	**–**	1
HKD1,500,001 to HKD2,000,000	**–**	1
HKD2,000,001 to HKD2,500,000	**1**	–
Total	**1**	2

During the year and in prior years, share options and restricted share units were granted to certain non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28. The fair value of such awarded share options and shares, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amounts included in the consolidated financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

Taxes on profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

The Company incorporated in the Cayman Islands are not subject to income or capital gains tax under the law of Cayman Islands. In addition, dividend payments are not subject to withholding tax in the Cayman Islands.

Hong Kong profits tax has been provided at a rate of 16.5% (2022:16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The provision for corporate income tax in Chinese Mainland is based on the statutory rate of 25% of the assessable profits as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

Certain subsidiaries were entitled to a preferential company income tax rate of 15% during the year based on the revised version of Guidance Catalogue for Adjustment of Industrial Structure (2011 edition) (《產業結構調整指導目錄（2011年本）》) applicable in 2023 and 2022 issued by the National Development and Reform Commission which was related to the approval given to selected entities to enjoy the preferential tax rate in the Western Development.

Income tax expense of the Group for the reporting period is analysed as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current tax: Charge for the year	**246,535**	176,369
Deferred tax (note 25)	**50,352**	(206)
Total tax charge for the year	**296,887**	176,163

10. INCOME TAX *(cont'd)*

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Profit before tax	**1,745,089**	1,177,749
Tax at the applicable tax rate of 25%	**436,272**	294,437
Effect of preferential tax rates of some subsidiaries	**(177,158)**	(114,999)
Effect of withholding tax at 5% on the distributable profits of the Group's PRC subsidiaries	**44,028**	–
Expenses not deductible for tax	**2,963**	2,790
Tax losses utilised from previous periods	**(930)**	–
Tax losses not recognised	**954**	471
Additional deductible allowance for research and development expenses	**(9,242)**	(6,536)
Tax charge at the Group's effective rate	**296,887**	176,163

11. DIVIDENDS

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Proposed final – RMB0.44 (2022: Nil) per ordinary share	**436,540**	–
Proposed special dividend – RMB0.45 (2022: Nil) per ordinary share	**444,010**	–
Total	**880,550**	–

The proposed final dividend and proposed special dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent for the year ended and the weighted average number of ordinary shares of 976,278,058 (2022: 703,129,563) which assumed to be in issue after taking into account the retrospective adjustment of the share subdivision as disclosed in note 26.

The calculation of the diluted earnings per share amounts in 2022 is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the earning attributable to preferred shareholders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed vest of shares under the RSU Scheme as disclosed in note 28, as well as on the conversion of Series A preferred shares.

The calculation of the diluted earnings per share amounts in 2023 is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed vest of shares under the RSU Scheme. The diluted earnings per share for the year ended 31 December 2023 did not assume the exercise of 2023 Share Option Scheme as its inclusion would be anti-dilutive.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Earnings		
Profit attributable to ordinary shares holders of the parent, used in the basic earnings per share calculation	**1,451,753**	695,998
Earning attributable to preferred shares holders of the parent	**–**	306,027
Total	**1,451,753**	1,002,025

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**976,278,058**	703,129,563
Effect of dilution – weighted average number of ordinary shares:		
RSU Scheme	**6,438,857**	7,344,692
Convertible preferred shares	**–**	310,740,362
Total	**982,716,915**	1,021,214,617

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023							
As at 1 January 2023:							
Cost	225,786	5,556	87,337	10,964	6,316	244,444	580,403
Accumulated depreciation	(58,073)	(498)	(21,529)	(4,528)	(4,354)	–	(88,982)
Net carrying amount	167,713	5,058	65,808	6,436	1,962	244,444	491,421
As at 1 January 2023, net of accumulated depreciation	167,713	5,058	65,808	6,436	1,962	244,444	491,421
Additions	–	3,018	265	1,881	822	226,848	232,834
Disposals	–	–	(2,876)	–	–	–	(2,876)
Disposal of a subsidiary	–	–	–	–	–	(27,338)	(27,338)
Transfers	59,700	967	25,529	1,318	191	(87,705)	–
Depreciation provided during the year	(15,405)	(2,144)	(8,752)	(3,385)	(886)	–	(30,572)
As at 31 December 2023, net of accumulated depreciation	212,008	6,899	79,974	6,250	2,089	356,249	663,469
As at 31 December 2023:							
Cost	285,486	9,541	110,255	14,163	7,329	356,249	783,023
Accumulated depreciation	(73,478)	(2,642)	(30,281)	(7,913)	(5,240)	–	(119,554)
Net carrying amount	212,008	6,899	79,974	6,250	2,089	356,249	663,469

13. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

	Buildings RMB'000	Leasehold improvement RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022							
As at 1 January 2022:							
Cost	184,609	1,862	56,610	6,508	6,160	81,576	337,325
Accumulated depreciation	(39,668)	(186)	(17,564)	(2,101)	(3,470)	–	(62,989)
Net carrying amount	144,941	1,676	39,046	4,407	2,690	81,576	274,336
As at 1 January 2022, net of accumulated depreciation	144,941	1,676	39,046	4,407	2,690	81,576	274,336
Additions	6,461	3,694	7,367	4,480	156	198,158	220,316
Disposals	–	–	(2,914)	–	–	–	(2,914)
Transfers	7,191	–	28,099	–	–	(35,290)	–
Transfer from investment property	23,691	–	–	–	–	–	23,691
Depreciation provided during the year	(14,571)	(312)	(5,790)	(2,451)	(884)	–	(24,008)
As at 31 December 2022, net of accumulated depreciation	167,713	5,058	65,808	6,436	1,962	244,444	491,421
As at 31 December 2022:							
Cost	225,786	5,556	87,337	10,964	6,316	244,444	580,403
Accumulated depreciation	(58,073)	(498)	(21,529)	(4,528)	(4,354)	–	(88,982)
Net carrying amount	167,713	5,058	65,808	6,436	1,962	244,444	491,421

14. OTHER INTANGIBLE ASSETS

	Software RMB'000	Patent RMB'000	Total RMB'000
31 December 2023			
As at 1 January 2023:			
Cost	**1,933**	**16,000**	**17,933**
Accumulated amortization	**(919)**	**(10,263)**	**(11,182)**
Net carrying amount	**1,014**	**5,737**	**6,751**
Cost at 1 January 2023, net of accumulated amortization	**1,014**	**5,737**	**6,751**
Additions	**2,133**	**–**	**2,133**
Amortization provided during the year	**(483)**	**(1,044)**	**(1,527)**
As at 31 December 2023, net of accumulated amortization	**2,664**	**4,693**	**7,357**
As at 31 December 2023:			
Cost	**4,066**	**16,000**	**20,066**
Accumulated amortization	**(1,402)**	**(11,307)**	**(12,709)**
Net carrying amount	**2,664**	**4,693**	**7,357**
31 December 2022			
As at 1 January 2022:			
Cost	1,347	16,000	17,347
Accumulated amortization	(530)	(9,219)	(9,749)
Net carrying amount	817	6,781	7,598
Cost at 1 January 2022, net of accumulated amortization	817	6,781	7,598
Additions	586	–	586
Amortization provided during the year	(389)	(1,044)	(1,433)
As at 31 December 2022, net of accumulated amortization	1,014	5,737	6,751
As at 31 December 2022:			
Cost	1,933	16,000	17,933
Accumulated amortization	(919)	(10,263)	(11,182)
Net carrying amount	1,014	5,737	6,751

15. RIGHT-OF-USE ASSETS

The Group as a lessee

The Group has lease contracts for land and office premises used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises generally have lease terms of 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of right-of-use assets and the movements during the year are as follows:

	Year ended 31 December		
	Leasehold land RMB'000	Office premises RMB'000	Total RMB'000
As at 1 January 2022	59,190	–	59,190
Additions	–	2,751	2,751
Depreciation charge	(1,555)	(153)	(1,708)
As at 31 December 2022	57,635	2,598	60,233
As at 1 January 2023	**57,635**	**2,598**	**60,233**
Additions	**–**	**1,076**	**1,076**
Disposal of a subsidiary	**(11,078)**	**–**	**(11,078)**
Depreciation charge	**(1,023)**	**(1,053)**	**(2,076)**
As at 31 December 2023	**45,534**	**2,621**	**48,155**

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	**2,586**	–
New leases	**1,076**	2,751
Accretion of interest recognised during the year	**112**	21
Payments	**(1,046)**	(186)
Carrying amount at 31 December	**2,729**	2,586
Analysed into:		
Current portion	**1,563**	881
Non-current portion	**1,166**	1,705
	2,729	2,586

The maturity analysis of lease liabilities is disclosed in note 34 to the financial statements.

15. RIGHT-OF-USE ASSETS *(cont'd)*

The Group as a lessee *(cont'd)*

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Depreciation charge of right-of-use assets	**2,076**	1,708
Expense relating to short-term leases (included in administrative expenses and selling and distribution expenses)	**347**	568
Interest on lease liabilities	**112**	21
Total amount recognised in profit or loss	**2,535**	2,297

(d) The total cash outflow for leases is disclosed in note 29(c) to the financial statements.

16. INVENTORIES

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials	**49,850**	71,989
Finished goods	**150,590**	111,906
Total	**200,440**	183,895

17. TRADE AND BILLS RECEIVABLES

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Trade receivables	**81,690**	56,247
Bills receivable	**20,911**	13,772
Impairment	**(572)**	(599)
Total	**102,029**	69,420

The Group's trading terms with its customers are mainly payment in advance, except for certain customers, where is normally on credit with a period generally from 7 to 180 days.. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

The Group's bills receivable were commercial acceptance bills aged within three months. Bills receivable is subject to impairment under the general approach and it is considered to be minimal.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the transaction dates and net of loss allowance, is as follows:

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Within one year	**101,545**	67,879
Over one year and within two years	**100**	1,146
Over two years and within three years	**129**	268
Over three years	**255**	127
Total	**102,029**	69,420

17. TRADE AND BILLS RECEIVABLES *(cont'd)*

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
At beginning of year	**599**	744
Impairment losses, net (note 7)	**(27)**	(145)
At end of year	**572**	599

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

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

As at 31 December 2023

	Ageing				
	Within 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Trade receivables (RMB'000)	**101,913**	**118**	**161**	**409**	**102,601**
Expected credit loss rate	**0.36%**	**15.27%**	**20.33%**	**37.66%**	**0.56%**
Expected credit losses (RMB'000)	**(367)**	**(18)**	**(33)**	**(154)**	**(572)**

As at 31 December 2022

	Ageing				
	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Trade receivables (RMB'000)	68,124	1,350	340	205	70,019
Expected credit loss rate	0.36%	15.10%	21.17%	37.86%	0.86%
Expected credit losses (RMB'000)	(245)	(204)	(72)	(78)	(599)

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Non-current:		
Prepayment of property, plant and equipment	**117,908**	40,895
Current:		
Prepayments	**29,248**	63,245
Deposits and other receivables	**11,030**	21,312
Value-added tax recoverable	**14,545**	4,600
Impairment allowance	**(988)**	(1,661)
Total	**53,835**	87,496

The balances are interest-free and are not secured with collateral.

19. FINANCIAL ASSETS AT FVTPL

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Financial products	**1,274,776**	865,973

The Group entered contracts in respect of financial products from banks and other financial institutions with a return rate based on actual performance in the regulatory published net value report during the year.

20. CASH AND CASH EQUIVALENTS

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cash and cash equivalents	**2,503,999**	1,330,951

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cash and cash equivalents	**2,503,999**	1,330,951
Denominated in		
RMB	**1,891,140**	771,681
USD	**612,858**	6,744
HKD	**1**	552,526

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB1,891,140,000 (2022: RMB771,681,000). The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Within one year	**126,432**	53,072
Over one year and within two years	**5,663**	807
Over two years	**1,014**	774
Total	**133,109**	54,653

Trade payables are non-interest-bearing and are normally settled on the terms of 60 days.

22. OTHER PAYABLES AND ACCRUALS

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Payables for purchase of property, plant and equipment	**124,489**	40,942
Deposits and other payables	**76,758**	48,734
Payroll payable	**34,016**	23,035
Other tax payable	**6,703**	5,460
Accrued listing expenses	**–**	18,228
Total	**241,966**	136,399

Other payables are non-interest-bearing and repayable on demands.

23. CONTRACT LIABILITIES

Details of contract liabilities are as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Advances received from customers		
Sales of products		
Current	**35,751**	12,449

24. DEFERRED INCOME

	Year ended 31 December	
	2023 **RMB'000**	2022 RMB'000
Government grants:		
Current	**1,503**	1,503
Non-current	**19,575**	18,179
Total	**21,078**	19,682

The Group's deferred income mainly represented government grants related to long-term assets in production and research and development bases. The grants related to assets were recognised in profit or loss over the remaining useful lives of relevant assets upon the compliance of the Group with the conditions attached to the grants and the government acknowledgement of acceptance.

25. DEFERRED TAX

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

Deferred tax assets

	Fair value loss on financial assets RMB'000	Assets impairment provision RMB'000	Deferred income RMB'000	Advertisement expenses RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2023	1,875	484	2,948	1,742	–	7,049
Deferred tax credited/(charged) to the statement of profit or loss during the year	(1,875)	99	449	(1,223)	436	(2,114)
Gross deferred tax assets at 31 December 2023	–	583	3,397	519	436	4,935

Deferred tax liabilities

	Fair value gains on financial assets RMB'000	Accelerated tax depreciation RMB'000	Right-of-use assets RMB'000	Withholding taxes RMB'000	Total RMB'000
At 1 January 2023	10	6,252	–	–	6,262
Deferred tax charged to the statement of profit or loss during the year	2,296	1,497	417	44,028	48,238
Gross deferred tax liabilities at 31 December 2023	2,306	7,749	417	44,028	54,500

25. DEFERRED TAX *(cont'd)*

Deferred tax assets

	Fair value loss on financial assets RMB'000	Assets impairment provision RMB'000	Deferred income RMB'000	Advertisement expenses RMB'000	Total RMB'000
At 1 January 2022	375	580	2,858	–	3,813
Deferred tax credited/(charged) to the statement of profit or loss during the year	1,500	(96)	90	1,742	3,236
Gross deferred tax assets at 31 December 2022	1,875	484	2,948	1,742	7,049

Deferred tax liabilities

	Fair value gains on financial assets RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2022	81	3,151	3,232
Deferred tax credited/(charged) to the statement of profit or loss during the year	(71)	3,101	3,030
Gross deferred tax liabilities at 31 December 2022	10	6,252	6,262

The Group has tax losses arising in Chinese Mainland of RMB5,093,000 (2022: RMB5,070,000) that will expire in one to five years for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

The Group is liable for withholding taxes on dividends distributed by those subsidiaries established in Chinese Mainland in respect of earnings generated from 1 January 2008. The applicable rate is 5% for the Group. As at the end of the reporting period, the directors of the Company estimated that part of the retained earnings of the PRC subsidiaries would be retained in Chinese Mainland for use in the future operations and investments. As at 31 December 2023, deferred tax of RMB44,028,000 (2022: Nil) has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's PRC subsidiaries.

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

25. DEFERRED TAX *(cont'd)*

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**1,110**	1,190
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(50,675)**	(403)
Total	**(49,565)**	787

26. SHARE CAPITAL/PREFERRED SHARES/TREASURY SHARES

Ordinary share capital

	2023	2022
	RMB'000	RMB'000
Issued and fully paid 995,000,000 (2022:995,000,000) ordinary shares of USD0.00001	**63**	63

A summary of movements in the Company's ordinary share capital is as follows:

	Number of shares	**Nominal value of shares**
		RMB'000
Ordinary shares		
As at 1 January 2022	919,000,000	58
Ordinary shares repurchased and cancelled (note (a))	(317,995,065)	(21)
Ordinary shares issued upon IPO and exercise of over-allotment option (note (c))	26,000,000	2
Automatic conversion of Series A preferred shares into ordinary shares upon IPO(note (c))	367,995,065	24
As at 31 December 2022, 1 January 2023 and 31 December 2023	**995,000,000**	**63**

26. SHARE CAPITAL/PREFERRED SHARES/TREASURY SHARES *(cont'd)*

Ordinary share capital *(cont'd)*

A summary of movements in the Company's preferred share capital is as follows:

	Number of shares	Nominal value of shares RMB'000
As at 1 January 2022	355,901,602	23
Series A-1 preferred shares issued (note (b))	1,643,500	–
Series A-2 preferred shares issued (note (b))	10,449,963	1
Automatic conversion of Series A preferred shares upon IPO (note (c))	(367,995,065)	(24)
As at 31 December 2022, 1 January 2023 and 31 December 2023	**–**	**–**

Treasury shares

A summary of movements in the Company's treasury shares is as follows:

	Number of shares	RMB'000
Treasury shares		
As at 1 January 2022, 31 December 2022 and 1 January 2023	19,000,000	1
Transfer of treasury shares to employees under RSU Scheme	(5,638,399)	–
As at 31 December 2023	**13,361,601**	**1**

Notes:

(a) Pursuant to the share redemption agreement, in February 2022, the Company redeemed and cancelled 317,995,065 ordinary shares from Juzi Holding Co., Ltd at a price of RMB20 per share which was settled in USD.

(b) Pursuant to the Series A preferred share subscription agreements, the Series A preferred shares was allocated and issued at a price of RMB20 per share which was settled in USD. In January 2022, the Company authorised and issued 12,093,463 Series A shares with the total consideration of RMB241,891,000.

(c) Upon the Company's completion of IPO in November 2022, (a) all Preferred Shares were automatically converted into ordinary shares of the Company on a 1:1 basis and; (b) 22,608,800 ordinary shares of par value US$0.00001 each were issued at a price of HK$24.30 per share. The proceeds of HK$2,261 (equivalent to RMB2,090), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$539,392,000 (equivalent to RMB507,797,000) before issuing expenses were credited to share premium account; and (c) 3,391,200 over-allotment ordinary shares of par value US$0.00001 each were issued at a price of HK$24.30 per share. The proceeds of HK$339 (equivalent to RMB312), representing the par value, were credited to the Company's share capital. The remaining proceeds of HK$82,406,000 (equivalent to RMB75,706,000) before issuing expenses were credited to share premium account.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of change in equity on pages 10 to 11 of the financial statements.

Share premium

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

Other reserve

Other reserve mainly includes: a) reserve resulted from the Group reorganization – deemed distribution (note); b) reserve related to the redemption of ordinary shares and c) reserve related to the recognition of equity-settled share-based payments.

Surplus reserve

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

28. EQUITY SETTLED SHARE-BASED PAYMENTS

RSU Scheme

Prior to the reorganization, in order to promote the Group's development in the long run and attract and retain senior management team and core talents, Xi'an Giant Biogene, the onshore holding company of the Group adopted an equity incentive plan (the "Original Plan") in December 2020. In December 2020, Xi'an Giant Biogene granted a 0.9802% equity interest under the Original Plan with a 5-year vesting period to Mr. Yan Jianya and 78 selected employees of the Group for a consideration of RMB45,000,000 in total through Giant Investment LP I and Giant Investment LP II (each with a 0.4901% equity interest of a consideration of RMB22,500,000).

In December 2021, following the completion of the reorganization, the board of directors of the Company passed a resolution to replace the Original Plan with a modified equity incentive plan (the "Modified Plan"). Under the Modified Plan, the granted outstanding shares and selected employees remained unchanged. Unless otherwise cancelled or amended, will remain in force for 10 years from that date. The Company granted a total number of 9,423,998 restricted share units (the "RSU Scheme") with an subscription price of RMB4.74 per shares to the participants under the Original Plan. The service condition modified to 5 equal tranches upon every 12 months following the grant date of the Original Plan, in addition, none of the shares shall be vested within six months following the listing date.

The fair value of the Modified Plan was remeasured at the date of modification and the Group recognised the difference of fair values between the Original Plan and the Modified Plan as the corresponding share-based compensation in profit or loss over the modified vesting periods.

In September 2022, the Company granted the remaining 9,645,669 shares under the Modified Plan to participants with an subscription price of RMB20.00 per shares. The granted shares will be vested in 5 equal tranches upon every 12 months following the date of grant, in addition, none of the shares shall be vested within six months following the listing date.

2023 Share Option Scheme

The Company operates a share option scheme (the "2023 Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors, including independent non-executive directors, other employees of the Group. The Scheme became effective on 17 August 2023 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

There are no cash settlement alternatives. The Group does not have a past practice of cash settlement for these share options. The Group accounts for the 2023 Share Option Scheme as an equity-settled plan.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The granted options will be vested in 3 tranches as 40% of the options granted shall be vested after one year from the date of grant, 30% of the options granted shall be vested after two years from the date of grant, and the remaining 30% of the options granted shall be vested after three years from the date of grant.

28. EQUITY SETTLED SHARE-BASED PAYMENTS *(cont'd)*

2023 Share Option Scheme *(cont'd)*

The following share options were outstanding under the 2023 Share Option Scheme during the year:

	Weighted average exercise price RMB per share	Number of options
As at 1 January 2023	–	–
Granted during the year	31.85	20,000,000
As at 31 December 2023	**31.85**	**20,000,000**

No share options were exercised during the year.

The exercise price and exercise period of the 2023 share option Scheme outstanding as at the end of the reporting period is as follows:

2023

Number of options	Exercise price	Exercise period
20,000,000	**31.85**	**28-12-2025 to 28-12-2027**

The fair value of share options granted during the year was RMB113,665,000 (RMB5.68 each) which was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2023 Share Option Scheme
Dividend yield (%)	**1.50%**
Volatility (%)	**31.09%**
Risk-free interest rate (%)	**3.64%**
Expected life of options (year)	**1 ~ 3**
Weighted average share price (RMB per share)	**31.85**

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the statistical analysis of comparable listed companies in the same industry and the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

28. EQUITY SETTLED SHARE-BASED PAYMENTS *(cont'd)*

2023 Share Option Scheme *(cont'd)*

At the end of the reporting period, the Company had 20,000,000 share options outstanding under the 2023 Share Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 20,000,000 additional ordinary shares of the Company and additional share capital of US$200 (before issue expenses).

At the date of approval of these financial statements, the Company had 20,000,000 share options outstanding under the 2023 Share Option Scheme, which represented approximately 2.0% of the Company's shares in issue as at that date.

The Group recognised total equity-settled share award expenses of RMB20,517,000 during the year ended 31 December 2023 (2022: RMB17,663,000) in relation to the RSU Scheme and 2023 Share Option Scheme.

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,076,000 (2022: RMB2,751,000) and RMB1,076,000 (2022: RMB2,751,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

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

29. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS *(cont'd)*

(b) Changes in liabilities arising from financing activities *(cont'd)*

	Dividend payable RMB'000	Lease liabilities RMB'000	Contractual obligation for redemption of ordinary shares RMB'000
As at 1 January 2022	367,460	–	6,276,587
Changes from financing cash flows			
– Dividends paid to the Co-founders	(367,460)	–	–
– Amount paid in relation to share redemption	–	–	(6,235,848)
– Amount paid in relation to lease liabilities	–	(186)	–
Exchange adjustment	–	–	(40,739)
New leases	–	2,751	–
Accretion of interest	–	21	–
As at 31 December 2022 and 1 January 2023	–	2,586	–
Changes from financing cash flows			
– Amount paid in relation to lease liabilities	**–**	**(1,046)**	**–**
New leases	**–**	**1,076**	**–**
Accretion of interest	**–**	**112**	**–**
As at 31 December 2023	**–**	**2,729**	**–**

(c) Total cash outflow for leases

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

	2023 RMB'000	2022 RMB'000
Within operating activities	**347**	568
Within financing activities	**1,046**	186
Total	**1,393**	754

30. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Contracted, but not provided for:		
Buildings	**349,281**	262,198
Plant and machinery	**140,942**	73,365
	490,223	335,563

In addition, the Group had the following commitments provided to associate, which are not included in the above:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Contracted, but not provided for:		
Capital contribution to an associate	**16,000**	16,000
Total	**16,000**	16,000

31. RELATED PARTY TRANSACTIONS

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended December 31, 2023 and 2022 respectively.

(a) Compensation of key management personnel of the Group

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Salaries, bonuses, allowances and benefits in kind	**3,900**	3,885
Pension scheme contributions	**428**	396
Equity-settled share award expense	**14,929**	12,823
Total	**19,257**	17,104

Further details of directors' and the chief executive's remuneration are included in note 8 to the financial statements.

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the reporting period are as follows:

As at 31 December 2023

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	1,274,776	–	1,274,776
Financial assets included in prepayments, other receivables and other assets	–	8,675	8,675
Trade receivables	–	81,193	81,193
Bills receivable	–	20,836	20,836
Cash and cash equivalents	–	2,503,999	2,503,999
Total	1,274,776	2,614,703	3,889,479

	Financial liabilities at amortised cost RMB'000
Trade payables	133,109
Financial liabilities included in other payables and accruals	201,247
Total	334,356

32. FINANCIAL INSTRUMENTS BY CATEGORY *(cont'd)*

As at 31 December 2022

	Financial assets at fair value through profit or loss RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Financial assets at fair value through profit or loss	865,973	–	865,973
Financial assets included in prepayments, other receivables and other assets	–	18,590	18,590
Trade receivables	–	55,698	55,698
Bills receivable	–	13,722	13,722
Cash and cash equivalents	–	1,330,951	1,330,951
Total	865,973	1,418,961	2,284,934

	Financial liabilities at amortised cost RMB'000
Trade payables	54,653
Financial liabilities included in other payables and accruals	89,676
Total	144,329

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2023 RMB'000	2022 RMB'000	**2023 RMB'000**	2022 RMB'000
As at 31 December				
Financial assets at fair value through profit or loss	**1,274,776**	865,973	**1,274,776**	865,973

Management has assessed that the fair values of cash and cash equivalents, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade payables, financial liabilities included in other payables and accruals and dividend payables approximate to their carrying amounts largely due to the short-term maturities of these instruments.

33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(cont'd)*

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2023

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss:				
Financial products	–	**1,274,776**	–	**1,274,776**

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Financial assets at fair value through profit or loss:				
Financial products	–	865,973	–	865,973

Financial instruments in Level 2

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all inputs that are significant to fair value measurement are observable, the instrument is included in Level 2. The fair value of the financial products is estimated by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents and financial assets at FVTPL. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from currencies other than the units' functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in USD and HKD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2023			
If RMB weakens against USD	**5**	**30,643**	**30,259**
If RMB strengthens against USD	**(5)**	**(30,643)**	**(30,259)**
2022			
If RMB weakens against USD	5	337	282
If RMB strengthens against USD	(5)	(337)	(282)
If RMB weakens against HKD	5	27,626	27,626
If RMB strengthens against HKD	(5)	(27,626)	(27,626)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, trade and bills receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at the 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2023

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	–	–	81,690	81,690
Bills receivable	20,911	–	–	–	20,911
Financial assets included in prepayments, other receivables and other assets	11,030	–	–	–	11,030
Cash and cash equivalents	2,503,999	–	–	–	2,503,999
Total	2,535,940	–	–	81,690	2,617,630

As at 31 December 2022

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	Total RMB'000
Trade receivables	–	–	–	56,247	56,247
Bills receivable	13,772	–	–	–	13,772
Financial assets included in prepayments, other receivables and other assets	21,312	–	–	–	21,312
Cash and cash equivalents	1,330,951	–	–	–	1,330,951
Total	1,366,035	–	–	56,247	1,422,282

As at the end of the reporting period, the Group had certain concentrations of credit risk as the Group's cash and cash equivalents were deposited in few financial institutions. As at the end of the reporting period, cash and cash equivalents were deposited in financial institutions of high quality without significant credit risk.

The Group does not hold any collateral or other credit enhancement for the balance of accounts receivable.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(cont'd)*

Liquidity risk

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

The maturity profile of the Group's financial liabilities and lease liabilities as at the end of each of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2023			
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	–	133,109	–	133,109
Lease liabilities	–	1,654	1,188	2,842
Financial liabilities included in other payables and accruals	–	201,247	–	201,247
Total	–	336,010	1,188	337,198

	As at 31 December 2022			
	On demand RMB'000	Within 1 year RMB'000	1 to 5 years RMB'000	Total RMB'000
Trade payables	–	54,653	–	54,653
Lease liabilities	–	881	2,763	3,644
Financial liabilities included in other payables and accruals	–	89,676	–	89,676
Total	–	145,210	2,763	147,973

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital as at the end of the reporting periods.

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Total debt	–	–
Equity attributable to owners of the parent	4,362,140	2,833,472
Gearing ratio	0%	0%

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Right-of-use assets	277	–
Investments in subsidiaries	1,114,791	1,081,270
Total non-current assets	1,115,068	1,081,270
CURRENT ASSETS		
Trade and bills receivables	716	–
Prepayments, other receivables and other assets, current	36,418	1,061
Cash and cash equivalents	566,260	552,552
Total current assets	603,394	553,613
CURRENT LIABILITIES		
Trade payables	138	–
Other payables and accruals	219	–
Lease liabilities-current	176	–
Amount due to a subsidiary	44,779	56,311
Total current liabilities	45,312	56,311
NET CURRENT ASSETS	558,082	497,302
TOTAL ASSETS LESS CURRENT LIABILITIES	1,673,150	1,578,572
NON-CURRENT LIABILITIES		
Lease liabilities-non current	91	–
Total non-current liabilities	91	–
Net assets	1,673,059	1,578,572
EQUITY		
Ordinary share capital	63	63
Treasury shares	(1)	(1)
Reserves (note)	1,672,997	1,578,510
Total equity	1,673,059	1,578,572

Executive Director: Yan Jianya **Executive Director: Fang Juan**

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(cont'd)*

Note:

A summary of the Company's reserve is as follows:

	Share premium RMB'000	Other reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
As at 1 January 2022	7,159,716	(6,358,784)	14,759	815,691
Loss and total comprehensive income for the year	–	–	(51,835)	(51,835)
Capital contribution from Series A preferred shareholders	241,890	–	–	241,890
Shares issued upon IPO and over-allotment	583,503	–	–	583,503
Redemption of ordinary shares	(6,359,817)	6,359,838	–	21
Transaction costs attributable to issue of new shares	(28,423)	–	–	(28,423)
Deemed investment to the subsidiary	–	17,663	–	17,663
As at 31 December 2022	1,596,869	18,717	(37,076)	1,578,510

	Share premium RMB'000	**Other reserve RMB'000**	**Accumulated losses RMB'000**	**Total equity RMB'000**
As at 31 December 2022 and 1 January 2023	**1,596,869**	**18,717**	**(37,076)**	**1,578,510**
Profit and total comprehensive income for the year	**–**	**–**	**17,572**	**17,572**
Exercise of equity settled share-based payments.	**97,821**	**(41,423)**	**–**	**56,398**
Deemed investment to the subsidiary	**–**	**20,517**	**–**	**20,517**
As at 31 December 2023	**1,694,690**	**(2,189)**	**(19,504)**	**1,672,997**

36. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board on 25 March 2024.

DEFINITIONS

In this annual report, the capitalized terms shall have the meaning set out below unless the context requires otherwise.

"AFRC"	Accounting and Financial Reporting Council of Hong Kong
"Articles" or "Articles of Association"	the articles of association of our Company, conditionally adopted on 11 October 2022 with effect from the Listing Date, and as amended from time to time
"Board" or "Board of Directors"	the board of Directors of our Company
"Business day" or "business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"Company" or "our Company" or "the Company"	Giant Biogene Holding Co., Ltd (巨子生物控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 28 July 2021
"Director(s)"	director(s) of our Company
"Global Offering"	the Hong Kong Public Offering and the International Offering described in the Prospectus
"Group" or "our Group" or "we" or "us"	our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require)
"HK$" or "HK dollars"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"IFRS"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards and interpretations issued by the International Accounting Standards Committee

"Independent Third Party(ies)"	any entity or person who is not a connected person of our Company within the meaning ascribed thereto under the Listing Rules
"Latest Practicable Date"	22 April 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this annual report
"Listing"	listing of the Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Date"	4 November 2022, on which our Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
"PRC" or "China"	the People's Republic of China. For the purposes of this annual report only and except where the context requires otherwise, excludes Hong Kong, Macau and Taiwan
"Prospectus"	the prospectus of the Company dated 20 October 2022
"province"	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
"Reporting Period"	the year ended 31 December 2023
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RSU Scheme"	the restricted share unit scheme as approved by the Company on 8 December 2021
"Securities and Futures Ordinance" or "SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	the ordinary share(s) in the share capital of the Company with a par value of US$0.00001 each

"Shareholder(s)"	the holder(s) of our Shares
"subsidiary(ies)"	has the meaning ascribed thereto in section 15 of the Companies Ordinance
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States