福森药业
FUSEN PHARMACEUTICAL

福森藥業有限公司
FUSEN PHARMACEUTICAL COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1652

2024
ANNUAL REPORT

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Cao Changcheng *(Chairman)*
(passed away on 31 October 2024)
Mr. Cao Zhiming (appointed as Chairman
with effect from 4 November 2024)
Mr. Hou Taisheng
Ms. Meng Qingfen
Mr. Chi Yongsheng

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

Mr. Cao Changcheng *(Chairman)*
(passed away on 31 October 2024)
Mr. Cao Zhiming (appointed as Chairman
with effect from 4 November 2024)
Mr. Lee Kwok Tung Louis
Dr. To Kit Wa

REMUNERATION COMMITTEE

Mr. Lee Kwok Tung Louis *(Chairman)*
Mr. Cao Changcheng (passed away on 31 October 2024)
Mr. Cao Zhiming (appointed as member
with effect from 4 November 2024)
Dr. To Kit Wa

COMPANY SECRETARY

Mr. Yeung Yuk Hong

AUTHORISED REPRESENTATIVES

Mr. Cao Zhiming
Mr. Yeung Yuk Hong

INVESTOR RELATIONS

Mr. Cao Zhiming

AUDITOR

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

COMPLIANCE ADVISER

Dakin Capital Limited

LEGAL ADVISOR

D. S. Cheung & Co.

REGISTERED OFFICE

Windward 3
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PO Box 1350
Grand Cayman KY1-1108
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN CHINA

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

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

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

HONG KONG SHARE REGISTRAR

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

CAYMAN ISLANDS SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

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

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

LISTING INFORMATION

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

COMPANY'S WEBSITE

www.fusenyy.com

Financial Summary

RESULTS

	2024 **RMB'000**	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000
Revenue	**326,029**	565,608	491,757	385,664	486,854
Cost of sales	**(163,392)**	(266,102)	(266,736)	(174,531)	(220,787)
Gross profit	**162,637**	299,506	225,021	211,133	266,067
Other net income/(loss)	**17,395**	146	7,379	(2,815)	4,734
Selling and distribution expenses	**(80,998)**	(139,541)	(118,721)	(90,946)	(107,407)
General and administrative expenses	**(60,285)**	(74,898)	(44,929)	(48,324)	(67,382)
Research and development expenses	**(106,260)**	(65,197)	(24,992)	(16,911)	(11,492)
Impairment loss on goodwill and intangible assets	**–**	–	–	–	(22,637)
(Loss)/profit from operations	**(67,511)**	20,016	43,758	52,137	61,883
Net finance costs	**(18,838)**	(8,843)	(15,725)	(7,097)	(7,730)
Share of loss and impairment of a joint venture	**(26,661)**	(11,186)	(49,823)	(7,611)	24,252
Share of loss and impairment of an associate	**(77,436)**	(29,435)	(9,203)	(13,638)	–
(Loss)/profit before taxation	**(190,446)**	(29,448)	(30,993)	23,791	78,405
Income tax	**1,646**	(6,847)	(3,661)	(7,178)	(15,737)
(Loss)/profit for the year	**(188,800)**	(36,295)	(34,654)	16,613	62,668

ASSETS AND LIABILITIES

	2024 **RMB'000**	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000
Total assets	**1,238,161**	1,343,745	1,350,268	1,239,336	1,241,347
Total liabilities	**869,799**	781,519	737,375	582,392	583,098
Total equity	**368,362**	562,226	612,893	656,944	658,249

Chairman's Statement

Dear Shareholders,

2024 was an exceptionally challenging year for Fusen Pharmaceutical Company Limited (the "**Company**", together with its subsidiaries, the "**Group**"). The Group suffered a sharp decline in overall revenue and recorded operational losses. As a result of the general market conditions, our investment in an associate, namely Weihai Rensheng Pharmaceutical Group Company Limited, also incurred operating losses, prompting the Group to recognize corresponding impairment provisions for our investment in the associate. The Company experienced its most substantial financial setback since its listing, with its stock price consequently hitting a historic low. Despite these formidable difficulties and challenges, the Group remains confident in the traditional Chinese medicine industry and the domestic market.

Changes in the external environment and uncertainties continue to be the primary factors influencing the market. The industry-wide effort to reduce pipeline inventory led to lower-than-expected sales throughout 2024. The phased introduction and implementation of the National Volume-Based Procurement (VBP) policy also contributed to market uncertainties. However, the Company has proactively adapted to market changes by actively participating in the National VBP program while restructuring its sales team and sales channels. Our strategy is not only to leverage VBP for future sales growth but also to deepen and refine other distribution avenues.

We firmly believe that, as an enterprise engaged in the research and development (R&D), production, and sales of traditional Chinese medicine, the foundation of our development lies in producing safe and reliable pharmaceutical products. In recent years, the Company has continuously upgraded its production facilities, lines, and equipment, steadily enhancing both production efficiency and product quality. By continuously expanding the Company's production capacity, we are laying a solid groundwork for future development.

On the R&D front, the Company has continued to increase its R&D expenditures of new products in recent years. In 2024, R&D expenditures reached RMB106.2 million. These R&D expenditures, recorded as expenses, impacted the Group's profitability of the year and contributed to the losses recorded by the Company in 2024. However, as R&D projects progress toward regulatory approval, if they are able obtain the State's approval and are approved for commercialization, the Company will have new products available for sale, which will enrich and strengthen our product pipeline, providing a foundation for future revenue growth.

Adequate funding is essential to sustain the Group's development. In addition to collaborating with banks, the Group is exploring the feasibility of establishing partnerships with other financial institutions. Beyond leveraging our core strengths in the pharmaceutical production segment, the Group is also diversifying financing methods through other businesses or assets to safeguard our future growth.

Looking ahead, market uncertainties remain the most significant challenge for the Group. Nevertheless, the Company's management team is confident that through meticulous governance, rapid response mechanisms, and adaptive strategies, we will navigate these changes effectively. The Group will make efforts to maintain stable operations while swiftly turning loss to profit. We extend our deepest gratitude to all shareholders for their unwavering trust and support towards the Company.

Cao Zhiming
Chairman of the Board
31 March 2025

Management Discussion and Analysis

Overview

The Group's net loss for the year ended 31 December 2024 amounted to approximately RMB188.8 million, representing a significant increase in loss by approximately 420.2% compared to the year ended 31 December 2023. The loss from operations for the year ended 31 December 2024 as compared to the profit from operations for the year ended 31 December 2023 was mainly attributable to the significant decline in revenue, which led to the plummeting of gross profit. Meanwhile, the Group continued to invest in research and development according the project schedule. The domestic market continued the trend from the second half of 2023 and remained sluggish. A joint venture and an associate of the Group were also impacted by such market conditions, contributing to their own operation losses and subsequent losses attributable to the Group. The Group also carried out assessment and provided for the corresponding impairment losses in accordance with the requirement of the accounting standards.

Business Review

The Group's operating loss in 2024 was approximately RMB67.5 million, compared with a operating profit of approximately RMB20.0 million to the corresponding period in 2023. It was mainly due the decrease in revenue. The industry as a whole entered into a channel inventory destocking phase. The adjustment of inventory structure in terminal channels has led to a short-term decline in sales volume. Affected by the centralized procurement policy, the future market trend is fraught with uncertainties, and customers generally hold a wait-and-see attitude, which is also one of the reasons for the decline in revenue. The Group recorded gross profit of approximately RMB162.6 million in 2024 with the gross profit margin of approximately 49.9%. Consistent with the downward trend in revenue, the Company's selling and distribution expenses also decreased significantly, from approximately RMB139.5 million in 2023 to approximately RMB81.0 million in 2024. Amid the decline in operating performance, the Group strengthened cost control. General and administrative expenses decreased from approximately RMB74.9 million in 2023 to approximately RMB60.3 million in 2024, primarily due to strict control over personnel costs and a reduction in bad debt losses. The Group's research and development (R&D) expenditure in 2024 was approximately RMB106.3 million, representing an increase of RMB41.1 million as compared to 2023. While continuing with ongoing R&D projects, the Group also conducted screening and optimization of existing projects, selectively suspending some projects to keep the total R&D expenditure within a reasonable range. The Group's wholly-owned pharmaceutical R&D subsidiary, Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* (嘉亨(珠海橫琴)醫藥科技有限公司) ("**Zhuhai Hengqin**"), has obtained the relevant approvals for marketing in respect of certain drugs developed under its previous R&D projects, which are expected to be sold in the future. The Group's early investments are gradually yielding returns. On the production front, the Group maintained safe and stable operations. However, due to a decrease in sales orders, production volumes did not meet expectations. The Group's production efficiency and cost advantages were not fully realized. The renovation projects of the Group's existing production facilities and equipment have been essentially completed, while the planned active pharmaceutical ingredient production base will require further investment in the future.

Outlook

The year 2024 was a challenging one for the Group, with significant losses and considerable short-term pressure on working capital. However, the Group's core products continue to maintain a gross margin of nearly 50%, and the fundamentals of our profitability remain unchanged. The Group has adjusted and optimized its R&D project plans and will control R&D expenditure within a reasonable range going forward. In 2024, the Group participated in the national centralized procurement and our flagship products were successfully awarded bids. This is expected to drive a substantial increase in sales volume in 2025. The expected overall increase in sales volume will enable the Group to leverage its competitive advantages in production costs. In addition, the Group will explore various financing channels, accelerate the monetization of existing assets, and improve cash flow to prepare for future development.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately RMB239.6 million, or 42.4%, from approximately RMB565.6 million for the year ended 31 December 2023 to approximately RMB326.0 million for the year ended 31 December 2024. The following table sets out a breakdown of the Group's revenue generated from principal products during the years ended 31 December 2024 and 2023:

	Year ended 31 December				
	2024		2023		
	Revenue RMB'000	**% of total**	Revenue RMB'000	% of total	Growth rate %
Manufacturing products					
Shuanghuanglian Oral Solutions	**146,663**	**45.0%**	275,766	48.8%	–46.8%
Shuanghuanglian Injections	**78,326**	**24.0%**	97,986	17.3%	–20.1%
Heat-clearing and Detoxicating Oral Solutions	**11,896**	**3.6%**	48,605	8.6%	–75.5%
Nicardipine Hydrochloride Injections	**22,416**	**6.9%**	27,300	4.8%	–17.9%
Other Products	**66,728**	**20.5%**	100,965	17.9%	–33.9%
Subtotal	**326,029**	**100%**	550,622	97.4%	–40.8%
Third-party products	**–**	**–**	14,986	2.6%	–100.0%
Total	**326,029**	**100%**	565,608	100.0%	–42.4%

The decrease in revenue of the Group was mainly due to the decrease in sales volume. The industry as a whole entered into a channel inventory destocking phase. The adjustment of inventory structure of the Group in terminal channels has led to a short-term decline in the Group's sales volume.

Cost of sales

Cost of sales was approximately RMB163.4 million for the year ended 31 December 2024, as compared to approximately RMB266.1 million for the year ended 31 December 2023. The decrease in cost of sales was mainly due to the decrease in sales volume and in line with the decrease in revenue.

Gross profit and gross profit margin

Gross profit decreased by approximately RMB136.9 million from approximately RMB299.5 million for the year ended 31 December 2023 to approximately RMB162.6 million for the year ended 31 December 2024. The Group's gross profit margin was approximately 49.9% and 53.0% for the years ended 31 December 2024 and 2023, respectively.

Other net income

Our other net income in 2024 primarily consists of government grants, net realised and unrealised gains on derivative financial instruments and others. The other net income increased by approximately RMB17.3 million from the other net income of approximately RMB0.1 million for the year ended 31 December 2023 to the other net income of approximately RMB17.4 million for the year ended 31 December 2024, primarily due to the increase in government grant and the decrease in the net realised and unrealised losses on derivative financial instruments.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of wages and salaries, logistics charges, advertisement expenses, commission fee, service fee, business travel expenses and other miscellaneous expenses. The selling and distribution expenses decreased by approximately RMB58.5 million, or 42.0%, from approximately RMB139.5 million for the year ended 31 December 2023 to approximately RMB81.0 million for the year ended 31 December 2024. The decrease in selling and distribution expenses was correlated with the decline in revenue for the year 2024. The ratio of selling and distribution expenses to revenue did not change significantly.

General and administrative expenses

The general and administrative expenses decreased by approximately RMB14.6 million, or 19.5%, from approximately RMB74.9 million for the year ended 31 December 2023 to approximately RMB60.3 million for the year ended 31 December 2024, mainly attributable to the decrease in credit losses of approximately RMB8.0 million for the year ended 31 December 2024 and decrease in wages and salaries by approximately RMB6.2 million for the year ended 31 December 2024.

Research and development expenses

The research and development expenses increased by approximately RMB41.1 million from approximately RMB65.2 million for the year ended 31 December 2023 to approximately RMB106.3 million for the year ended 31 December 2024. The expenses were mainly for the research and development on new medicine products according to the work progress.

Net finance costs

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

The net finance costs increased from approximately RMB8.8 million for the year ended 31 December 2023 to approximately RMB18.8 million for the year ended 31 December 2024, mainly attributable to the increase in net foreign exchange loss and interest on bank and other loans.

Interest in associates

Impairment on interest in an associate was arising from the Group's associate, namely Weihai Rensheng Pharmaceutical Group Company Limited ("**Weihai Rensheng**"). The impairment on interest in an associate was approximately RMB72.1 million for the year ended 31 December 2024 (for the year ended 31 December 2023: RMB20.3 million). As the performance of Weihai Rensheng is less than satisfactory, the management of the Group has carried out an impairment assessment on the CGU of Weihai Rensheng at 31 December 2024. For further details, please refer to the section headed "Impairment on interest in an associate" below in this report.

Interest in a joint venture

Share of loss and impairment of a joint venture of the Group increased by approximately RMB15.5 million from approximately RMB11.2 million loss in 2023 to approximately RMB26.7 million loss in 2024. The Group interests is due from Jiangxi Yongfeng Kangde Pharmaceutical Company Limited ("**Jiangxi Yongfeng Kangde**"), whose 35.8% shares are owned by the Group. Such loss of Jiangxi Yongfeng Kangde was mainly due to recognition of provision for impairment of inventories and provision of bad and doubtful debts of other receivables as a result.

Income tax expenses

For the year ended 31 December 2024, the Group recorded income tax credit of approximately RMB1.6 million, as compared to income tax expense of approximately RMB6.8 million for the year ended 31 December 2023. Income tax primarily represents income tax payable by us under relevant PRC income tax rules and regulations. Henan Fusen Pharmaceutical Company Limited* (河南福森藥業有限公司) ("**Henan Fusen**") and Zhuhai Hengqin, our subsidiaries, were certified as High and New Technology Enterprise and have been entitled to a preferential income tax rate of 15%. In 2024, some of Group's domestic subsidiaries suffered operating loss. These losses, which qualify as tax losses deductible against future taxable profit, carried an income tax credit.

Receivables from government-related construction entities

In 2023 and 2024, the Group, being a renowned enterprise based in Henan Province, was invited by the local government to participate in certain construction projects for the infrastructure, including roads and bridges, and public factories located in Henan Province. As at 31 December 2024, a net carrying amount of approximately RMB143.4 million was attributable to (a) prepayments made to a contractor appointed by government-related construction entities, which were used to settle the prepayments to construction work subcontractors and suppliers as directed by the Group, and (b) other prepayments made to various construction work subcontractors and materials suppliers, for the purpose of carrying out these government projects.

IMPAIRMENT ON INTEREST IN AN ASSOCIATE

The impairment on interest in an associate, namely Weihai Rensheng, was approximately RMB72.1 million for the year ended 31 December 2024 (for the year ended 31 December 2023: RMB20.3 million).

Reasons for and circumstances leading to the impairment

Weihai Rensheng is a limited company established in 2014. It is primarily engaged in the research and development (R&D), production, and sales of proprietary Chinese medicines. It is a key manufacturer of proprietary Chinese medicine in the Shandong Province, PRC. It is positioned to create "specialized proprietary Chinese medicines", with its major strengths including pediatrics, orthopedics, and dermatology. Its main customer base consists of major pharmaceutical companies, medicine manufacturers, hospitals, and end users across China.

At the end of 2024, the Company reviewed the actual financial performance of Weihai Rensheng for the year ended 31 December 2024 ("**FY2024**"). According to the information provided by Weihai Rensheng, its total revenue for FY2024 amounted to RMB158 million, whereas the management of Weihai Rensheng had estimated the total revenue for FY2024 in the amount of RMB232 million at the end of 2023. This represents a shortfall of approximately RMB74 million, or a 32% decrease, indicating signs of impairment.

To the best of the Directors' knowledge, information and belief having made reasonable enquiries, the main reasons why the amount of sales revenue of Weihai Rensheng in FY2024 was less than expected are as follows:

(a) The major factors in terms of market environment can be summarised as follows:

(i) The industry as a whole entered into a channel inventory destocking phase in 2024. The adjustment of inventory structure in terminal channels has led to a decline in sales volume. Affected by the centralized procurement policy, the prices of proprietary Chinese medicines were under downward pressure, and competition among companies has become more intense, the future market trend is fraught with uncertainties, and customers generally held a wait-and-see attitude, which was also one of the reasons for the decline in revenue of Weihai Rensheng.

(ii) Medical insurance payment policies were further implemented in the PRC in 2024. Following the opening of medical insurance payment policies to drugstores, those drugstores which were not under the unified management scheme of medical insurance system recorded decrease in sales. Meanwhile, customer traffic at the other chain drugstores and independent drugstores declined, and the chain drugstore industry was hit by waves of business closures. The judgment of the management of Weihai Rensheng on this policy change is worse than originally expected. Since 2024, the business operations of small and medium-sized chain drugstores and independent drugstores have struggled, which resulted in more closures of small and medium-sized chain drugstores and independent drugstores. According to data obtained from Sinohealth CMH (a health industry data and consulting service platform developed by Guangzhou Zhongkang Information Co., Ltd. (廣州中康資訊股份有限公司)), 6,778, 8,792, 9,545 and 14,113 physical retail drugstores were closed in the four quarters of 2024, respectively, demonstrating a clear acceleration in the rate of closures throughout the year. In 2024, the closure rate was approximately 5.76%, compared to 3.8% in 2023. The closure of chain drugstores resulted in a decline in the sales volume of manufacturers of pharmaceutical products. Nevertheless, during the new round of deep industry consolidation, large chain drugstores and some independent drugstores can seize opportunities to increase their market share, continuously integrate advantageous resources, and further enhance the chainization rate and concentration of the industry. Weihai Rensheng anticipates that the average number of customers served per store and revenue will also recover in the future.

(b) In response to the current market environment, adjustments were made to Wehai Rensheng's credit policies, with stricter controls on credit limits for accounts receivables. Moreover, inventory management in the market was tightened, with Wehai Rensheng requiring prepayment from customers or shorter credit terms. Such market environment has impacted sales revenue.

(c) Revenue of the generic drugs division of Weihai Rensheng declined more in the second half of 2024 for the following reasons:

  (i) Due to the aforementioned external factors, sales demand of drugstores recorded relatively large decline, resulting in a decrease in revenue from the sale of generic drugs.

  (ii) Generic drugs typically have lower prices and gross margins. With the decline in the market demand for generic drugs, staff at drugstores promoted alternative drugs with same efficacy but higher gross margin to consumers. The sales volume of and revenue generated from the sale of Weihai Rensheng's primary generic drug, namely Xinfufang Daqing Yepian Tablets (新複方大青葉片), was therefore significantly impacted by this trend.

Since the end of 2021, the Company has engaged an external valuer to assist in estimating the recoverable amount of the Company's interest in Weihai Rensheng annually. At the end of 2023, the Company recorded impairment loss of Weihai Rensheng for the first time, in the amount of approximately RMB20.329 million. When preparing the Company's financial statements for the year ended 31 December 2024, the Company noted that Weihai Rensheng's results were worse than the full-year performance budget previously made, prompting a detailed impairment assessment.

Valuation methods

The Company performs impairment assessment by comparing the carrying amount of an asset to its recoverable amount. Where the carrying amount exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount of an asset is the greater of its value in use (VIU) and its fair value less costs of disposals (FVLCD).

The management of the Company engaged an external valuer to assist with the impairment assessment. With the assistance of the external valuer, the management of the Company has determined that the FVLCD of Weihai Rensheng exceeds its VIU. Hence, the FVLCD of Weihai Rensheng was used to determine the recoverable amount of the Company's interest in Weihai Rensheng.

As stipulated in the independent valuation report, when determining the recoverable amount using FVLCD, for operating business of Weihai Rensheng (the "**Operating Business**"), the Income Approach was applied, with key assumptions including discount rate and financial projections, for the following reasons:

(a) The underlying company, Weihai Rensheng, has the foundation and conditions for continuous operation on a going concern basis. Weihai Rensheng also has sufficient historical operational and financial data that provides the basis for income projections. There is also a stable correlation between operations and income. Future income and risks can be reasonably projected and quantified.

(b) The market approach was considered to be inappropriate due to the lack of comparable companies in terms of business operation stage, business structure, and operational risk.

(c) The cost approach was also considered to be inappropriate as it is based on data from the underlying company's balance sheet, which may have not taken into consideration off-balance-sheet intangible assets (such as trademarks, technology, goodwill), and would hence be unable to reflect Weihai Rensheng's future profitability and growth potential.

For non-operating assets of Weihai Rensheng (primarily drug licenses) (the "**Non-Operating Assets**"), the market approach was adopted, using historical transaction prices of comparable drug licenses as the primary parameters, for the following reasons:

(a) Weihai Rensheng had conducted a series of transactions involving drug licences in the past, with such drug licences being similar to the types of drug licences currently held by Weihai Rensheng. Therefore, the market approach was adopted to estimate the fair value of the non-operating drug licences.

(b) As the management does not have detailed business plans for the non-operating drug licences, it would not be possible to provide reasonable and detailed financial projections, making it inappropriate to adopt the income approach.

(c) The cost approach is primarily based on analysing data from the underlying company's balance sheet, and would be unable to reflect the future profitability and commercial value of drug licences held by Weihai Rensheng. Furthermore, the management of Weihai Rensheng was unable to provide sufficient data regarding the historical research and development costs of the drug licences. Therefore, it was considered inappropriate to adopt the cost approach.

There were no subsequent changes in the valuation method used.

Values of inputs used together with basis and assumptions

The key input underlying the income approach to valuation for the Operating Business included Weihai Rensheng's current year results. The key assumptions underlying the income approach to valuation for the Operating Business are as follows:

1. Discount Rate: 20%, determined by applying the Capital Asset Pricing Model (CAPM). The comparable companies identified and the methodology for applying the model were consistent with 2023 and 2024.

2. Financial Projections:

   (a) Revenue: 5-year CAGR of approximately 18% from 2025 to 2029 (the "**Projection Period**").

   (b) Gross Margin: Expected range of 60%–64%for the Projection Period.

   (c) Terminal Growth Rate: 2%.

Changes in value of inputs or assumptions

Based on the information provided by Weihai Rensheng, the changes in the value of inputs and assumptions from those previously adopted, and the underlying reasons are summarised as follows:

	Valuation as of December 31, 2024	Valuation as of December 31, 2023
Revenue	FY2024: 158.39 million	FY2023: 186.73 million
Gross Profit	FY2024: 101.22 million	FY2023: 103.98 million

	Valuation as of 31 December, 2024	Valuation as of 31 December, 2023
5-Year CAGR of Revenue:	18%	19%
Gross Margin Range:	60% to 64%	58% to 67%
Terminal Growth Rate:	2%	2.2%
Discount Rate:	20%	19%

For details on the factors impacting Weihai Rensheng's results for the year ended December 31, 2024, please refer to the paragraph headed "Reasons for and circumstances leading to the impairment" above.

The discount rate increased by 1% from 2023 to 2024 due to heightened uncertainty in the current financial projections, as Weihai Rensheng's historical performance has consistently fallen short of budgeted targets. This adjustment reflects the additional risk premium associated with the reliability of future projections.

Terminal Growth Rate was adjusted based on third-party macroeconomic data.

According to the information provided by Weihai Rensheng, in FY2024, Weihai Rensheng had three main business divisions, namely the Hospital Division, the Retail Division and the Generic Drugs Division.

1. **Reasons for changes in revenue projection**

   Weihai Rensheng, based on the current market environment and its existing business strategy, has made a forecast for the next five years' revenue using the revenue data from the current year. Overall, the actual input revenue data for the past two years has decreased by approximately 16%, and the 5-Year CAGR of Revenue has also decreased by about 1%. Weihai Rensheng's management believes that despite the impact of the aforementioned market environment, with the continuous integration of advantageous resources within the industry, the overall market trend remains positive, and there is still potential for revenue growth in the future.

According to the information provided by Weihai Rensheng, the reasons for changes in Weihai Rensheng's revenue projection as analysed by its business division are as follows:

(i) **Hospital Division:** Due to the external factors in the market (details of which are set out in the paragraph headed "**Reasons for and circumstances leading to the impairment**" above), the sales of Weihai Rensheng's main product, Pediatric Oral Solutions (小兒解表口服液), have declined, with actual sales falling significantly below from expectations. In light of the economic environment, Weihai Rensheng slowed down its pace in 2024, including the recruitment of new personnel, in order to pursue more stable development, hence Weihai Rensheng has adjusted its revenue growth expectations downward.

(ii) **Retail Division:** The projection in respect of the Retail Division for 2023 was based on business recommendations for each province of the division. Over one-third of the provinces had untapped markets, while more than one-third were identified as requiring deeper development. At the end of 2023, Weihai Rensheng planned to focus on retail promotion, including forming teams and intensifying promotional efforts. Market expectations were relatively optimistic.

In 2024, due to the impact of the market environment, Weihai Rensehng strengthened its credit control, which reduced the growth of its performance. In response to the current market conditions, Weihai Rensehng adjusted its credit policies by tightening the control over accounts receivable credit limits, regulating inventory distribution, and implementing prepayment or shorter payment terms. These measures have affected and are expected to affect Weihai Rensheng's revenue for 2024 and 2025.

(iii) **Generic Drugs Division:** In 2023, the financial projection for the development of generic drugs was relatively stable, with no significant growth expected.

On the other hand, due to the external factors in the market (details of which are set out in the paragraph headed "**Reasons for and circumstances leading to the impairment**" above), the sales of Weihai Rensheng's generic drugs, including its primary generic drug, Xinfufang Daqing Yepian Tablets (新複方大青葉片), was significantly impacted.

In addition, the prices of important active pharmaceutical ingredients (API) increased significantly. As a result, it became difficult to market and sell these APIs. Weihai Rensheng increased the price of products due to the increase in cost, which resulted in a decline in demand. This is a new issue which emerged in 2025.

2. **Reasons for changes in gross margin projection**

The changes in gross margin are primarily influenced by Weihai Rensheng's fixed shared cost and expenses. Initially, the sales projection was optimistic, expecting a steady increase in revenue. With growth in revenue, production volume would rise, leading to a reduction in fixed shared costs, which in turn was expected to increase gross margin.

In 2024, Weihai Rensheng revised its financial projection. Since sales projections had declined compared to previous estimates, fixed shared costs increased, causing the actual gross margin to decrease. Based on the revised projection, the gross margins are expected to drop by approximately 3%.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2024, the Group had net current liabilities of approximately RMB312.8 million (2023: RMB97.7 million) and cash and cash equivalents of approximately RMB21.1 million (2023: RMB34.8 million).

As at 31 December 2024, the Group's total equity attributable to equity shareholders of the Company amounted to approximately RMB369.7 million (2023: RMB563.5 million), and the Group's total debt amounted to approximately RMB382.6 million (2023: RMB342.3 million). The Directors have confirmed that the Group will have sufficient financial resources to meet its obligations as they fall due in the foreseeable future.

GEARING RATIO

As at 31 December 2024, the gearing ratio of the Group, which is calculated as the total debt divided by the total equity, was approximately 103.9% (2023: 60.9%).

COMMITMENTS

Contract commitments outstanding at 31 December 2024 and 2023 not provided for in the financial statements were as follows, which are mainly related to research and development activities, government related projects and equipment procurement:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Contracted for	**352,328**	238,196

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2024 (2023: Nil).

INFORMATION ON EMPLOYEES

As at 31 December 2024, the Group employed 1,131 employees (2023: 1,148 employees). Employees are remunerated based on their qualifications, position and performance. The Group offers a competitive remuneration package to its employees, including mandatory retirement funds, insurance and medical coverage. In addition, discretionary bonus and share options may be granted to eligible employees based on the Group's and individual's performance.

For the year ended 31 December 2024, the total staff costs (including Directors' emoluments, contributions to defined contribution retirement schemes, bonus and other benefits) amounted to approximately RMB78.3 million (2023: RMB103.9 million).

CAPITAL STRUCTURE

The Group's capital structure consists of equity interest attributable to shareholders and liabilities. As at 31 December 2024, the Group's equity interest attributable to shareholders amounted to approximately RMB368.4 million (31 December 2023: approximately RMB562.2 million) in aggregate and total liabilities amounted to approximately RMB869.8 million (31 December 2023: approximately RMB781.5 million). The Group is committed to maintaining an appropriate combination of equity and debt, in order to maintain an effective capital structure and provide maximum returns for shareholders.

CHARGE ON GROUP ASSETS

As at 31 December 2024, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and investment property, which had an aggregate carrying amount of RMB95,828,000 (31 December 2023: RMB63,564,000).

As at 31 December 2024, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB82,730,000 (2023: RMB85,167,000).

As at 31 December 2024, inventories pledged as security by the Group amounted to RMB35,007,000 (2023:Nil).

FOREIGN EXCHANGE EXPOSURE

The Group conducts business primarily in the PRC with most of its transactions denominated and settled in Renminbi. The Group monitors foreign exchange exposure regularly and considers if there is a need to hedge against significant foreign currency exposure when necessary.

EVENT AFTER THE REPORTING PERIOD

These is no significant event subsequent to 31 December 2024 and up to the date of this report which would materially affect the Group's operations and financial performance.

Biographical Details of Directors, Senior Management and Company Secretary

DIRECTORS OF THE COMPANY

Executive Directors

Mr. Cao Zhiming (formerly known as Mr. Cao Dudu) (曹智銘先生) (前稱曹篤篤先生), aged 39, is the chairman of the Board, an executive Director and the chief executive officer of the Company who is primarily responsible for the general management, supervising day-to-day operation, overseeing the investor relations and advising on corporate strategy of the Group. Mr. Cao Zhiming joined the Group in January 2013 as a Director of the Company and in March 2013 as an executive assistant of the chairman of the board of Henan Fusen. He has over 12 years of working experience in securities and corporate finance. Mr. Cao Zhiming's previous working experience includes the following:

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

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

Following the passing of Mr. Cao Changcheng (former chairman of the Board and an executive Director) on 31 October 2024, Mr. Cao Zhiming, an executive Director, the chief executive officer of the Company and the son of the late Mr. Cao Changcheng, was appointed the chairman of the Board with effect from 4 November 2024. For further details of the appointment of Mr. Cao as the chairman of the Board, please refer to the Company's announcement dated 4 November 2024.

Mr. Hou Taisheng (侯太生先生), aged 62, is an executive Director of the Company. Mr. Hou joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Hou is primarily responsible for general management and overseeing the sales and marketing of the Group. He has over 21 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Mr. Hou was the deputy general manager of Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from March 2002 to October 2003.

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

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

Mr. Chi Yongsheng (遲永勝先生), aged 63, is an executive Director. Mr. Chi joined the Group in October 2003 as a director and vice president of Henan Fusen. Mr. Chi is primarily responsible for overseeing the financial operation of the Group. He has over 24 years of experience in the pharmaceutical industry in PRC. Prior to joining the Group, Mr. Chi worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1995 to October 2003. Mr. Chi was responsible for the audit work in Henan Xichuan Pharmaceutical and he was promoted to manage the finance department in 2000.

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

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

Ms. Meng Qingfen (孟慶芬女士), aged 60, is an executive Director. Ms. Meng joined the Group in October 2003 as a director and vice president of Henan Fusen. Ms. Meng is primarily responsible for overseeing the research, development and quality control of our products and the production of the Group. She has over 28 years of experience in the pharmaceutical industry in the PRC. Prior to joining the Group, Ms. Meng worked in Henan Xichuan Pharmaceutical, a state-owned enterprise established in the PRC principally carrying on the pharmaceutical business, from 1988 to October 2003 with her latest position as deputy general manager. Ms. Meng was the supervisor of the production line for extraction of traditional Chinese medicine (提取車間) in 1993 and she was also in charge of the quality control system in 1998 during her time in Henan Xichuan Pharmaceutical. Ms. Meng has been the head of the Group's production house since 2003 responsible for ensuring the safety and quality of the Group's products. With her help, Henan Fusen was able to obtain the GMP certifications for five dosage forms, including small volume injection, oral solution, tablet, capsule and granule (including pre-treatment and extraction of traditional Chinese medicine) in 2008. Ms. Meng has also been appointed as the head of our Group's research and development team in 2013 to strengthen our research and development effort and broaden our product offering.

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

Independent Non-Executive Directors

Mr. Sze Wing Chun (施永進先生), aged 48, was appointed as our independent non-executive Director on June 14, 2018. Mr. Sze obtained a Bachelor of Business Administration in Accounting from the Hong Kong University of Science and Technology in November 1998. He has been a member of the Hong Kong Institute of Certified Public Accountants since October 2002 and became a fellow member in May 2017. He has also been a fellow member of the Association of Chartered Certified Accountants since October 2006. Mr. Sze worked at Deloitte Touche Tohmatsu, an international CPA firm from September 1998 to November 2011 and worked at Crowe Horwath (HK) CPA Limited, an international CPA firm from February 2012 to February 2017. He is currently a director of Ascenda Cachet CPA Limited, a CPA firm in Hong Kong. Mr. Sze has over 20 years of experience in auditing, accounting and taxation.

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

Mr. Lee Kwok Tung Louis (李國棟先生), aged 57, was appointed as an independent non-executive Director on 15 April 2019. Mr. Lee graduated from Macquarie University in Australia with a Bachelor of Economics in 1992. Mr. Lee was admitted as a Certified Practising Accountant of the CPA Australia in June 1996 and a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants ("**HKICPA**") in October 1999. Mr. Lee is currently a Fellow Certified Practising Accountant of the CPA Australia and a Fellow Certified Public Accountant of HKICPA. Mr. Lee has accumulated and possessed extensive experience with unlisted groups, listed groups and professional firms in finance, accounting and auditing since 1993.

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

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

Dr. To Kit Wa (杜潔華博士), aged 50, was appointed as an independent non-executive Director on 13 August 2020. Dr. To obtained a Bachelor of Science in General Biology in 1996, a Master of Philosophy in 2002 and a Doctor of Philosophy in Cancer Biology in 2007 from The University of Hong Kong. She also received the Certificate and the Diploma of Marketing from HKU School of Professional and Continuing Education in 2000 and 2001 respectively. She also obtained Master of Corporate Governance from Hong Kong Metropolitan University in 2022. She also got the associateship of the Hong Kong Chartered Governance Institute in February 2024.

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

Dr. To has also been appointed as independent director of Garden Stage Limited (listed on the Nasdaq stock market, stock code: GSIW) on 1 December 2023 and Junee Limited (listed on the Nasdaq stock market, stock code: JUNE) on 17 April 2024. On 31 March 2025, her directorship in Junee Limited has been ended in accordance with reorganization of Board structure.

SENIOR MANAGEMENT

Mr. Li Zhen (李鎮先生), aged 47, was appointed as the chief financial officer of the Company on 18 April 2019. He is responsible for overseeing the Group's overall financial accounting.

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

Mr. Fu Jiancheng (付建成先生), aged 65, is the vice president of the Company. Mr. Fu joined the Group in October 2003 as a supervisor of Henan Fusen. Mr. Fu is primarily responsible for the human resources and administrative management of the Group. He has over 18 years of experience in the pharmaceutical industry in PRC.

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

COMPANY SECRETARY

Mr. Yeung Yuk Hong (楊育康), aged 35, was appointed as our company secretary on 30 September 2024. Mr. Yeung is responsible for overseeing the compliance and company secretarial matters of our Group. Mr. Yeung is a member of the Hong Kong Institute of Certified Public Accountants. He obtained a bachelor degree of Business Administration (Honours) in Accountancy from the Hong Kong Polytechnic University.

Mr. Yeung has more than 11 years of experience in auditing, accounting, initial public offering and company secretarial matters.

Corporate Governance Report

CORPORATE GOVERNANCE

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

The Company has adopted the principles and code provisions stated in the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Listing Rules, save for code provisions C.2.1 and C.6.1 of the CG Code. Please refer to the paragraphs headed "Chairman and Chief Executive" and"Company Secretary" on pages 25 and 32 of this report for details.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") set out in Appendix C3 of the Listing Rules as the code of conduct regarding securities transactions by directors. Having made specific enquiry, all Directors have fully complied with the required standards set out in the Model Code during the year ended 31 December 2024.

NON-COMPETITION UNDERTAKING

During the year ended 31 December 2024, none of the Directors nor their respective associates (as defined in the Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

Up until the passing of Mr. Cao Changcheng on 31 October 2024, each of Mr. Cao Changcheng and Full Bliss Holdings Limited were the controlling shareholders (as defined in the Listing Rules) of the Company (collectively referred to as the "**Controlling Shareholders**"). The independent non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the deed of non-competition dated 14 June 2018 (the "**Deed of Non-competition**") provided to the Company by the Controlling Shareholders had been complied with by the Controlling Shareholders and duly enforced for the year ended 31 December 2024 (up until the passing of Mr. Cao Changcheng).

ROLE AND FUNCTION OF THE BOARD AND MANAGEMENT

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

According to the code provision D.1.2 of the CG Code, the management shall provide all members of the Board with monthly updates. For the year ended 31 December 2024, the executive Directors have provided to all other members of the Board updates on any material changes to the position and prospects of the Group, which are considered to be sufficient to provide general updates of the performance of the Group, position and prospects to the Board members and allow them to give a balanced and understandable assessment of the same.

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

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

DIRECTORS' RESPONSIBILITIES

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

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

The Directors acknowledge their responsibility for preparing the Company's consolidated financial statements for the year ended 31 December 2024. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

COMPOSITION

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

Executive Directors

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

Independent Non-executive Directors

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

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

The proportion of independent non-executive Directors complies with the requirement as set out in the Rules 3.10(1) and (2), and 3.10A of the Listing Rules whereby independent non-executive Directors of a listed issuer represent at least one-third of the board of directors. The three independent non-executive Directors represent one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. With the various experience of both the executive Directors and independent non-executive Directors and the nature of the Group's business, the Board considered that the Directors have a balance of skills and experience for the business of the Group. The Board regularly reviews whether a Director performs his or her responsibilities to the Company, and whether the Director is spending sufficient time performing them.

Mr. Cao Changcheng (former chairman of the Board and an executive Director, who passed away on 31 October 2024) is the father of Mr. Cao Zhiming. Save as disclosed, there was no financial, business, family or other material relationship among the Directors during the year ended 31 December 2024.

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

CHAIRMAN AND CHIEF EXECUTIVE

Under the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company should be separate and should not be performed by the same individual. During the year ended 31 December 2024, up until the passing of Mr. Cao Changcheng, the positions of chairman and chief executive officer of the Company were held by Mr. Cao Changcheng and Mr. Cao Zhiming, respectively. The chairman provides leadership for the Board and is responsible for formulation of overall business development strategy and major business decision of the Group. The chief executive officer focuses on general management and day-to-day operation, oversees the investor relations and advise on corporate strategy of the Group. Their respective responsibilities are clearly defined and set out in writing.

However, following the passing of Mr. Cao Changcheng (former chairman of the Board and an executive Director) on 31 October 2024, Mr. Cao Zhiming ("Mr. Cao"), an executive Director, the chief executive officer of the Company and the son of the late Mr. Cao Changcheng, was appointed the chairman of the Board with effect from 4 November 2024. For further details of the appointment of Mr. Cao as the chairman of the Board, please refer to the Company's announcement dated 4 November 2024.

In view of Mr. Cao's extensive experience in the pharmaceutical industry, and considering his roles in the general management and supervising day-to-day management operations of the Group, the Board believes that it is in the best interests of the Group for Mr. Cao to take up the dual roles of chairman of the Board and chief executive officer, as it has the benefit of ensuring consistent leadership within the Group and enables effective and efficient overall strategic planning for the Group. Therefore, the Board considers that the deviation from code provision C.2.1 of the CG Code is appropriate in such circumstances and that there are sufficient checks and balances in place, which comprises experienced and high calibre individuals and adequate independent element in the composition of the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Each of Mr. Hou Taisheng, Mr. Chi Yongsheng and Dr. To Kit Wa will retire from office as Directors at the forthcoming annual general meeting to be held on Thursday, 29 May 2025 ("**AGM**"), Mr. Hou Taisheng, Mr. Chi Yongsheng and Dr. To Kit Wa, being eligible, will offer themselves for re-election at the forthcoming AGM.

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

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

Dr. To Kit Wa has met the independence criteria under the Listing Rules. Moreover, Dr. To Kit Wa has given confirmation of independence to the Company. With due consideration on the above factors, the Board believes that Dr. To Kit Wa is independent.

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

Having considered the above aspects and in view of the contribution that Mr. Hou Taisheng, Mr. Chi Yongsheng and Dr. To Kit Wa, are able to make to the Board, their re-election will be in the best interests of the Company and its shareholders as a whole.

At the AGM, separate ordinary resolutions will be put forward to the Shareholders in relation to the proposed re-election of Mr. Hou Taisheng and Mr. Chi Yongsheng as executive Directors and Dr. To Kit Wa as independent non-executive Director, respectively.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

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

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

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

The record of continuous professional development relating to director's duties and regulatory and business development that have been received by the Directors during the year ended 31 December 2024 are summarised as follows:

Directors	Type of training (Note)
Executive Director	
Mr. Cao Changcheng (passed away on 31 October 2024)	A,B
Mr. Cao Zhiming	A,B
Mr. Hou Taisheng	A,B
Ms. Meng Qingfen	A,B
Mr. Chi Yongsheng	A,B
Independent Non-executive Director	
Mr. Sze Wing Chun	A,B
Mr. Lee Kwok Tung Louis	A,B
Dr. To Kit Wa	A,B

Notes:

Types of training

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

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

BOARD COMMITTEES

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

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

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

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

Audit Committee

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

The work performed by the Audit Committee for the financial year ended 31 December 2024 included the following:

- The Group's consolidated financial statements for the year ended 31 December 2024 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2024 comply with applicable accounting standards and the Listing Rules and that adequate disclosures have been made;

- reviewing the accounting principles and practices adopted by the Group; and

- reviewing the annual results announcement of the Group for the year ended 31 December 2024.

Nomination Committee

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

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

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

The work performed by the Nomination Committee for the year ended 31 December 2024 included the following:

- reviewing the structure, size, composition and diversity of the Board;
- assessing the independence of the independent non-executive Directors; and
- considering the qualifications of the retiring Directors, namely Mr. Hou Taisheng, Mr. Chi Yongsheng and Dr. To Kit Wa, standing for re-election at the forthcoming AGM.

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

Remuneration Committee

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

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

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

The Remuneration Committee has reviewed the remuneration packages and emoluments of the Directors and senior management and considered that they are fair and reasonable during the year ended 31 December 2024. No Director nor any of his associates is involved in deciding his own remuneration.

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

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

ATTENDANCE RECORDS OF MEETINGS

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

Five Board meetings and two Audit Committee meetings, one Remuneration Committee meetings and one Nomination Committee meeting were held during the year ended 31 December 2024. The individual attendance records of the meetings are set out as follows:

	No. of meetings attended during the year ended 31 December 2024					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Extraordinary General meeting	General meeting
Executive Directors						
Mr. Cao Changcheng (passed away on 31 October 2024)	3/4	–	1/1	1/1	–	1/1
Mr. Cao Zhiming	4/4	–	–	–	–	1/1
Mr. Hou Taisheng	3/4	–	–	–	1/1	1/1
Ms. Meng Qingfen	3/4	–	–	–	1/1	1/1
Mr. Chi Yongsheng	3/4	–	–	–	1/1	1/1
Independent non-executive Directors						
Mr. Sze Wing Chun	5/5	2/2	–	–	1/1	1/1
Mr. Lee Kwok Tung Louis	5/5	2/2	1/1	1/1	1/1	1/1
Dr. To Kit Wa	5/5	2/2	1/1	1/1	1/1	1/1

Under the code provision C.5.1 of the CG Code, board meetings should be held at least four times a year at approximately quarterly intervals. The Directors consider that they have met regularly for the year ended 31 December 2024.

The chairman also held a meeting with independent non-executive Directors without presence of other Directors for the year ended 31 December 2024.

BOARD DIVERSITY POLICY

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

As at the date of this report, the Board comprises seven Directors. Three of them are independent non-executive Directors, thereby promoting critical review and control of the management process. Five of our Directors are male and two of our Directors are female. The Board is also characterised by significant diversity, whether considered in terms of gender, age, educational background, professional experience, skills, knowledge and length of service. The Board targets to maintain at least the current level of female representation and this target, along with other matters related to diversity, will be reviewed on an annual basis by the Board.

As at 31 December 2024, the workforce (including senior management) comprised of 50.91% female and 49.09% male. The Company is determined to and will continue to achieve and maintain gender diversity and equality in terms of the Board and the general workforce.

Company secretary

Mr. Yeung Yuk Hong was appointed as the company secretary of the Company on 30 September 2024. He is an external service provider to the Company and his primary corporate contact person is Mr. Li Zhen, the chief financial officer of the Company, for the purpose of code provision of C.6.1 of the CG code. Information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Mr. Yeung through the contact person assigned. Having in place a mechanism that Mr. Yeung will get hold of the Group's development promptly without material delay and with his expertise and experience, the Board is confident that having Mr. Yeung as the company secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations. The biographical details of Mr. Yeung are set out under the section headed "Biographical Details of Directors, Senior Management and Company Secretary".

In accordance with Rule 3.29 of the Listing Rules. Mr. Yeung has taken no less than 15 hours of relevant professional training during the year ended 31 December 2024.

BOARD INDEPENDENCE

The Company has mechanisms in place to ensure independent views are available to the Board. The Board endeavours for having a balanced composition of executive Directors and independent non-executive Directors to maintain a strong independent element on the Board and to bring independent view and inputs from the Directors. The majority of the members of the Audit, Remuneration and Nomination Committees is independent non-executive Directors. The Audit and Remuneration Committees are chaired by an independent non-executive Director.

The Nomination Committee shall assess the independence of the candidates who are to be appointed as independent non-executive Directors as well as the independent non-executive Directors who are to be re-elected with reference to the independence guidelines set out in Rule 3.13 of the Listing Rules (the "**Independence Guidelines**") to ensure that they can exercise independent judgment and fulfil their roles as independent non-executive Directors.

The independent non-executive Directors shall not have any financial or family relationships with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company. Fees to independent non-executive Directors are in the form of cash payment with additional fees payable to reflect membership or chairmanship of the Board Committees. None of the independent non-executive Directors receives equity-based remuneration with performance-related elements.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Company's mechanisms in ensuring the availability of independent views to the Board are kept under regular review (at least on an annual basis) to ensure their effectiveness. At the Board meeting, the Board conducted a review and considered that such mechanisms were properly implemented and were effective.

During the year ended 31 December 2024, the chairman of the Board held a meeting with the independent non-executive Directors without the presence of the other Directors, in which the independent non-executive Directors could share their views and raise any issues in the absence of other Directors and the management.

CORPORATE GOVERNANCE FUNCTIONS

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

INDEPENDENT AUDITORS' REMUNERATION

During the year ended 31 December 2024, the remuneration paid and payable to the external auditors of the Company, KPMG, in respect of the audit services was as follow:

Services rendered	Remuneration paid/payable RMB'000
Audit services	3,800

SHAREHOLDERS' RIGHTS

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

Procedures for Shareholders to Convene an Extraordinary General Meeting

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

Putting Forward Enquiries to the Board

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

Procedures for Putting Forward Proposals at Shareholders' Meeting

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Furthermore, in light of the Company's non-compliance records with certain Listing Rule requirements under Chapters 13, 14 and 14A of the Listing Rules in 2019 and 2020, the Company has since taken steps to improve its internal control system accordingly. Please refer to the announcement of the Company dated 5 July 2024 for further details.

For the year ended 31 December 2024, the Company has collected information and carried out investigations in respect of risk management and internal control issues for its subsidiaries. No material deviation in the compliance guidance on risk management and internal controls by the subsidiaries was reported; all subsidiaries have complied with the relevant laws and industry regulations in respect of financial reporting and legal compliance; and no material non-compliance of rules or material litigation risk was reported, nor was there any fraud or corruption issue.

For the year ended 31 December 2024, the Board have complied with the code provisions on risk management and internal control as set out in the CG Code.

Internal control on connected transaction

As a general control, the Group maintained a list of connected persons and entities for the monitoring and identification of connected transaction. In particular, the list should set out the connected persons' corresponding relationships with the Group and details of any transactions with such connected persons and keep updating the list in a timely manner. The list shall be provided to the management of the Company periodically and the Board shall be notified before any proposed transactions are entered into between the Group and such connected persons.

The Company will also review the connected transaction ledger on a frequent basis. Confirmation on monthly reconciliation records shall be obtained from the relevant connected persons. If there is any discrepancy, investigation shall be carried out by the Finance Department and the Chief Financial Officer to clarify the discrepancy.

In additional, the risk management and internal control of the Group were reviewed by the external professional consultants for the year ended 31 December 2024. Where appropriate, their recommendations are adopted and enhancements to the risk management and internal controls will be made.

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

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

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

WHISTLEBLOWING POLICY

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

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

According to CG Code Provision F.2.2, the chairman of the Board and all board committees should attend the annual general meeting. The chairman of the board, along with all board committees, have attended the annual general meeting held on 28 May 2024.

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

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

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website and the Company's website;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information is made available on the Company's website;

(iv) annual and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

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

The Company keeps on promoting investor relations and enhancing communication with the existing Shareholders and potential investors. It welcomes suggestions from investors, stakeholders and the public. Enquiries to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong. The Company has reviewed the shareholders communication policy conducted for the year ended 31 December 2024. Having considered the different channels of communication with the Shareholders and that the shareholders' communication policy is able to facilitate an open and ongoing communication with the Shareholders on a fair disclosure basis, the Board considered that the shareholders communication policy has been well implemented and effective.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's memorandum and articles of association during the year ended 31 December 2024.

DISCLOSURE OF INSIDE INFORMATION

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

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

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website;

- the Group has strictly prohibited unauthorised use of confidential or inside information; and

- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the executive Directors, the Company Secretary and the head of investor relations of the Company are authorised to communicate with parties outside the Group.

Environmental, Social and Governance Report

ABOUT THIS REPORT

This is the 2024 Environmental, Social and Governance Report (the "**Report**") released by Fusen Pharmaceutical Company Limited (the "**Group**", the "**Company**", "**we**" or "**us**"; stock code: 01652.HK) to the general public. This is the sixth Environmental, Social and Governance Report issued by the Company, which covers the period from 1 January 2024 to 31 December 2024 (the "**Reporting Period**").

The Report, prepared under the requirements of Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), complies with the "comply or explain" principle and represents the disclosure or explanation of the Company's sustainable operation activities for the year ended 31 December 2024 with reference to the Company's actual situation.

During the process of identifying the scope of the reporting boundary, we ensure that the report reflects our ESG impact and performance. Unless otherwise specified, the report covers the ESG performance of the business activities directly operated and managed by the Company for the year ended 31 December 2024. The 2023 reporting period is used as the baseline year for the Report in the Reporting Period. The baseline year of 2023 was selected as it reflects the most recent reporting period in which the Group's ESG management structure and processes remained consistent with the current framework, ensuring comparability and continuity in tracking performance improvements.

The Group recognises the importance of achieving environmental sustainability as it relates to its operations. During the Reporting Period, the Group has strictly complied with the applicable laws and regulations relating to air and greenhouse gas emissions, water and land discharges, and hazardous and non-hazardous waste generation during its course of operation.

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

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

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

Balance: Both positive and negative sides of the performance have been presented in a transparent and unbiased manner.

Consistency: The methodology adopted for disclosing key environmental and social performance indicators, data collection and verification is consistent with that of the previous reporting period. Changes that may affect a meaningful comparison with previous reports have been explained in corresponding section.

ESG Management Statement of the Board of Directors

2024 marks a crucial year not only for fully implementing the spirit of the 20th National Congress of the Communist Party of China and the 14th Five-Year Plan, but also for advancing high-quality development on the new journey of China-style modernisation. Against the background of weak global economic recovery, intensified climate change challenges and innovative transformation of the pharmaceutical industry, sustainable development has become the core pathway for enterprises to cope with uncertainty and realise long-term value. The Board of Directors of the Company has always firmly believed that sustainable development is the key to the long-term development of the Company. We deeply integrated ESG work into strategic decision-making and operation practice, and strived to make substantial progress in environmental protection, social responsibility fulfillment and corporate governance.

During the Year, based on the Environmental, Social and Governance Reporting Guide issued by the Hong Kong Stock Exchange, we aligned ourselves with international advanced practices and anchored strategic heights to improve ESG governance system and strengthen internal control, ensuring that the Company's decisions were scientific and reasonable. We actively maintain communication with shareholders and stakeholders in full respect and protection of their legitimate rights and interests, and continuously improve corporate governance to enhance investors' confidence in the Company.

On the environmental level, we actively fulfill our commitment to sustainable development and establish governance institutions to address climate change. In our continuous efforts targeted at production processes optimisation, we strengthen energy conservation and emission reduction measures, striving to reduce the impact of production and operation activities on the environment. Additionally, we actively pay attention to the environmental protection trend of the industry, and explore new paths for green development, so as to achieve positive interaction between economic benefits and environmental protection.

On the social level, we have always regarded product quality as the lifeline of the enterprise, strictly abiding by the drug production quality management standards, and ensuring that safe and effective drugs are provided to the society. In 2024, Fusen Shuanghuanglian Oral Liquid has been listed on the "Family Maintenance Drugs" for two consecutive years. We attach great importance to the health and safety of our employees by constantly improving the occupational health and safety management system as well as actively carrying out employee training to enhance the professional skills and professionalism of our employees. At the same time, we give back to society in many ways and strive to be a "health partner" for everyone.

Those who strive hard will outperform others, and those who dare to forge ahead will achieve victory. In 2025, Fusen Pharmaceutical will continue to adhere to the philosophy of sustainable development, and deeply integrate ESG factors into the strategic planning and daily operation of the Company. We will further increase investment in R&D to promote technological innovation and enhance the core competitiveness of the Company. Through active response to market changes, we will optimise our product structure and expand the market share while working with stakeholders to build a more resilient pharmaceutical ecosystem, contributing to the "Fusen Resolution" for a healthier China and sustainable development on a global scale.

ABOUT FUSEN PHARMACEUTICAL

(1) Business Overview

The Company is a modern comprehensive pharmaceutical enterprise integrating the cultivation of Chinese herbal medicine, pharmaceutical research and development, and sales. The Company has a number of production lines for small volume injections, large volume injections, oral liquids, tablets, capsules, granules, traditional Chinese medicine extracts, chemical synthesis, etc., which are first-class in China and have passed the GMP certification, as well as more than 70 drug approval numbers, including 20 exclusive products, 30 OTC products and 11 basic drugs. Our treatment areas include heat-clearing and detoxification, cardiovascular and cerebrovascular, antihypertensive and hypoglycemic, tonifying, qi-regulating, anti-anemia, antibacterial and anti-inflammatory, and so on.

Since its establishment in 2003, the Company, has adhered to the concept of "honesty and trustworthiness, strengthening the foundation, winning the brand and steady development". The Company insists on "Chinese medicine health industry" as the core, and actively explores the development path of "integrating medicine, chemistry, biopharmaceuticals in one health industry", improves quality with science and technology, and becomes the leader of modern Chinese medicine. The Company has been successively awarded the titles of "national leading enterprise of agricultural industrialization" and "excellent private enterprise" and "high-tech enterprise" in Henan Province. Under the background of healthy China, the company will adhere to the business philosophy of "craftsmanship quality, health is happiness" to protect the health of consumers.

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

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

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

History

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

As of the end of 2024, the Company had a total of:
22 subsidiaries;
Baikal skullcap root (黃芩) planting base of 20,000 mu and lonicera japonica planting base of 30,000 mu;
More than 40,000 employees.
Obtained 47 patents including "Fingerprint detection method of a Chinese medicine composition of Scutellaria baicalensis and its application"

(2) Community awards

- ➢ Top Manufacturing Enterprise of Henan Province
- ➢ Excellent Private Enterprise of Henan Province
- ➢ High-tech Enterprise of Henan Province
- ➢ Leading Enterprise in Agricultural Industrialisation
- ➢ Leading Innovative Enterprise of Henan Province in 2024
- ➢ Vice-Chairman Company of the Fourth General Assembly of Henan Pharmaceutical Industry Association

- ➢ Private Enterprises Association of Henan Province "Creating Better Enterprises, Better Society and Better Life" Enterprise

1. ESG GOVERNANCE

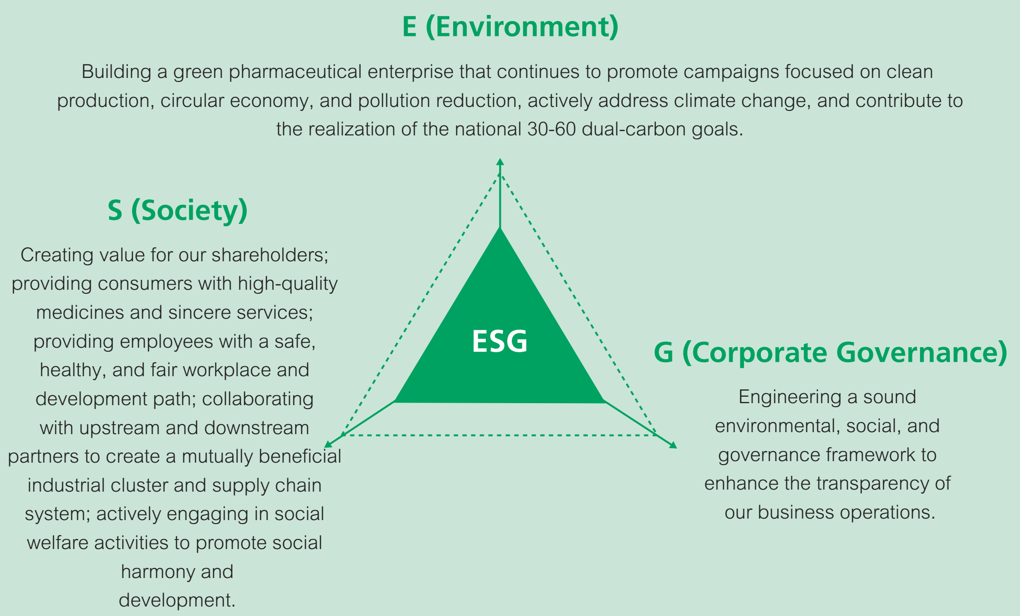
(1) ESG management framework

The Board of Directors of the Company consists of three Board committees, namely the Audit Committee, the Nomination Committee and the Remuneration Committee. Among them, the Audit Committee is mainly responsible for the Company's ESG matters and assists the Board in providing independent advice on the effectiveness of the Group's ESG reporting process, internal control procedures and ESG risk management system.

The Corporate Management Department, the General Office, the Production Equipment Safety Management Department, the Quality Assurance Department, the Supplies Department, the Sales Department and the Brand Department of the Company are responsible for the compilation of information and data such as the annual ESG report, as well as the planning and execution of major ESG issues as the specific executive departments of ESG affairs. All these departments report at least on an annual basis directly to the chief executive officer and his operation managers, who ensures the implementation of the approved strategies and policies addresses all environmental and social issues detailed in the Environmental, Social and Governance Reporting Guide.

(2) ESG Management Guidelines and Strategy

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



▲ ESG Management System of Fusen Pharmaceutical

(3) ESG Issues Materiality Assessment

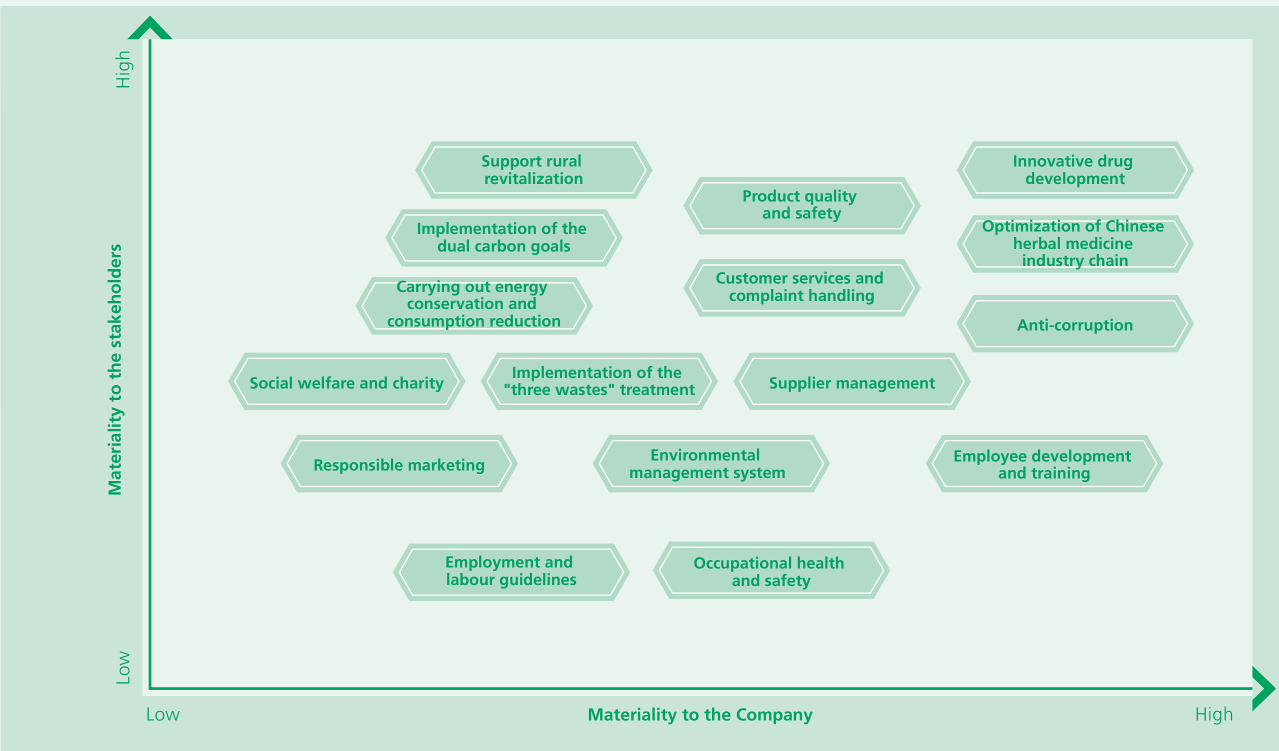
We believe that the economic, social and environmental impacts of the Company are the ESG issues that we need to focus on. We assess the materiality of ESG issues in terms of their impacts on both business and stakeholders and provide responses and disclosures in each section.

▼ Process of ESG issues materiality assessment

Selection of issues select the social, environmental and management factors that the Company is involved in, i.e. ESG issues, through ESG standard approach, peer benchmarking and corporate social responsibility ("CSR") experts' judgments

Research and analysis conduct interviews and research on ESG issues with relevant departments and stakeholders to understand the key concerns of internal and external parties

Confirmation of materiality formulate materiality analysis matrix for ESG issues based on our internal and external research and experts' judgements and opinion, based on which the corresponding resources and attention will be prioritized



▲ Fusen's ESG Materiality Assessment Matrix

(4) Stakeholders Communication

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

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

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

▼ Stakeholders category management list of Fusen Pharmaceutical

Stakeholders	Issues of concern	Communication channels and methods	Company's response
Government	Implement the national strategy Support medical and health system reform Conduct technology Innovation Pay attention to climate change Corporate compliance operation	Attend meetings organised by the government Report on work conditions Invite visits and inspections Invite experts for training	Compliance operation Anti-corruption Expand social employment Pay taxes by laws Reduce carbon emissions Support rural revitalization and common prosperity
Shareholders and investors	Investment income Asset preservation and appreciation Regulatory governance Going concern	Shareholder general meetings Daily communication and report of business units Financial statements and special audit reports	Improve corporate governance Achieve stable returns Strengthen internal control and risk management

Stakeholders	Issues of concern	Communication channels and methods	Company's response
Consumers	Safe and effective drugs Product quality and after-sales service Customer privacy protection	Organise exchange events Customer service hotline Set up official WeChat and official website Public email account	Accelerate innovative product development Reinforce quality control Reasonable product prices After-sales and complaint management Responsible marketing
Employees	Employee rights protection Training and development Occupational health and safety Democratic management	Staff representatives meetings Cultural and sports activities Rationalise proposed communication channels Organise various kinds of training	Establish a standardised employment mechanism Improve the income distribution and welfare mechanism Construct a safe and healthy working environment Strengthen staff training
Business partners (suppliers, distributors, etc.)	Supply chain optimization Innovative research collaboration	Project cooperation Training and exchange Visits evaluation	Equal and mutually beneficial cooperation Building Chinese medicine industry collectives Enhancing supplier management Sustainable procurement
Community and public	Environmental protection Resources conservation Pollution prevention and control Community welfare and charity Information communication	Engagement in organizational events Release of ESG reports Social supervision hotline	Protect the ecological environment Organise social welfare and charity activities Implement rural revitalization Strengthen publicity and brand building

(5) Board reviews progress made against ESG-related goals and targets

The Group fully understands that ESG policies and practices may change over time to reflect the changes in business operations, structures, technologies, laws and regulations, and the environment and continuously reviews from time to time for the performance and implementation progress of the ESG-related goals and targets. If the progress falls short of expectations or changes in business operations, it may be necessary to make changes and communicate about the goals and targets with key stakeholders. The Group thus continues to invest substantial resources to monitor ESG issues, policies and practices and performance on an ongoing basis. In order to contribute to the sustainable development on the environment and society, whilst maximising the benefits to our employees and the stakeholders, the Group has continued to exercise due responsibility in maintaining the highest level of ethical standards when conducting its business and upholds strict compliance with all relevant laws, rules and regulations in all ESG matters.

2. ADDRESSING CLIMATE CHANGE

(1) Governance

In accordance with the requirements of the HKEx's "Guidelines on Climate Disclosure", the Company has established a governance organization to address climate change, with the Audit Committee of the Board of Directors responsible for the strategic planning, risk control and management on climate change issues, the Carbon Emission Management Leadership Team led by the General Manager, and the Production, Social and Safety Management Department as the standing organization to address climate change, together with the Technology Centre, the Supplies Department, the Administration Department and the Finance Department, to conduct work relating to carbon emission reduction and climate adaptation. The Company has formulated the "Management System of Greenhouse Gas Emission of Henan Fusen Pharmaceutical Co., Ltd." and the "Response Plan of Henan Fusen Pharmaceutical Co., Ltd. in case of Extreme Weather" to materialize standardized management for addressing climate change.

▲ **Fusen Pharmaceutical Climate Governance Structure**

(2) Strategies

1. Climate-related Risks and Response Strategies

Fusen Pharmaceutical faces both physical climate-related risks and transitional risks. In terms of physical risks, extreme weather may affect the supply of Chinese herbal medicines, damage production facilities and impede transportation and logistics; in terms of transitional risks, with the advancement of the "dual-carbon" goal, the enterprise may face more stringent carbon emission regulation and changes in market demand. The Company has responded proactively to these risks by diversifying procurement, reserving raw materials, reinforcing facilities and taking out relevant property insurance to maximize the protection of production and operation. At the same time, we are exploring energy-saving renovation and energy replacement to meet regulatory requirements and consumer preferences.

▼ List of Risk Assessment and Response

Risk type		Impact of Risks	Response Strategy
Physical Risk	Impact of Extreme Weather on the Supply Chain	Fusen Pharmaceutical's core products involve raw materials of Chinese herbal medicines (e.g. Shuanghuanglian cold medicine), and extreme weather conditions may lead to a reduction in the production of Chinese herbal medicines in the main production areas (e.g. Lianqiao is affected by the cold spells of the spring, which may lead to an unstable supply of raw materials or an increase in costs)	Establishing strategic reserves in regions prone to extreme weather conditions, such as Lianqiao; co-operating with herbal medicine bases in Yunnan and Sichuan to diversify procurement risks; utilizing the platform of the "National Engineering Research Centre for the Modernization of Chinese Medicines" to carry out research on the breeding of Lianqiao and other herbs for their resistance to adversity (e.g. "Fujin No.1"), so as to ensure a stable supply of core raw materials

Risk type	Impact of Risks	Response Strategy
Production Disruption Risk	Low-temperature rain and snow may lead to freezing and cracking of plants and equipment or clogging of pipelines, resulting in material leakage or production stoppage; heavy rain and flooding may cause water ingress into warehouses and moisture deterioration of pharmaceutical raw materials and finished products; and lightning may cause electrical equipment failure or even fires. In addition, extreme high temperatures may cause equipment overheating, increasing the risk of fire and explosion	Relying on the EU CGMP standard intelligent factory, materializing the automation of entire production process of core products such as Shuanghuanglian injections, to ensure the supply capacity under extreme weather; and taking out property insurance and business interruption insurance covering risks such as heavy rain, flood and low temperature freezing to enhance the risk-resisting capability
Risk of damage to equipment and facilities	Heavy winds and snowstorms may damage the structure of the plant, especially in old buildings or large-span workshops, posing a potential risk of collapse; heavy rainfall may lead to the failure of the drainage system, causing water to accumulate in the plant, damaging production equipment and power supply facilities and increasing maintenance costs	Regularly inspecting production equipment for frost and corrosion protection, identifying areas prone to leakage, and equipping them with thermal insulation or heat tracing devices; conducting structural assessments of old plants and warehouses, reinforcing roofs and walls, installing additional lightning protection devices, and ensuring smooth drainage systems; optimizing the layout of the stockpile, and storing drugs susceptible to dampness in areas with higher topography, and equipping them with damp-proofing facilities

Risk type		Impact of Risks	Response Strategy
	Disruption of transport and logistics	Extreme weather conditions may cause disruption of transport routes, affecting the procurement of raw materials and distribution of finished products, especially for drugs dependent on cold chain transport, which may cause quality losses due to logistics delays	In respect of special products such as summer medicine and vaccines, co-operating with a third-party logistics company to build a cold chain distribution system covering the rural area to ensure the quality of medicine under high temperature weather
	Financial and Market Risk	Production interruptions, equipment maintenance and loss of raw materials will directly increase operating costs, which, together with delays in product delivery, may give rise to the risk of contractual default. In the event of fluctuations in market demand due to extreme weather conditions (e.g. a surge in demand for pharmaceutical products during an epidemic but with logistical constraints), the Company will need to balance its production capacity with its ability to respond to the market	Deploying the Internet of Things (IoT) system to track the inventory of raw materials and logistics status in real time, combining it with AI prediction models to optimize production scheduling and reduce mismatches between supply and demand caused by extreme weather; establishing a "temperature — sales volume" model and deploying resources to high-temperature warning zones 2 weeks in advance

Risk type		Impact of Risks	Response Strategy
Transitional Risks	Policy and Regulatory Pressure	The pharmaceutical industry may face more stringent carbon regulations as the global "dual-carbon" target is pushed forward, and Fusen Pharmaceutical may face fines or market entry restrictions if it fails to effectively reduce energy consumption or greenhouse gas emissions in its manufacturing processes (Scope 1, Scope 2)	Short-term energy-saving modifications to high-energy-consuming equipment (e.g. extraction and drying processes) and introduction of residual heat recovery technology; long-term gradual replacement of fossil fuels with biomass or green power to reduce Scope 1 and Scope 2 carbon emissions
	Changes in Market Demand	Increased consumer and investor preference for green products, which may affect market share if Fuson Pharmaceutical fails to launch low-carbon or eco-friendly packaging for its pharmaceutical products	Requiring suppliers of APIs and packaging materials to provide carbon footprint reports, and prioritize partners that use recycled materials or clean energy, so as to jointly reduce carbon emissions in the supply chain

2. Climate-related opportunities and response strategies

For the Company, climate change also brings new opportunities such as increased demand for related pharmaceutical products, improved energy efficiency and cost savings, and increased brand value. The Company fully takes advantage of the market demand and development, innovates the research and development and marketing of drugs for climate-sensitive diseases (e.g. pyrexia, respiratory tract infections); builds distributed photovoltaic power stations in its factories to enhance environmental protection of its pharmaceutical processing equipment, reduce energy costs and at the same time lower the pollution and carbon emissions; and conducts carbon verification on a regular basis and makes good disclosure of climate information to satisfy the regulatory requirements and safeguard its brand reputation.

▼ List of Climate-Related Opportunities Analysis and Response

Opportunity type		Opportunity Analysis	Response Strategy
Development Opportunities under Extreme Weather	Surging demand for specific drugs	Extreme weather (e.g. cold spells, high temperature) often triggers a high incidence of seasonal illnesses. For example, cold spells may lead to an increase in the incidence of respiratory tract infections and cardiovascular diseases, while high temperatures generate demand for heatstroke and heat-expelling and detoxifying medicines	Fusen Pharmaceutical has responded to the market demand quickly with its existing product lines, developing new products such as portable summer packs and herbal mosquito repellent patches for high temperature and high humidity environments, and exploring the incorporation of Shuanghuanglian into daily protective products (e.g., masks, hand sanitizers), to expand the consumer market

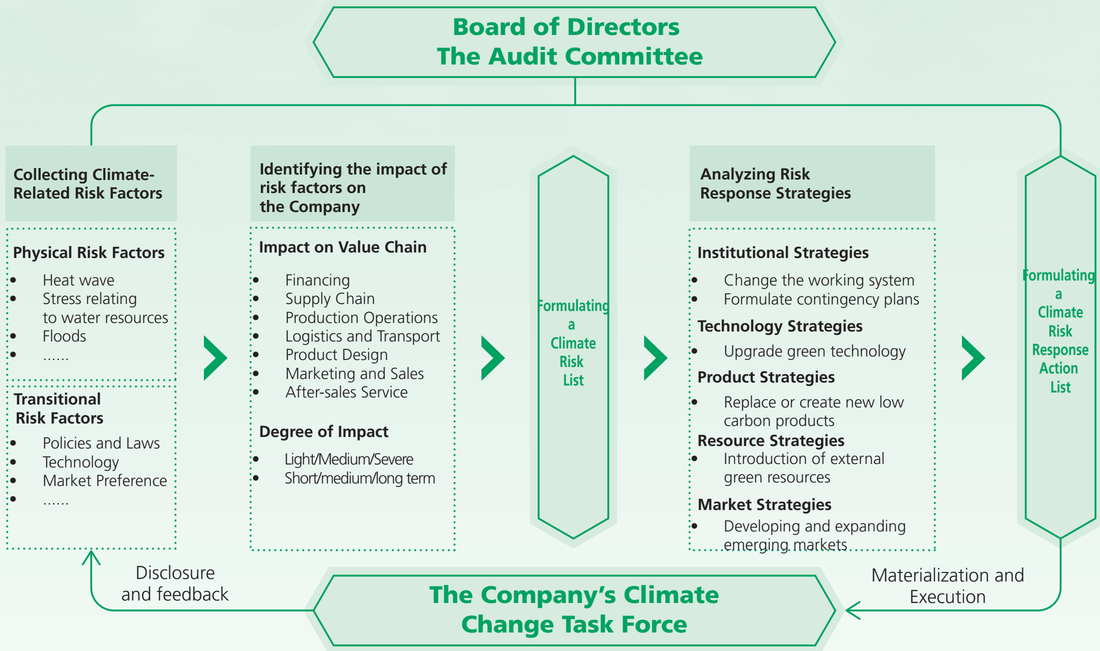
Opportunity type	Opportunity Analysis	Response Strategy
Brand and Social Responsibility Image Enhancement	Being proactive in caring for the health of the population under extreme weather conditions, and doing a good job in energy saving and carbon reduction as well as sustainable development will help enhance corporate brand awareness and social reputation, and attract investors and partners who focus on sustainable development	Strengthened public awareness through public service promotion (e.g. publishing health protection guidelines), donation of medicines, etc. During the cold wave in 2023, the Company's products were listed as recommended medicines by medical institutions in many places; through live broadcasting to disseminate knowledge on health protection, which led to an increase of 40% in online sales of Shuanghuanglian oral liquid
Policy-driven market expansion	Henan Province and Nanyang City have launched a number of supportive policies in response to extreme weather, such as tax incentives and green lanes for the production of emergency supplies by pharmaceutical enterprises, etc. Fusen Pharmaceutical, as a leading local enterprise, can rely on the "Stronger Traditional Chinese Medicine Province" strategy to take on more social responsibilities in public health incidents and expand the incremental space for the government's emergency purchasing and the primary healthcare market	The Company has signed an agreement with the Nanyang Municipal Government on emergency material reserve, and included products such as Shuanghuanglian injections in the municipal pharmaceutical reserve catalogue, with priority for policy support; made use of Henan Province's energy-saving and emission-reduction subsidy policy, and applied for a special loan for the construction of distributed photovoltaic projects, which lowered the energy cost and at the same time addressing the "dual-carbon" goal

Opportunity type		Opportunity Analysis	Response Strategy
Development Opportunities under Greenhouse Gas Emission Reduction	Energy Efficiency and Cost Savings	Reducing energy consumption and carbon emissions by improving production processes (e.g. using renewable energy or energy-saving equipment) not only meets policy guidelines, but also reduces long-term operating costs	Using the roof of the factory building to build a distributed photovoltaic power station, reducing carbon dioxide emissions by about 500 tonnes per year; gradually introducing biomass or hydrogen energy on the basis of the existing gas boilers; carrying out intelligent modification of the ethanol recycling system in the extraction workshop of traditional Chinese medicines and increasing the processing efficiency from 90% to 95%; adopting low-temperature freeze-drying technology to reduce energy consumption by 30%
	Technology and innovation-driven industrial upgrading	The demand for emission reduction is forcing enterprises to increase investment in technology research and development, and these technological upgrades not only reduce carbon emissions, but also improve product quality and enhance the ability of enterprises to achieve sustainable development	Optimization of production processes through intelligent modifications (e.g. dust collection system in solid preparations workshop), introduction of AI energy consumption monitoring platform to enhance energy efficiency

Opportunity type	Opportunity Analysis	Response Strategy
Policy Support and Financial Incentives	The Nanyang City Pilot Policy on Pollution and Carbon Reduction Collaboration and Innovation clearly states that financial subsidies, green credits and tax incentives will be provided to key enterprises. Fusen Pharmaceuticals can apply to be included in the municipal pollution reduction and carbon reduction project database, and make use of the financial support to upgrade production equipment or invest in distributed photovoltaic power generation projects, so as to reduce the cost of energy consumption and at the same time obtain policy dividends	Utilizing the Nanyang carbon emission management platform to account for the carbon emissions of the whole industrial chain of the enterprise, and accumulating carbon credits through technical emission reduction, so that it can participate in carbon trading to gain revenue in the future; combining with Nanyang's agricultural pollution reduction and carbon reduction model (e.g., the "Muyuan Green and Low-Carbon Model"), and investing in forestry carbon sinks or biogas synthesis projects to offset its own carbon emissions and achieve the goal of "Zero-Carbon Factory"
Market Access and International Competitiveness	With the advancement of the EU's Carbon Boundary Adjustment Mechanism (CBAM), pharmaceutical companies exporting to Europe are required to meet stringent carbon emission standards, and Fusen Pharmaceutical, as a key pharmaceutical company in Henan Province, will be able to gain an advantage in international market competition if it can plan its carbon emission reduction technology in advance and pass the international carbon neutrality certification (e.g., DEKRA's verification service).	The Carbon Management Team was jointly established by the technical, financial and legal departments to track domestic and international policy dynamics, regularly assess the costs and benefits of emission reduction, and formulate a roadmap for emission reduction in phases; incorporate greenhouse gas emission reduction into the ISO 14001 environmental management system, and pass third-party certification (e.g., DEKRA Carbon Neutral Certification), to ensure that production is in line with international standards.

(3) Risk Management

The Company has established a climate-related risk identification and management process, which operates annually within the governance structure of the Board of Directors. The Audit Committee is responsible for identifying and analyzing climate risks, discussing and formulating risk response strategies, and effectively implementing them within the various departments involved in the Climate Change Task Force, so as to realize the permanent management of climate risks.



▲ **Fusen Pharmaceutical's Climate Risk Management Process**

(4) Indicator and Target

▼ Fusen Pharmaceutical's GHG Emissions and Reduction Targets for the Past Three Years

Performance Indicator	Unit	2022	2023	2024	Reduction Target
GHG emissions	tCO_2	4,044.446	6,948.888	**4,414.297**	Carbon emission intensity to be reduced by 20% in 2025 compared to 2020; energy consumption per unit of product to be reduced by 5%; green electricity procurement rate to be increased to 10%

▼ Fusen Pharmaceutical's main GHG emission sources and emissions in 2024

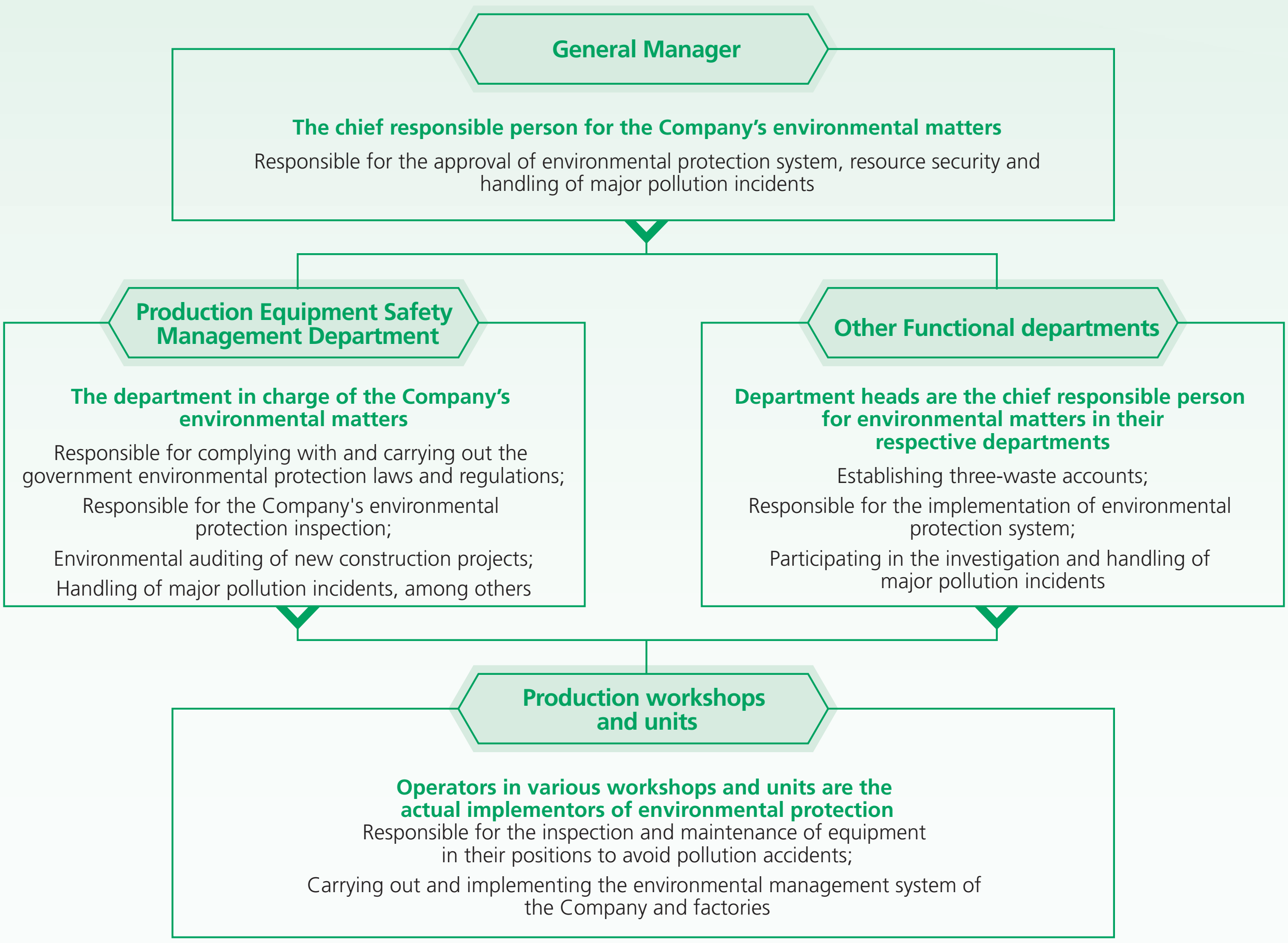
Type of Emission		Energy/Material	Emission Facility	GHG emissions (tCO_2)
Scope 1	Fuel emissions	Liquefied petroleum gas	Cooking utensils	2,661.469
		Natural gas	Natural gas boiler	
	Wastewater discharge	Industrial wastewater	Anaerobic sewage treatment system	36.514
Scope 2	Emissions from net purchased electricity	Purchased electricity	Electric motors, water pumps, fans, centrifuges and other production electrical equipment	1,716.314
		Total		4,414.297

3. ENVIRONMENTAL RESPONSIBILITIES

(1) Environment management system

1. Comprehensive environment management organization

The general manager of the Company is directly in charge of environmental protection work, and sets up the "Production Equipment Safety Management Department" as the functional department of environmental protection management, specifically responsible for the Company's environmental issues. Other departments of the Company shall assist the Environmental Protection Department in environmental efforts and are accountable to the General Manager. Department heads are the chief responsible persons for environmental matters in their respective departments and shall report directly to the general manager of the Company. The on-site manager is responsible for the environmental protection work of each workshop; the team leader of each operation team is the responsible person for environmental protection of respective teams; and operators are the actual implementors of environmental protection work.



▲ **Fusen Pharmaceutical's Environmental Management Organization**

2. Sound environmental management system

The Company strictly adheres to various requirements such as the Environmental Protection Law of the People's Republic of China, the Atmospheric Pollution Prevention and Control Law of the People's Republic of China, the Water Pollution Prevention and Control Law of the People's Republic of China and the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes, and establish its own environmental protection management system on such basis, forming a environmental management system with four categories, including the management system, operating process, responsibilities for positions, and emergency plans.

▼ Fusen Pharmaceutical's Environmental Management System

Category of system	Content
Management system	➢ Environmental Protection Management System for Henan Fusen Pharmaceutical Company Limited ➢ Solid Waste Management System, VOCs pollution prevention and control management system, and Hazardous Waste Management System ➢ Equipment Site Management System and Hygiene System, and Equipment Maintenance and Service Management System ➢ Factory Environmental Health Management System and Environmental Management Ledger System for Henan Fusen Pharmaceutical Company Limited
Operational process	➢ Equipment Operation Safety Procedures, and Operating Procedures for Water Quality Inspection and Sampling ➢ Operating Procedures for Water Quality Inspection in Sewage Treatment Station, and Operating Procedures for Pulsed Hydrolysis Tank Process ➢ Operating Procedures for Aeration Tanks, Sedimentation Tanks, Plate and Frame Filter Presses, Roots Blowers, and Chlorine Dioxide Generators ➢ Operating Procedures of Sewage Treatment Station Pump, and Operating Procedures for Operation Inspections
Responsibility for positions	➢ Safety Responsibility System, and Position Responsibility System ➢ Sewage Treatment Station Duties, and Job Responsibilities for Section Chiefs ➢ Equipment Maintenance Worker Duties, and Sewage Treatment Station Operators' Duties
Emergency plans	➢ Self-Monitoring Program for Henan Fusen Pharmaceutical Company Limited ➢ "A Particular Policy for A Particular Plant (一廠一策)" Implementation Plan under Heavy Pollution Weather Emergency Response Measures ➢ Emergency Plan for Hazardous Waste

3. **Striving for Environmental Management System Certification**

The Company continues to use various environmental management certifications as a starting point to build environmental protection and low carbon into the Company's core competitiveness. In 2017, the Company passed the clean production audit and acceptance in Nanyang City, Henan Province. In 2022, the Company obtained the ISO14000 environmental management system certification from the International Organization for Standardization and obtained the review certification in 2024. In 2023, the Company was selected as a national "Green Factory" recognized by the Ministry of Industry and Information Technology. A total of 1,491 companies across the country received this honor. In 2024, the Company obtained the ISO50001 energy management system certification, adding a new stamp to its efforts to build a green, environmentally friendly and smart factory.

▲ **Fusen Pharmaceutical Environmental Management System Certificates**

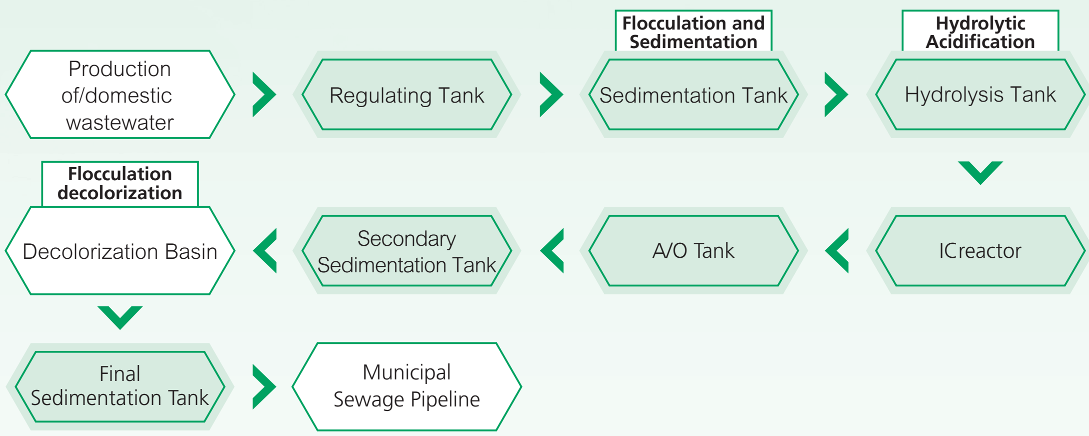
▲ **Fusen Pharmaceutical Energy Management System Certificates**

(II) Pollution prevention and control

1. Water pollution control

The Company's wastewater mainly comes from the cleaning of medicinal materials in the pre-treatment and extraction production lines of Chinese medicines, the extraction process of Chinese medicines, the cleaning of equipment and floors, the cleaning of bottles (oral liquid and injectable bottles), laboratory testing, preparation of purified water, operation of boiler rooms, drainage of the cooling system, and the sewage from the daily lives of its employees.

To effectively treat this wastewater, the Company has built a dedicated wastewater treatment plant with a 1,800 cubic metre regulating incident tank. In terms of treatment technology, advanced IC reactor and other technologies are used to ensure that the wastewater treatment meets the standards and is then transported to the Xichuan County Sewage Treatment Plant through the Binhe Road municipal sewage pipeline network for secondary treatment. In recent years, the Company's wastewater discharge has been on a downward trend year by year, and has not caused any pollution or adverse impact on the surrounding water system.



▲ Factory sewage treatment process of Fusen Pharmaceutical

▼ Wastewater treatment facility treatment efficiency of Fusen Pharmaceutical

Unit%

pollutants / Removal efficiency	suspended substance	5-day biochemical oxygen demand	Chemical oxygen demand	Ammonia nitrogen	total nitrogen	total phosphorus	Animal and vegetable oils
After hydrolysis acidification tank	8.1	55.2	37.9	44.0	20.4	12.9	2.0
After IC anaerobic reactor	4.4	30.0	83.7	89.4	80.3	9.3	2.0
After A/O	96.6	71.8	84.3	89.4	62.1	77.5	75.4
Total exports	38.7	76.3	0.75	62.6	24.2	44.2	9.1
Total efficiency	98.2	97.8	99.6	99.8	95.5	90.1	78.5

▼ Wastewater discharge of Fusen Pharmaceutical in the past three years

Performance Indicator	Unit	2022	2023	2024
Total amount of wastewater discharged	tonnes/year	25,1062.1	195,285.9	**120,749.72**
CODemissions	tonnes/year	5.581	2.272	**1.03**

2. **Air pollution control**

The Company's exhaust gas mainly comes from boiler combustion, traditional Chinese medicine extraction process, production process dust of traditional Chinese medicine pretreatment workshop and solid preparation workshop, sewage station odor, experimental animal room odor and oil smoke from staff canteen.

In order to ensure that the exhaust gas is discharged up to the standard, the company strictly follows the standards such as the Comprehensive Emission Standard for Air Pollutants, the Emission Standard of Air Pollutants for Pharmaceutical Industry, the Emission Standard for Air Pollutants for Boilers, the Emission Standard for Odor Pollutants and the Emission Standard for Oily Fume Pollutants in the Catering Industry, and has installed dust removal, deodorization and other pollution control devices at each exhaust gas discharge port. The treated exhaust gas is discharged at high altitude through exhaust cylinders of more than 15 meters.

After professional acceptance and monitoring, the ambient air quality of Wangjiazhuang Village, Zhongwudian Village and Houying Village around the factory is good. The maximum concentration of total suspended particulate matter is 0.171 mg/m^3, which meets the limit requirements of the Ambient Air Quality Standards. The concentrations of nitrogen oxides, hydrogen sulfide and non-methane total hydrocarbons were 0.03 mg/m^3, 0.004 mg/m^3 and 0.58 mg/m^3, respectively, which met the standard limit requirements of Appendix D of the Technical Guidelines for Environmental Impact Assessment — Atmospheric Environment (HJ2.2-2018) and did not cause adverse effects on the surrounding air quality.

▼ **Exhaust gas treatment process of Fusen Pharmaceutical**

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

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

Performance indicator	Unit	2022	2023	2024
Emission of exhaust gas	Cubic metres/ year	54,958,800	58,789,680	**21,763,300**
Emission of nitrogen oxide	Tonnes/year	1.792	1.063	**0.256**
Emission of sulfur oxides	Tonnes/year	0.309	0.386	**0.245**
Emission of particulate matter	Tonnes/year	0	0	**0.057**

3. Solid Waste Treatment

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

▼ **Solid waste emissions of Fusen Pharmaceutical in the past three years**

Performance Indicator	Unit	2022	2023	2024
Hazardous waste discharge	tons/year	0.04	0.362	**0.572**
Non-hazardous waste discharge	tons/year	2,545.232	3,215.2	**2,104.87**

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

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

(3) Reducing resource consumption

1. Reducing energy consumption

The Company has an energy-saving management team to implement three-level energy management of the company, departments and workshops. The Company's general manager serves as the team leader, the deputy general manager in charge of production serves as the deputy team leader, the leaders of various functional departments serve as team members, and the Production Equipment Safety Management Department is the company's permanent agency for energy management.

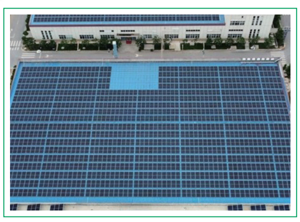
The Company formulates energy consumption quotas for major energy-consuming products, processes, equipment and positions, regularly assesses the completion of quotas, and combines them with reward and punishment measures. At the same time, we actively adopt new energy-saving technologies, new processes, new equipment and new materials. Since 2020, the Company has changed its coal-fired boiler to a natural gas boiler, and at the same time implemented a low-nitrogen combustion and steam condensate recovery process, reducing natural gas consumption by 10% per ton of steam.

▼ Major energy consumed by Fusen Pharmaceutical in the past three years

Performance Indicator	Unit	2022	2023	2024
Electricity consumption	degree/year	7,542,243	8,900,000	**6,036,836**
Natural gas usage	cubic/year	2,571,470	3,213,919	**2,041,648**

Factory rooftop "transformed" into green power station

In 2024, the Company used the roof of about 58,000 square meters of the factory to build a 6MW distributed photovoltaic power station project, which is invested by Henan Fusen Group and EPC of Luoyang Ziguang Solar Energy Application Technology Research Institute. The project can save about 2,206 tons of coal, reduce carbon emissions by about 5,191 tons, sulfides by about 183 tons, nitrogen oxides by about 92 tons, and dust by about 167 tons each year. The completion of the project has not only rationally utilized idle rooftop resources, but also reduced the company's electricity costs.



2. Reduce water consumption

The water resources consumed by the company are mainly used in manufacturing, business and office, environmental management and fire emergency water. In terms of water management, the Company implements water quota management, whereby monthly water consumption is strictly in accordance with the water consumption plan issued by the competent department of the Water Conservancy Bureau, and excess water consumption is prohibited. In daily production, the company actively adopts the water recycling process to improve water efficiency. At the same time, the Company has established a water conservation responsibility system, and the leaders of each department and workshop are responsible for water conservation, so as to strengthen the supervision, inspection and assessment of rewards and punishments for water conservation work. In addition, the Company also actively carries out water conservation education to enhance the water conservation awareness of all employees, advocates "turning off the water when leaving" and "turning off the water when leaving", puts an end to the phenomenon of "constant running water", and prohibits the waste of water resources.

▼ Water consumed by Fusen Pharmaceutical in the past three years

Performance Indicator	Unit	2022	2023	2024
total water consumption	tonnes/year	261,566	240,000	**147,085**

3. Reducing the consumption of packaging consumables

The Company's product packaging consumables include glass, plastic, paper, PVC, aluminum foil and other materials. In product packaging design, the Company focuses on the principle of reduction, uses "double easy" (easy to recycle and easy to regenerate) packaging materials as much as possible, and reduces the use of plastic products; in daily office work, we advocate electronic office work, double-sided printing, etc. to reduce paper consumption as much as possible.

▼ Packaging material consumed by Fusen Pharmaceutical in the past three years

Performance Indicator	Unit	2022	2023	2024
Packaging materials	tonnes/year	4,386	5,485	**2,823**
Office paper	tonnes/year	8.95	7.03	**6.76**

(4) Conservation of biodiversity

The Company attaches great importance to the conservation of biodiversity at the source of the industrial chain, and adopts the model of "company + base + farmer" to provide all plantation farmers with standardized honeysuckle seedlings and free uniform technical services, and implements a unified guaranteed procurement price. Ecological planting, intensive farming and meticulous management effectively control the uniformity and safety of honeysuckle quality and provide Fusen Pharmaceutical Company Limited with high-quality honeysuckle raw materials needed for production.

Currently, Fusen Pharmaceutical operates a honeysuckle plantation spanning over 35,000 mu in Xichuan County, with an annual total output value exceeding RMB300 million, increasing farmers' income by over RMB150 million. Fusen honeysuckle plantation base has been awarded the honours of "honeysuckle standardised plantation demonstration base in Henan Province", "seedling breeding and standardised production base in Henan Province", and "standardised production base for Taoist herbs in Henan Province".

Honeysuckle GAP Planting Base of Fusen Pharmaceutical

IV. PRODUCT RESPONSIBILITY

(1) Universal Health Care

The Company has always adhered to the business philosophy of "craftsmanship quality, health is happiness", building a health industry group integrating traditional Chinese medicine, chemical medicine and biopharmaceuticals with "Chinese medicine health industry" as the lead while following the strategy of "traditional Chinese medicine as the core business and coordinated development of chemical medicines". In recent years, the Company has focused on the research and development of chemical generic drugs, innovative Chinese medicines, and secondary development of Chinese medicine varieties in accordance with the research and development concept of "giving equal importance to Chinese and Western medicines, and combining generic and innovative products", providing numerous consumers with high-quality product offerings covering heat-clearing and detoxifying, cardiovascular, anti-hypertensive and hypoglycemic, tonic, qi-regulating, anemia-treating, anti-bacterial and anti-inflammatory effects. They are sold in both domestic and overseas market, providing more families with safe and effective medicine options.

▼ **List of health value of key products of Fusen Pharmaceutical**

Key products	Health value	Annual sales	Benefited users
Shuanghuanglian Injection	Used for fever, cough and sore throat caused by exogenous wind-heat. Suitable for upper respiratory tract infections, pneumonia, tonsillitis, pharyngitis, etc. caused by viruses and bacteria.	40,039,740 vials	6.67 million people
Shuanghuanglian Oral Solution	It is used for colds caused by exogenous wind-heat, with symptoms such as fever, cough and sore throat.	132,526,944 vials	27.79 million people
Sanhuang Tablet	It is used for red and swollen eyes, mouth and nose ulcers, sore throat, swollen and painful gums, irritability and thirst, yellow urine and constipation caused by excessive heat in the triple burner.	168,952,320 tablets	7.04 million people

Fusen Shuanghuanglian Oral Liquid and Sanhuang Tablet was approved in Mozambique

Recently, Fusen Pharmaceutical's Shuanghuanglian Oral Liquid and Sanhuang Tablets were successfully approved for commercialization in Mozambique. This is another important milestone in the internationalization process of these two Chinese patent medicines after Brazil.

Fusen Shuanghuanglian Oral Liquid and Sanhuang Tablets have been included in the national essential medicines list and medical insurance list many times, and have been recommended many times for use in COVID-19 and influenza prevention and control plans. This approval is of great significance, indicating that the two products can be legally sold in hospitals, clinics and pharmacies in Mozambique, providing new treatment options for local people. This will not only help enhance Fusen Pharmaceutical's influence in the international market, but also reflect the increasing recognition of traditional Chinese medicine overseas.

Fusen Pharmaceutical will take this opportunity to continue to promote the internationalization of drugs, explore overseas markets, adhere to the inheritance of essence, maintain integrity and innovation, and contribute to the construction of a human health community. Shuanghuanglian Oral Liquid and Sanhuang Tablets have great potential in the international market and are expected to have a promising future.

(2) Innovation and R&D

The Company always stands at the forefront of medical technology. Following the research and development philosophy of "attaching equal importance to Chinese and Western medicines, and combining imitation and innovation, and combining long and short", the Company persistently pursues the step-by-step research and development strategy of "generation of production, generation of reserves, generation of research and innovation". In the field of chemical drugs, we focus on the development of high-quality generic drugs and enhance product competitiveness through technological innovation. In the field of traditional Chinese medicine, we deepen the secondary development of existing varieties, explore the clinical value of classic prescriptions, and systematically promote the screening, optimization and industrialization of "two prescriptions and one preparation" (classic prescriptions, hospital preparations and characteristic Chinese patent medicines). Through the collaborative innovation of chemical drugs and traditional Chinese medicine, we can form differentiated competitive advantages and provide a dual engine for the sustainable development of the enterprise.

1. Encouraging Innovation and Patent Protection

The Company has established a leading group for patent administration, headed by the president of the parent company, to encourage employees' initiative and creativity in invention and creation, and cultivate the innovative culture of the Company and employees' innovative awareness. The Company has set up a patent work award, which will provide assessment every three years. Physical rewards are granted to units and individuals that have obtained obvious economic benefits and social benefits from their patent work.

▼ **Company Patent Status List of Fusen Pharmaceutical**

Indicators	Unit	2023	2024
Cumulative number of patents	Items	59	**66**
Number of new patents	Items	10	**7**

2. Deepening cooperation in research and innovation

Fusen Pharmaceutical has established a drug R&D platform through joint R&D with well-known domestic universities. Based on its wholly-owned subsidiary Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* (嘉亨(珠海横琴)醫藥科技有限公司), it has established technical R&D institutions such as the National Engineering Research Center for Modernization of Traditional Chinese Medicine and the Guangdong Disease Susceptibility and Traditional Chinese Medicine R&D Engineering Technology Research Center. It has been approved as a national high-tech enterprise, a branch of the Hengqin Postdoctoral Research Station, and specialized and new small and medium-sized enterprises. It focuses on the research and development of generic chemical drugs, innovative Chinese medicines, and secondary development of Chinese medicine varieties, forming a new pattern of giving equal importance to Chinese and Western medicines, innovation-driven, and coordinated development.

▼ **List of R&D cooperation of Fusen Pharmaceutical**

R&D platform	Partnering institutions	Cooperation direction
Research Platform for Secondary Development of Proprietary Chinese Medicines	Macau University of Science and Technology, China Academy of Chinese Medical Sciences, Zhejiang University, Tianjin University of Traditional Chinese Medicine, University of Macau, Sun Yat-sen University, Guangzhou Institute of Respiratory Health, etc.	To enhance the technological content of Fusen Pharmaceuticals' key varieties in the light of clinical needs, and to realise R&D-driven and value enhancement.
Research and Development Platform for special APIs	China Pharmaceutical University, Shenyang Pharmaceutical University, universities and research institutes in the Guangdong-Hong Kong-Macao Greater Bay Area	Research and development of special antiviral APIs

(III) Quality and Safety

The Company has always adhered to the concept of "honesty and trustworthiness, integrity and innovation, quality first, and steady progress", based on its own industrial foundation and resources, to promote the deep integration of the innovation chain and the industrial chain, and promote the high-quality development of the province's pharmaceutical and health industry.We have established a GAP planting base for Chinese medicinal materials with high standards, and a modern Chinese medicinal materials processing center to ensure the production and supply of high-quality Chinese medicinal materials from the source, build a traceable quality management system, ensure product quality and safety through full-process control, and safeguard the health of consumers. The Company has maintained a product return rate of 0 for several consecutive years.

▼ List of Shuanghuanglian Oral Liquid Quality Control of Fusen Pharmaceutical

Source control	✓	It has 150,000 mu of GAP planting bases for Chinese medicinal materials, of which tens of thousands of mu are honeysuckle planting demonstration bases (the largest in China)
	✓	The water from the Funiu Mountain National First-Class Water Source Protection Area, the source of the middle route of the South-to-North Water Diversion Project, is used
Exquisite workmanship	✓	Establishing a Chinese herbal medicine processing center to strictly control the quality from planting to processing
	✓	Combined with scientific technology to extract active ingredients (chlorogenic acid, forsythiaside, baicalin), the content far exceeds the national standard
Significant efficacy	✓	Used for wind-heat cold, relieve fever, cough, sore throat
	✓	It has been on the market for many years and has been verified by doctors and consumers for a long time, and its efficacy is definite
Market recognition	✓	Ranked among the top three in national sales for 5 consecutive years, and was selected among the "Familiar Drugs Frequently Used by Chinese Families"
	✓	Obtained import license from the National Health Surveillance Agency of Brazil and marketing approval in Mozambique

1. Improvement of GMP quality management system

The Company strictly follows the GMP standard to build a quality management system, clearly defines the organisational structure and position responsibilities, and ensures that the whole process is standardised and controllable.

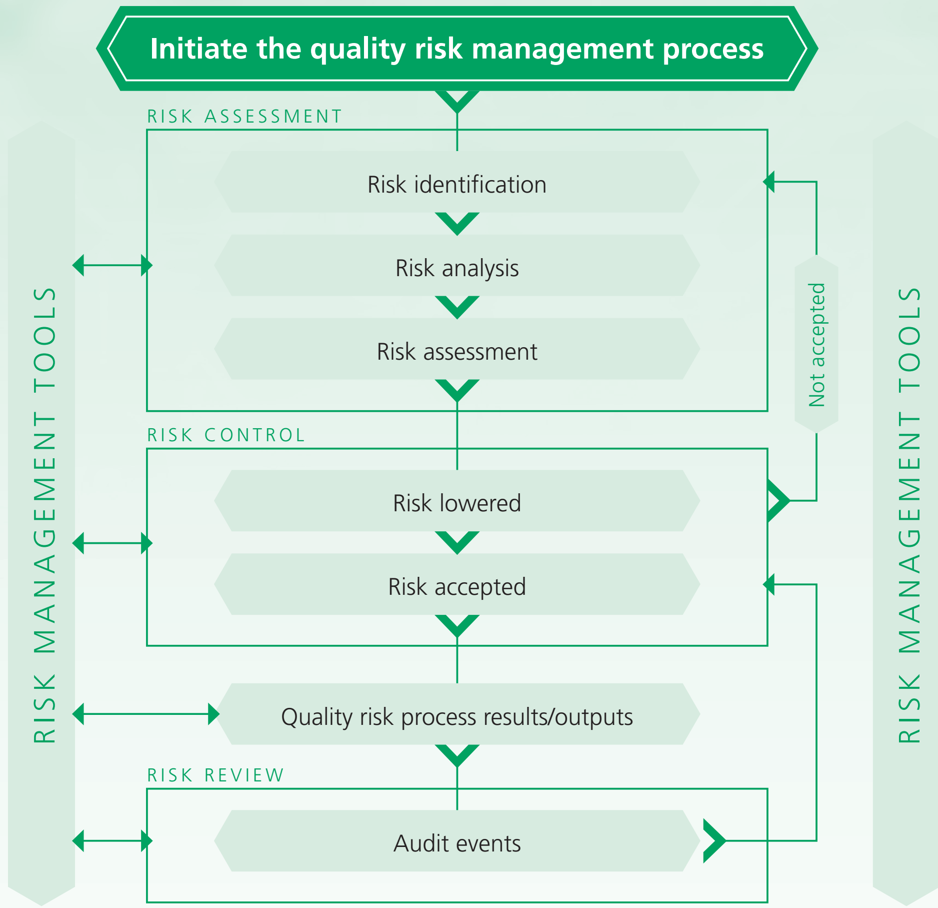
The quality management team is led by experienced senior experts with more than 25 years of industry experience in production management and quality; through a systematic training mechanism, covering core contents such as laws and regulations, GMP specifications, microbiological basics, and job standard operating procedures (SOPs), the professional quality of employees is comprehensively improved.

The production and inspection links are equipped with advanced equipment and precision instruments to fully meet the needs of product manufacturing and quality inspection, and standardized operating procedures are formulated for key equipment to regulate the use and maintenance processes. The material and product management strictly implements the hierarchical control system, and the entire process from procurement, storage to distribution is traceable.

The Company continues to optimise system performance through dynamic quality control, including change control, deviation management, OOS (Out of Specification) investigation, CAPA (Corrective and Preventive Action) implementation, and annual quality review and analysis, forming a closed-loop management mechanism that helps the enterprise achieve its lean and scientific development goals.

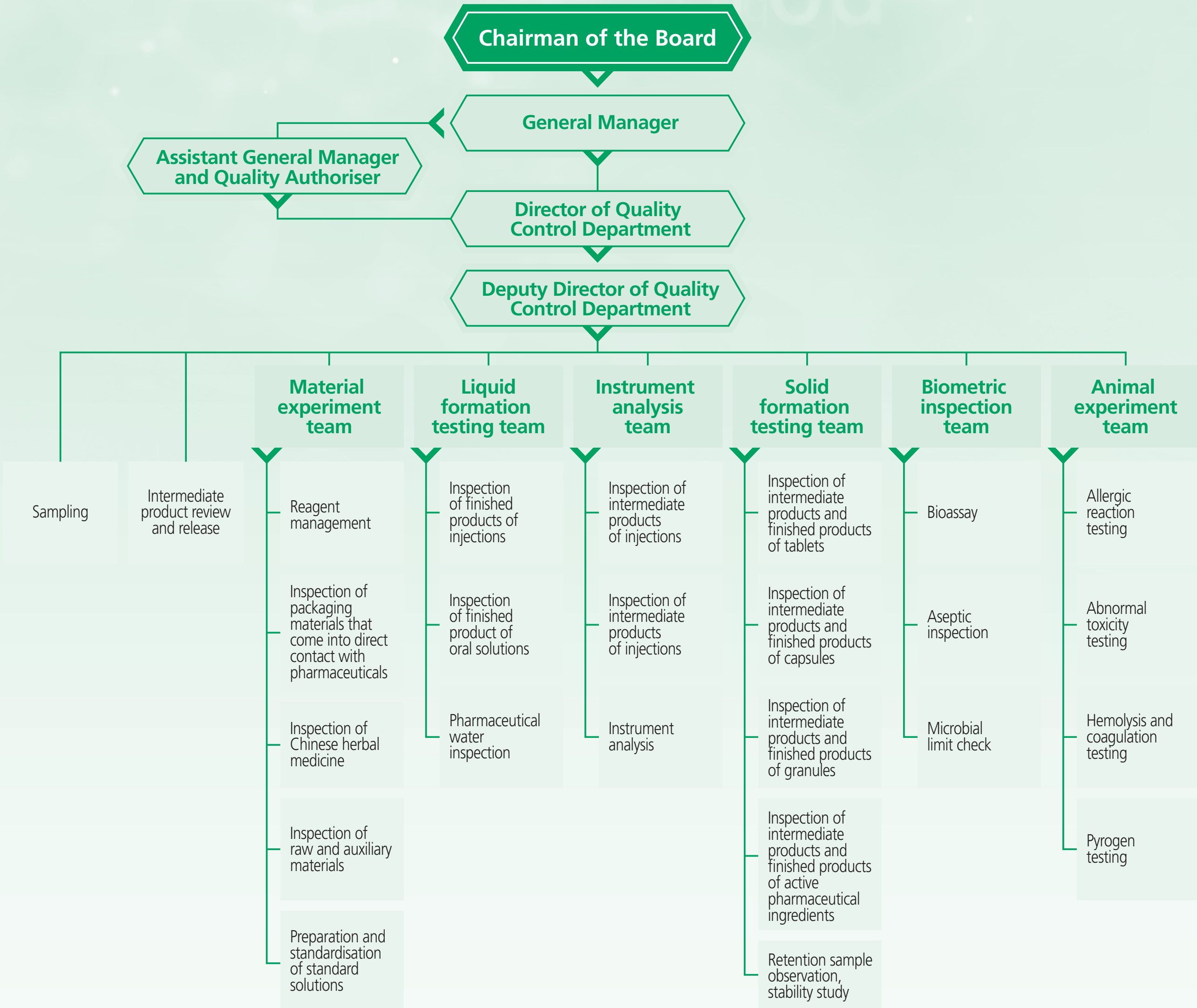
2. **Strengthening quality risk control**

The Company has formulated the "Quality Risk Management Procedure" to evaluate, control, review and evaluate risk factors that may affect product quality to ensure product quality. It is applicable to the quality risk management of the company's drugs at all stages of their life cycle, including research and development, production, and sales.



▲ **Quality Risk Management Flowchart of Fusen Pharmaceutical**

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



▲ **Quality Control System of Fusen Pharmaceutical**

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

(IV) Customer Service

1. Customer Complaint Handling

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

▼ List of product complaints in the past three years of Fusen Pharmaceutical

Performance Indicator	Unit	2022	2023	2024
Number of product complaints	Items	12	8	**8**

▼ Complaint handling process of Fusen Pharmaceutical

Complaint accepted	**Responsible Department:** Pharmacovigilance Department to receive and record the complaints, other departments need to refer the complaints immediately **Record content:** Complainant's information (name, contact information), product name, batch number, complaint content, etc. **Complete information:** If the information is incomplete, you need to proactively contact the customer to supplement it (such as test results, physical evidence, etc.) **Registration ledger:** Fill in the "Product Quality Complaint Information and Handling Registration Form"
Complaint Assessment and Verification	**Preliminary screening:** Assess the authenticity of the complaint and confirm whether it is the Company's product (check batch number, production records) **Fact-finding:** Check batch production records, inspection records, sample quality, production process and equipment status, etc.; re-inspect products when necessary, analyze samples sent back by customers, or conduct joint investigations with customers and regulatory authorities. **Conclusion:** **Facts not established:** Close the complaint after communicating with the customer; if the customer objects, re-investigate **Facts established:** Processing process initiated (medical complaints transferred to dedicated procedures)

Complaint Handling Corrective Action	**Impact assessment:** Analyze the impact on the complained batch, other batches/products, and assess whether recall or return is necessary **CAPA formulation:** Corrective and preventive measures are proposed by the Pharmacovigilance Department and the Quality Assurance Department
Customer response and closure	**Time limit requirements:** Written confirmation of acceptance within 2 working days, commitment to investigate and notification of estimated response time Feedback the investigation results and handling opinions to customers within 5 working days **Customer satisfaction:** **Satisfactory:** CAPA executed and complaint closed **Unsatisfactory:** Restart the investigation and CAPA process
Data archiving	**Preserved content:** original complaint records, handling process documents, final decisions and enforcement measures **Ledger management:** Regularly summarize to the "Product Quality Complaint Information Registration Ledger"

2. **Product Recall Mechanism**

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

▼ Fusen Pharmaceuticals' Three-level Drug Recall Procedure

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

(V) Responsible Marketing

1. Basic principles of drug instructions and advertising

Authenticity: The content must be based on reliable evidence such as scientific research, clinical trials, etc., and truthfully reflect the drug's ingredients, indications, usage, dosage, adverse reactions, and other information.

Accuracy: Use precise terms, avoid vague or ambiguous expressions with accurate data.

Legality: Strictly abide by relevant national laws and regulations, such as the Pharmaceutical Administration Law and the Advertising Law.

Completeness: Inclusion of comprehensive information about the drug without missing any key points to ensure that consumers can fully understand the drug.

2. Elimination of false advertising of drug efficacy

The Company has set up special positions to strictly review drug instructions and advertising content to ensure that they are consistent with the actual efficacy of the drugs. Refer to authoritative medical literature and clinical trial results to avoid exaggerating drug efficacy.

The Company provides training to personnel involved in production and review in order to clarify the legal consequences of false advertising and enhance their legal awareness. While actively accepting the supervision of drug regulatory authorities, media and consumers, the Company promptly handles reports and feedback on false advertising.

3. **Effective reminders of drug side effects**

   The main possible side effects of the drug should be highlighted at the beginning of the drug instructions or in a prominent position with larger font size and different colours, etc. A dedicated section of the instructions shall list all possible side effects in detail, including incidence rate, symptoms, severity and response measures. Side effects shall be mentioned in advertisements, such as through voiceovers or subtitles.

4. **Instructing consumers on the correct way to use the medicine**

   The instruction should explain in detail the dosage and administration in plain language, including the time of consumption, dosage, treatment, etc., with diagrams and examples if necessary. A hotline should be set up to answer consumers' medication-related questions.

V. SUPPLY CHAIN MANAGEMENT

(I) Optimizing the Chinese Medicine Industry Chain

Fusen Pharmaceutical is deeply aligned with the national strategies, with the goal of building a leading enterprise in the modern Chinese medicine industry, promoting the upgrading and restructuring of the entire industry chain through big data and intelligent technologies. Driven by technological innovation, the Company are transforming into a diversified ecological system of "Chinese Medicine +":

By developing the new business models such as Chinese herbal health tourism bases and towns characterized by Chinese herbal medicine, Fusen Pharmaceutical deeply integrates health and wellness concepts and authentic medicinal resources, cultivating an industry cluster characterized by "Chinese medicine + cultural tourism" and "Chinese medicine + wellness". This promotes the expansion of the Chinese medicine industry into a universal "sizeable healthcare" sector that benefits people's livelihood.

In collaboration with Henan Technology Investment Co., Ltd. and the Zhumadian Huanghuai Industrial Investment Fund (駐馬店市黃淮產業投資基金), Fusen Pharmaceutical jointly established the special fund coined as "China Medicine Valley". This industrial-financial integration model has facilitated the coordination between the pharmaceutical industry's innovation chain and capital chain, injecting strong impetus for the sustainable development of the industry.

Fusen Pharmaceutical has cultivated over 80 operating entities including Chinese herbal medicine plantation enterprises, cooperatives in Xichuan County, and has established 5 major standardized plantation bases to strengthen the quality foundation of the raw material side. The Chinese herbal medicine enterprises across the county, led by Fusen Pharmaceutical, achieved an annual output value of RMB4.218 billion, establishing a whole-chain industry system characterized by "scientific business positioning, standardized planting, modern production, high-end products, and brand effect, setting a benchmark for modern Chinese medicine industry clusters.

Fusen Pharmaceutical Promotes the Smartization of Chinese Herbal Medicine Production

(2) Supplier Admittance and Audit Management

The Company complies with the Company Law of the People's Republic of China, the Tendering and Bidding Law of the People's Republic of China and other relevant regulations and is committed to building stable relationships with suppliers while meeting social, environmental, legal and ethical standards. The Company pays the goods strictly in accordance with the contract, and the on-time payment rate reaches 100%. We negotiate the quality and price of raw materials in a fair and just manner, establishing a long-term and stable supply relationship with a supplier satisfaction rate of 98%.

▼ Number of Fusen Pharmaceutical's suppliers in different regions

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

The Company has established a management system covering the entire life cycle of its suppliers in strict compliance with the requirements of the Pharmaceutical Administration Law of the People's Republic of China, the Good Manufacturing Practice for Pharmaceutical Products ("GMP") and other relevant laws and regulations. We issued the Supplier and Procurement Management System (《供貨商及採購管理制度》), which specifies admittance standards for supplier, periodic evaluation mechanism and the material quality risk assessment criteria, in order to systematically regulate the supplier selection process. At the same time, the Supplier Audit and Approval Management Procedures (《供應商的審計和批准管理規定》) are implemented to implement differentiated audit strategies for suppliers based on material risk levels (A/B/C) — including qualification review, on-site verification and dynamic quality monitoring, to ensure the compliance, stability and traceability of raw materials, auxiliary materials and packaging materials. Through hierarchical control and closed-loop management, the quality of drug production is guaranteed at the source and a solid line of defense for product safety is established.

▼ Fusen Pharmaceutical's Standards for Supplier Classification and Audit

A-level (High-risk materials): Raw materials that directly affect drug quality, key auxiliary materials, and packaging materials that are in direct contact with drugs.
Audit Content:
Quality audit: Business license, production/operation permit, registration approval, quality standards, etc.
On-site Audit: Covering all aspects of institutions and personnel, plant facilities, equipment, production management and quality management.
Audit Frequency: On-site audit is required for the first time, followed by regular audits every two years.

B-level (Medium-risk materials): Auxiliary materials with certain impact on drug quality.
Audit content: Mainly qualification audit, on-site audit when necessary.
Audit frequency: Qualification review every two years.

C-level (Low-risk materials): Materials that do not directly impact drug quality, such as packaging tape, cardboard boxes, etc.
Audit content: Qualification audit only.
Audit Frequency: Regularly updated verification of qualification documents.
Imported materials: Additional documents such as import registration certificates, customs clearances, certificates of origin, etc. are required.

▼ **Fusen Pharmaceutical's Supplier Audit Process**

1. **Initial Audit**

   Pre-qualification: The Quality Assurance Department conducts a preliminary assessment of documents such as business licenses and production permits provided by suppliers.

   On-site Audit (A-level only):

   Audit team: Led by the Quality Assurance Department, in conjunction with the Material Supply Department and the Production Equipment Safety Management Department.

   Audit Steps:

   Initial meeting: Clarify the audit scope and process.

   On-site verification: Inspect plant, equipment, production records, quality management documents, etc.

   Final meeting: Feedback on problems, and propose rectification requirements.

   Audit Report: Develop a Supplier On-site Audit Report to record defects and corrective action plans.

   Sample Trial (if necessary): Conduct small batch trial production of key materials to verify quality stability.

   Approval and filing: Suppliers that pass the review will be included in the Qualified Supplier List and a quality file will be established.

2. **Daily Audit**

   Quality control: Pay close attention to the quality of material acceptance and daily usage, and provide timely feedback to suppliers for corrective actions.

   Problem handling: Suspension of procurement for continuous quality problems, and cancellation of supplier qualification for serious problems.

3. **Regular Audit**

   Cycle: Comprehensive review every two years to assess suppliers' qualifications, quality complaints, handling of deviations, etc.

   Focus: Track the status of rectification of historical problems and reassess the risk level.

4. **Special circumstances triggering an audit**

   The supplier has changed its production address, process and quality standards.

   Three consecutive batches fail inspection or have potential quality problems.

   Risks are identified during stability inspections or quality reviews.

(III) ESG Risk Management in the Supply Chain

The Company strengthens ESG risk management in the supply chain by encouraging suppliers to obtain environmental management system certification and implement GAP, so as to control the drug quality and operational risks at the source. The Company's key suppliers including Anhui Shanhe Pharmaceutical Excipients Co., Ltd. and Shandong Zhongping Pharmaceutical Co., Ltd. have both obtained ISO140000 Environmental Management System Certification. Notably, Shandong Zhongping's bases of lonicera japonica (Japanese Honeysuckle) is ahead of other herbal medicine bases in the country, taking the lead in passing the revised GAP compliance inspection. All these have established a full-process traceability system covering standardized planting, large-scale operations, and regulated management.

▼ Fusen Pharmaceutical's Supply Chain Risk Management Overview

Supply chain risk management system and strategy	**Supply chain risk management policy:** Specify the risk identification, assessment, response and monitoring process to ensure the stability and security of the supply chain **Diversified supply strategy:** Reduce reliance on a single supplier or region to minimise the risk of supply chain disruption
Supply chain risk management mechanism	**Risk alert mechanism:** Establish supply chain risk alert measures **Contingency response mechanism:** Formulate contingency plans for supply chain disruptions to ensure that contingency measures can be activated promptly in case of emergency as well as secure the continuity of drug production and supply **Information sharing mechanism:** Establish an information sharing platform with suppliers to ensure information transparency and timely communication in all segments of the supply chain and enhance collaborative response

Supply chain risk management measures	**Digital supply chain management:** Introduce supply chain management software and data analysis tools to enhance supply chain visibility and forecasting capabilities as well as optimise inventory management and logistics scheduling **Supply chain financial support:** Provide financial services to key suppliers to alleviate their financial pressure and ensure the stability of the supply chain **Develop green supply chain:** Promote green supply chain development and require suppliers to comply with environmental standards to reduce the impact of environmental risks on the supply chain
Supply chain risk management outcomes	**Enhance supply chain resilience:** The risk of supply chain disruption is significantly reduced through diversified supply strategies and contingency response mechanism **Improve supplier relations:** Facilitate closer co-operation with suppliers and enhance supplier stability and loyalty through information sharing and supply chain financial support **Cost control and efficiency improvement:** The implementation of digital supply chain management has enabled the Company to be more efficient in inventory management and logistics scheduling, and effectively control its operating costs

(IV) Sustainable Procurement

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

1. Fair Trade

We have established a Chinese herbal medicine plantation base in Xichuan County, nurturing more than 80 local planting enterprises and cooperatives. By promoting fair pricing and sustainable planting, the initiative supports farmers to increase their income, and contributes to balanced rural economic development. The Co-establishment of the "China Medicine Valley" special fund has promoted collaborative innovation across the upstream and downstream of the pharmaceutical industry chain, supporting the growth of small and medium-sized environmentally friendly suppliers, and facilitating the green upgrading of the regional industry.

2. Green Procurement

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

3. Green Supply Chain Collaboration

The Company requires suppliers of APIs and packaging materials to provide carbon footprint reports, and prioritize partners that use recycled materials or clean energy to jointly reduce carbon emissions in the supply chain. We have collaborated with logistics companies to develop green transportation solutions, such as the use of electric cold-chain vehicles for drug distribution, to reduce fossil energy consumption in the transportation.

VI. EMPLOYEE RESPONSIBILITY

(1) Employment and Labour Compliance

1. Equal Employment

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

The Company have entered into the Collective Contract (《集體合同書》) with the labour union committee, regulating labour remuneration, working hours, rest time and holidays, vocational training, insurance and benefits for our employees, in order to safeguard the legal rights and interests of employees in accordance with the law and ensure the stable development of the enterprise.

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

At the end of the Reporting Period, the Company had 972 working employees, of whom 476 were male and 496 were female, with a generally balanced ratio of male to female; the employees were mainly aged 30 (inclusive) to 50 (exclusive), with a generally reasonable age structure to meet the corporate long-term sustainable development needs. All employees are full-time employees with no part-time workers or contract workers. Most of the employees are located in Henan Province, totaling 949 and accounting for approximately 97.6% of the total number of employees, which greatly supports local employment in Henan Province. At the end of the Reporting Period, the Company had 4 ethnic minority employees and 1 employee with disabilities among its employees.

▼ Number of employees of Fusen Pharmaceutical (by gender) for the past three years

Performance indicator	Unit	2022	2023	2024
Number of male employees	Persons	553	482	**476**
Number of female employees	Persons	563	478	**496**

▼ Number of employees of Fusen Pharmaceutical (by age) for the past three years

Performance indicator	Unit	2022	2023	2024
Number of employees under 30 years old (exclusive)	Persons	221	208	**76**
Number of employees from 30 years old (inclusive) to 40 years old (exclusive)	Persons	456	418	**357**
Number of employees from 40 years old (inclusive) to 50 years old (exclusive)	Persons	352	242	**369**
Number of employees over 50 years old (inclusive)	Persons	87	92	**170**

▼ Number of employees of Fusen Pharmaceutical (by region) for the past three years

Performance indicator	Unit	2022	2023	2024
Number of employees in Henan Province (household registration)	Persons	1,104	944	**949**
Number of employees in other regions with Chinese nationality	Persons	11	15	**22**
Number of employees in Hong Kong, Macau, Taiwan and overseas	Persons	1	1	**1**

▼ Number of employees of Fusen Pharmaceutical (by education background) for the past three years

Performance indicator	Unit	2022	2023	2024
Number of employees with graduate degree or above	Persons	3	3	**3**
Number of employees with bachelor's degree	Persons	91	102	**123**
Number of employees with college degree	Persons	201	195	**297**
Number of employees with high school education or below	Persons	821	663	**549**

2. Employment Compliance

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

- Prohibition of child labour: The Company has formulated the Documents on Policies and Procedures to Prevent Employment of Child Labour (《防止僱傭童工政策及程序文件》), which mandates rigorous verification of identity information, account details and all information provided during the recruitment process prior to the hiring of new employees, and requires that onboarding procedures will only be initiated once applicants meet the recruitment conditions. The Company will promptly reject any applicant who is under legal age. Furthermore, when a new employee joins the Company, the receiving department is required to re-verify their identity documents. If a minor under the age of 16 is identified, the Company will seek legal consent from the individual, escort him/her back to his/her original place of residence, and require his/her parents or guardian to sign a confirmation ensuring the individual's safe return.

- Respect for employees' contributions: the Company provides paid leave and signs labour contracts with employees to specify the working hours of the labourers. Should extra working hours be required, the Company engages in negotiations with employees and does not compel them to work overtime. It also provides overtime pay.

The Company has developed the Personnel Management System of Henan Fusen Pharmaceutical Company Limited (《河南福森藥業有限公司人事管理制度》) to establish a "closed-loop" management chain with clear defined functions, robust systems and well- established responsibilities. This system supports the ongoing enhancement of the Company's human resources operations in terms of procedure, standardisation and institutionalisation.

(2) Occupational Health and Safety

1. Safety Production Management

The Company strictly complies with relevant laws and regulations such as the Production Safety Law of the People's Republic of China, the Labour Law of the People's Republic of China and the Fire Control Law of the People's Republic of China, thoroughly implements the principle of "integrated management with safety as the priority and prevention as the theme", and is committed to establishing and improving the long-term mechanism of safety management of the Company. By continuously enhancing the safety awareness of all employees and regulating the safety operation procedures, the Company ensures the smooth production and operation of each department and process, effectively prevents occupational hazards, and effectively safeguards the physical and mental health and safety of its employees.

The Company formulated the Safety Management System of Henan Fusen Pharmaceutical Company Limited, and established a dedicated production safety leading group, which is fully responsible for the organisation and implementation of production safety work. The system covers safety education and training, safety production inspection, hazard investigation and management, safety production work requirements, fire safety management, special operation management, electricity safety management and equipment safety management, etc., effectively controlling and eliminating potential risks in the production process and providing solid guarantee for the sustainable and stable development of the enterprise. In 2024, the Company invested RMB2.3997 million in production safety, and operated safely for 365 days. There were no major occupational health incidents, no loss of working days due to work-related injuries and no work-related fatalities.

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

Production Safety Leading Group	
Part-time Safety Officer	The general person in charge of each department serves as the part-time safety officer of the department, responsible for supervising, inspecting and reporting safety matters. The production safety leading group has an office located in the Production Equipment Safety Management Department, with the Director of the Production Equipment Safety Management Department acting as the Director of the office and the Deputy Director acting as the Deputy Director of the office.

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

Production Safety Standards	
Safety and protection management	Doors, windows and guardrails of all kinds are free from damages; ceilings, walls, floors and pipelines are free from cracks, damages or leaks; all kinds of personal protection equipment products are regularly replaced, and such products are issued to operators of production and operation positions according to the regulations.

2. Occupational Health Protection

The Company strictly complies with the Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases and relevant laws and regulations, remains committed to the principle of "prevention first" and actively builds a healthy and safe working environment through measures such as equipping employees with the necessary protective equipment, regularly organising occupational health checkups and systematically conducting occupational safety training. In 2024, the Company invested RMB0.93 million in employee occupational health and safety, and the employee health checkup rate was 88%.

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

3. Production Safety Training

The Company is dedicated to enhancing the safety awareness and professional skills of all employees through comprehensive, systematic, and regular production safety education. This is achieved via multi-dimensional training, including awareness education, technical training, system promotion, and operational standardisation. The Company has developed a three-tier safety training system, strictly enforcing a progressive training model across the Company, workshops, and specific working units/positions. All new employees are required to complete each of the three training levels before being allowed to commence work. For specialised roles, such as electrical work, locomotive operation within the factory, and welding or thermal cutting, the Company implements professional training management to ensure that employees are fully certified for their respective tasks before taking on these specialised positions. In 2024, the Company's work safety training coverage reached 100%, with a total of 2,744 persons trained.

The Company is committed to enhancing employees' understanding of the critical importance of production safety, while fostering a strong sense of professionalism in adhering to rules, regulations, and labor discipline. This approach aims to effectively prevent safety incidents and ensure the smooth, safe, and orderly progression of all production and operational activities.

The "five simultaneities" administrative policy for production safety:

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

(3) Development and Training

1. Diverse Development of Talent

The Company is committed to the diverse development of talent and adheres strictly to the principles of fairness, justice, and transparency in all aspects of salary management, recruitment, promotion, and employee benefits. The Company ensures that all employees have equal opportunities for development and are resolute in eliminating any form of discrimination or unfair treatment based on race, color, nationality, ethnicity, religious beliefs, geographic location, language, age, gender, marital status, disability, or any other factor.

In terms of talent acquisition, the Company adheres to the principle of "utilizing rather than owning talents, and focusing on action over position". We employ a diverse range of strategies, including international recruitment, talent secondment, position exchanges, part-time roles, consultancy, technical cooperation, and project partnerships, to cultivate an open and inclusive talent ecosystem. Regarding talent utilisation, the Company conducts systematic assessments based on individual character, professional competencies, performance contributions, and growth potential, ensuring a scientifically driven approach to human resource allocation.

To foster a competitive environment conducive to talent development, the Company has implemented a diversified incentive system that effectively combines both material and non-material rewards. This includes the establishment of a compelling talent retention framework, supported by distinctive welfare policies such as salary agreements, special allowances, subsidies for on-the-job education, equity incentives, and assistance with employees' children's education. During the Reporting Period, the Company's employee turnover rate was 4.2%, reflecting a stable talent pool that provides robust support for the sustainable development of the organisation.

▼ The employee turnover rate of Fusen Pharmaceutical over the past three years (by gender)

Performance indicator	Unit	2022	2023	2024
Employee turnover rate	%	2.3	2.4	**4.2**
Turnover rate of male employees	%	1.2	1.9	**2.4**
Turnover rate of female employees	%	1.1	0.5	**1.8**

▼ The employee turnover rate of Fusen Pharmaceutical over the past three years (by age)

Performance indicator	Unit	2022	2023	2024
Turnover rate of employees aged under 30 (exclusive)	%	1.3	1.4	**1**
Turnover rate of employees aged 30 (inclusive) to 40 (exclusive)	%	0.8	0.7	**2.2**
Turnover rate of employees aged 40 (inclusive) to 50 (exclusive)	%	0.1	0.2	**0.8**
Turnover rate of employees aged above 50 (inclusive)	%	0.1	0.1	**0.2**

▼ The employee turnover rate of Fusen Pharmaceutical over the past three years (by geographic location)

Performance indicator	Unit	2022	2023	2024
Turnover rate of employees with family registration in Henan Province	%	2.2	1.3	**0.3**
Turnover rate of employees with Chinese nationality from other regions	%	0.1	0.1	**3.9**
Turnover rate of employees from Hong Kong, Macau, Taiwan and overseas	%	0	0	**0**

2. Creating a Learning Enterprise

The Company actively creates a learning-based organisation. According to the relevant administrative regulations for comprehensive learning training and assessment of the Group, the Company formulated the annual training programme in a scientific manner by closely integrating the production and operation objectives and work priorities of the Company in 2024. The Company adopts the training model of "combining internal and external training, stratification and classification". While systematically launching internal training on job skills, it also arranges for its staff to visit industry benchmark enterprises, superior administrative departments and professional training institutions, etc., targeting weaknesses in production and operation management, so as to enhance their business qualities and ability to perform their duties.

3. Strengthening employee cultivation

The Company implements a differentiated and precise strategy of classification and grading for employee cultivation, systematically evaluates the comprehensive quality, professional background and personal development intention of its employees, and establishes a "four-in-one" cultivation mechanism: firstly, to establish a "passing on experience (傳幫帶)" system to promote the transmission of experience; secondly, to improve the theoretical learning mechanism to strengthen the professional foundation; thirdly, to set up a platform for practice and training to strengthen practical capability; fourthly, to deepen the school-enterprise and enterprise-enterprise joint cultivation to expand the cultivation channels. The Company establishes a training ledger, with a focus on tracking the cultivation progress of employees who are undergraduates and above with less than one year of service. In 2024, the Company arranged for 846 employees to participate in various types of training, with an average of 48 hours of training per employee.

Training methods	Training contents
Regular Training	The workshops and departments formulate and implement regular training programmes according to the actual productions and operations. The relevant departments conduct regular training assessments and supervision.
Special Cultivation	According to the Company's "Career Development Planning", the officer in charge of talent cultivation will pass on the work experiences to the cultivation targets based on their actual positions, hobbies, strengths and professional characteristics, in the form of "master leading the apprentice", whereby the master will preach day-to-day teachings, designate responsibilities for the apprentices to fulfil, and track job assignment and provide guidance. Besides expanding job responsibilities, and engaging such apprentices in relevant company conferences and professional training sessions, the master will also hold daily heart-to-heart talks, and prepare regular reports.

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

Performance indicator	Unit	2022	2023	**2024**
Number of male employees trained	Persons	553	482	**476**
Number of female employees trained	Persons	563	478	**496**
Number of hours of training for male employees	Hours	48	48	**48**
Number of hours of training for female employees	Hours	48	48	**48**

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

Performance indicator	Unit	2022	2023	2024
Number of senior management trained	Persons	26	27	**29**
Number of middle management trained	Persons	103	90	**97**
Number of hours of training for senior management	Hours	60	60	**60**
Number of hours of training for middle management	Hours	48	48	**48**

(4) Employee Satisfaction

1. Enhancing employee democratic management

The Company has established staff representatives meetings, entered into collective contracts with employees on equal consultation, and established democratic management mechanisms such as the system for open factory affairs and female staff committee to provide institutionalised protection for employees' participation in corporate governance. This system effectively regulates the decision-making behaviour of the Board of Directors and the execution process of the operating management, and realises the standardised operation of democratic supervision. In 2024, the enrolment rate of the Company's employees reached 93%.

The Company strictly fulfils the powers and functions of the staff representatives meetings and gives full play to its democratic decision-making role. The system of consideration by the staff representatives meetings is strictly enforced on major issues involving the vital interests of employees, such as the signing of collective labour contracts, salary adjustment plans, social insurance payments, personnel appointments and removals, and major investment projects, etc. Matters that have not been considered and approved by the staff representatives meetings will not be put into effect, thus effectively safeguarding the employees' rights to information, participation and supervision, and effectively stimulating the sense of ownership among the employees.

The Company's union organisation actively performs its functions, establishes a quarterly visit mechanism, and talks and conduct surveys with 1-2 grassroots units every quarter in order to understand the staff's thoughts in a timely manner and widely collect rationalised suggestions. Through the establishment of a diversified communication platform, the Company has fully utilised the role of staff participation in its development, and promoted the creation of favourable conditions for co-construction and sharing.

Convening an Annual Work Conference

2. **Adhering to Factory Operation Transparency**

The Company formulated the "Implementation Measures for Factory Operation Transparency System" to improve the factory operation transparency mechanism, enhance the quality and effectiveness of factory operation transparency, standardize the contents and procedures for transparency, fully mobilise the enthusiasm of employees to participate in corporate governance, and promote business reform and development while maintaining harmony and stability. The Measures specify that all factory operation information shall be disclosed in accordance with standardised procedures, except for matters explicitly prohibited by national laws and regulations for disclosure and those involving trade and technical secrets.

Factory Operation Transparency	
Significant corporate decisions	1. Business development plans, investments, and productions and operations, as well as decisions major infrastructure projects; 2. Bidding projects for small-scale infrastructure construction; 3. Enterprise restructuring, and major technological transformation plans; 4. Important regulations, systems, and management methods; 5. Bulk materials procurement; 6. Disposal of waste materials.
As for the immediate interests of employees	1. Employee incentive and disciplinary measures, as well as matters related to bonus distribution; 2. Negotiation system and implementation of collective contracts; 3. Employee training programs; 4. Employees' job advancement, and appointments based professional titles; 5. Payment conditions of employee pension, medical care, work-related injury, unemployment, maternity, and other social insurance and welfare funds, etc.

Factory Operation Transparency

As for the construction of the leadership team and party integrity and governance	1. Work reports, democratic assessment, organizational assessment, and appointment and removal of leaders and cadres; 2. Appointment of mid-level management personnel, selection of important position personnel; 3. Implementation of clean and self-discipline regulations for leaders and cadres; 4. Details of business entertainment expenses, including items, amounts, overspending, cost-cutting amounts, and their causes, etc.; 5. Leaders' and cadres' remuneration, use of transportation and communication tool.
As for other matters that employees should be informed of	1. Expenses for employee education and training; 2. Various advanced evaluations, incentive overview, etc.

Methods for factory operation transparency

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

3. Supporting Work-life Balance

The Company adheres to the "people-oriented" management philosophy and is committed to building a harmonious work-life balance. The Company has given full play to the complementary role of unions in the social security system, established a sound mechanism for supporting employees in difficulty, and launched rich and colourful team-building activities to effectively promote departmental collaboration and employee exchanges, cultivate the spirit of teamwork, and create a positive working atmosphere. In 2024, the Company invested a cumulative total of 374,900 in supporting employees in difficulty, benefiting 83 employees, with an employee satisfaction rate of 100%.

Support for employees in difficulties	Set up a dynamic database of employees in difficulty, so as to provide normalised and precise support; establish a regular visit mechanism to have a deeper understanding of the actual difficulties of employees, so as to provide precise support; and provide assistance in a timely manner to employees who suffer from serious illnesses, accidents, etc., that cause difficulties in life.
Employee benefits	Equip employees with fully equipped apartment suites; give tuition subsidies to employees' children in primary and secondary schools, and give scholarships to those who are admitted to undergraduate colleges and universities; give extra housing subsidies, living subsidies and equity incentives to outstanding talents.
Enrichment of leisure life	Organise activities such as red-themed education, professional skills competitions and on the job training, and launch projects such as field training and study tours.

Fusen Group holding its 2nd Fun Sports Event & Lakeside Marathon on the morning of 2 June 2024

Fusen Group Choir Winning the Gold Award at 100th CPC Anniversary Choir Competition of Xichuan County

Organizing A Date of Youth: Danjiang River Cycling Competition

VII. ANTI-CORRUPTION

(1) Establishing an Anti-corruption System

Fusen Pharmaceutical always adheres to the business philosophy of "Operation with integrity and Development with Compliance", strictly complies with national laws and regulations and the Code of Ethics, and resolves to eradicate illegal practices such as bribery, corruption, fraud, monopoly, money laundering and unfair competition. The Company continues to optimise its anti-fraud prevention and control system, strengthen risk identification and control, and ensure that its business operations are conducted in a lawful and compliant manner.

In order to fulfil its corporate responsibility, the Company has formulated and strictly enforced the "Anti-Fraud, Anti-Corruption and Anti-Commercial Bribery Management System", which is applicable to all directors, senior management, employees and all business partners (including suppliers, distributors and other stakeholders). The system clearly defines the behavioural standards of fraud, corruption and commercial bribery, and stipulates in detail the scope of application, division of responsibilities, prevention and control measures, penalty mechanism and reporting channels, with the aim of building a fair, transparent and clean business environment.

Clarifying the attribution of duties	•	The Board leads the Company's anti-fraud, corruption and commercial bribery work, and urges the management to establish a corresponding anti-corruption control mechanism within the Company;
	•	The board of supervisors supervises the Company to establish a sound and healthy internal control system;
	•	The corporate management department is responsible for receiving, investigating and putting forward suggestions for handling reports on fraud/corruption/commercial bribery, keeping written records and reporting to the Board in a timely manner, and filing relevant materials of the cases.
Having clear reporting channels	•	All employees of the Company and all parties in the society that have direct or indirect economic relations with the Company can report the actual or suspected fraud/corruption/commercial bribery cases through telephone, email, letters and other channels, including complaints and reports on violations of professional ethics of the Company and its personnel;
	•	A complaint suggestion box is placed at a prominent position in the Company's lobby for anonymous or real name reporting.
Strengthening prevention and control	•	Advocate honesty and integrity, and make every effort to create a corporate culture environment of anti-fraud, corruption and anti-commercial bribery;
	•	Establish a procurement system that is based on transparency, competition and objective criteria to effectively prevent fraud/corruption/commercial bribery;
	•	Suppliers are required to sign the Anti-Fraud and Anti-Corruption Undertaking when entering into contracts. If the personnel who deal with the Company's economic activities violate the Anti-Fraud and Anti-Corruption Undertaking, the Company shall resolutely disqualify its suppliers and service providers; for partners involved in fraud, bribery and other acts, regardless of the degree of severity, the Company shall no longer cooperate with them and resolutely pursue legal responsibility;
	•	The management's supervision of fraud/corruption/commercial bribery is integrated into daily sales, procurement, financial handling and other activities.
Promoting supervision and inspection	•	The audit department considers the risk of fraud/corruption/commercial bribery when formulating and implementing the annual audit plan, reports its work plan and results to the Audit Committee, and is under the guidance and supervision of the Audit Committee;
	•	The market audit department conducts monthly inspections on the sales channels, sales prices, marketing activities and training of the products of the sales centre.

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

The Company formulated the Employee Handbook, which clearly stipulates that all employees must strictly comply with national laws and regulations as well as the Company's rules and systems, and resolves to eradicate the use of their official position for private gain. It also emphasises the importance of professional ethics and clean practices, so as to comprehensively regulate the professional conduct of the employees, and to continue to strengthen the awareness of anti-corruption and integrity of all employees. In 2024, the Company did not receive any cases of corruption-related litigation brought against the Company or its employees, nor did it discover any non-compliance relating to bribery, corruption, extortion, fraud and money laundering.

In the future, Fusen Pharmaceutical will continue to improve its anti-corruption governance system, optimise its supervisory mechanism, and strengthen risk prevention and control in key areas. It will build a more standardised, transparent and efficient compliance management system through multi-dimensional measures such as system improvement, process optimisation and culture cultivation, and strengthen the building of a compliance culture, so as to ensure that all its operating activities comply with the requirements of the laws and regulations and to safeguard the lawful rights and interests of its shareholders, customers, employees and members of the public.

(2) Anti-corruption Capacity Building

Fusen Pharmaceutical has always regarded integrity and compliance as the lifeline of its corporate development, and has continued to strengthen system improvement and launched relevant training and education to promote the formation of a corporate culture of operating in accordance with the law, performing contracts in good faith, and honouring integrity and honesty, as well as to create a clean and transparent business environment for its stakeholders.

- System Improvement: The Anti-corruption Training System was formulated to clearly establish the basic principles of anti-corruption work and further refine the specific implementation procedures, focusing on risk identification and prevention and control of key business aspects.
- Training and education: All employees are required to conduct in-depth study and understanding of the Anti-Corruption Training to ensure that the business ethics policy is thoroughly implemented in all aspects of the Company's operations.

VIII. INTELLECTUAL PROPERTY RIGHTS

With regards to intellectual property rights ("IPR"), the Group respects and strictly complies with both national and international IPR related laws and regulations. We stipulate that all our software must be purchased from the patent right holders or their authorised agents. No copy is allowed to be installed for use. We adopt the utmost measures to safeguard the confidentiality of company information as well as that of our customers. Our employees are all prohibited, whether during employment, or after, irrespective of the circumstances of termination, to disclose to any other person, firm, company, press, media, or association any confidential information of the Group's potential, actual or past clients. Employees are to return to the Group all confidential and proprietary information upon their termination.

IX. PRIVACY PROTECTION

The Group's business operations generate large volumes of private confidential and sensitive information of our customers and their business partners, including the trade secrets, proprietary information, commercial terms of contracts, etc. Such kind of information are extremely sensitive and important, and is required to be protected by law. The Group is fully aware of this obligation and has taken measures to ensure safe keeping of these information.

The Group enforces strict policies to prohibit our employees from accessing and/or disclosing any such information without approval from management. Legal action may be taken against any privacy violation. We have also implemented and enforced management rules on information technology covering protection procedures for information security as well as handling processes and application procedures. The Group applies the latest information technologies to continuously, where possible, monitor, maintain and update all hardware, software and security systems to prevent unauthorised access and hacking attacks to our information systems at any time.

During the Reporting Period, there were no cases filed against us nor any complaints received, regarding any breach of relevant privacy laws, regulations and policies in any jurisdiction in which we operate.

X. COMMUNITY INVESTMENT

(1) Support Rural Revitalization

The Company, as a nationally important Shuanghuanglian products manufacturer, fully supports rural revitalisation by proactively making monetary and in-kind donations after the SARS outbreak and the Wenchuan earthquake, Yushu earthquake, Zhouqu mudslide and the COVID-19 pandemic; fulfilling its responsibility as a local enterprise by absorbing surplus labour force from the community and effectively alleviating the challenges faced by rural migrants seeking employment; and actively taking part in poverty alleviation and rural revitalisation by donating to the construction of Hope Primary Schools, and assisting in the construction of new villages in a number of villages.

The Company adopts the method of enterprise+base+farmer to establish a high-standard GAP honeysuckle planting demonstration base, which ensures the effectiveness, safety and controllable quality of honeysuckle, while leading 5,400 farmers to plant, increasing the average household income by 5,000, which realised a stable increase in income to alleviate poverty, and created a win-win situation in terms of economic, ecological and social benefits. In 2020, Fusen Group was awarded as an Advanced Private Enterprise of the National 10,000 Enterprises Helping 10,000 Villages Targeted Poverty Alleviation Campaign.

Fusen Pharmaceutical donated its speciality Chinese medicine plantation base to the People's Government of Maotang Township, Xichuan County, empowering the local economy and supporting rural revitalisation

Fusen Pharmaceutical's Honeysuckle GAP Planting Base

(2) Social Welfare Activities

The Company has always adhered to the responsibility concept of "giving back to society and caring for people's livelihood", and has actively participated in public welfare and charitable initiatives by launching a series of public welfare activities such as pharmaceutical donations, promotion of the culture of traditional Chinese medicine, and voluntary medical services for the community, etc., which contributed to the building of a civilized and harmonious society. In 2024, the Company invested a cumulative total of RMB774,400 in community public welfare funds, and arranged for its employees to carry out volunteer services for 181 hours, fulfilling its corporate social responsibility with practical actions and contributed to the enhancement of people's well-being.

Case: Fusen Pharmaceutical showcased at the 16th Zhang Zhongjing Medicine Culture Festival (第十六屆張仲景醫藥文化節)

From 26 February to 28 February, the 16th Zhang Zhongjing Medical Culture Festival and Global Traditional Chinese Medicine High-Quality Development Forum was held in Nanyang City, Henan Province. During the cultural festival, Fusen Pharmaceutical, as an important representative of Nanyang's traditional Chinese medicine and health industry, presented a number of excellent products including heat clearing and detoxification, anti-anemia, and tonifying products, demonstrating its profound strength in the field of traditional Chinese medicine.

These selected products have not only enhanced public awareness and understanding of Chinese medicine, allowing them to deeply feel the unique cultural charm of Chinese medicine, but have also provided the public with more knowledge about the use of proprietary Chinese medicines, health care and disease prevention. In the future, Fusen Pharmaceutical will continue to uphold the spirit of the Medical Sage with relentless innovation, and forge ahead to contribute more wisdom and strength to the prosperous development of the Chinese medicine industry.

Case: First anniversary of the "Unboxing Healthy Treasure (開箱！健康寶藏)"

On 23 May 2024, the first anniversary wrap-up show of Henan Satellite TV's "Unboxing Healthy Treasure (開箱！健康寶藏)" programme was successfully held at the Henan Broadcasting System. The programme, co-organised by Henan Broadcasting System and the Health Commission of Henan Province, is title-sponsored by Fusen Pharmaceutical.

Since its premiere, the programme has always insisted on keeping an close eye on, and striking a balance between, the authority of science and hot topics, and laying equal stress on knowledge dissemination and theoretical guidance as well as paying equal attention to word-of-mouth of the public and social impact. Leveraging on the unparalleled strength of Henan in traditional Chinese medicine resources, the programme connected various co-development units in the healthcare system of the province. Located in Henan with nationwide audience, the programme has become a publicity brand for the medical industry with its high-quality content created under the integrated media philosophy.

Over the past year, the programme has broadcast 54 episodes, released more than 500 short videos and achieved over 500 million total view across the network, with more than 50 million viewers nationwide. By delivering healthy living knowledge to the audience through vivid cases, authoritative interpretations and practical suggestions, the programme has become an important channel for the public to obtain health information.

Case: "Henan TV Health Campaign" (河大衛健康中原行) promoted the improvement in public health standards

Starting from March 2024, the Henan Health Commission has partnered with Henan TV and Fusen Pharmaceutical to launch a large-scale offline series of activities called "Henan TV Health Campaign" (河大衛健康中原行). Medical expert teams are organized to visit communities, schools, enterprises and other places, and to provide the people with the health tips that they are most concerned about through diversified activities such as "Free Health Clinics (健康義診)", "Public Health Lectures (健康大講堂)", "TCM Wellness Lectures (中醫養生講座)", "TCM Experience Activities (中醫體驗活動)", "Scenic Spot Medical Service (國醫進景區)", and "Pop-up Health Stations (健康驛站)", thus promoting the improvement of health literacy of the whole population.

In 2024, the "Henan TV Health Campaign" (河大衛健康中原行) launched 150 events throughout Henan province, playing an active role in building healthy communities and promoting public health standards.

▼ **Community investment of Fusen Pharmaceutical for the past three years**

Performance indicator	Unit	2022	2023	2024
Community charity amount	Thousand	320.7	1,630.6	**774.4**
Hours of employee volunteer activities	Persons	128	156	**181**

Report of the Directors

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2024.

PRINCIPAL ACTIVITIES

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

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

DIVIDEND POLICY

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

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

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

RESULTS AND DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2024 (2023: nil) to the shareholders of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following period for determining eligibility to attend and vote at the forthcoming annual general meeting to be held on Thursday, 29 May 2025 (the "**2024 Annual General Meeting**"):

Latest time to lodge transfer documents for registration:	4:30 p.m., Friday, 23 May 2025
Closure of register of members:	Monday, 26 May 2025 to Thursday, 29 May 2025 (both days inclusive)
Record date:	Thursday, 29 May 2025

In order to be eligible to attend and vote at the 2024 Annual General Meeting, all transfer of share(s), accompanied by the relevant share certificate(s) with the properly completed transfer from(s) either overleaf of separately, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than the latest dates and time set out above.

BUSINESS REVIEW

The review of the business of the Group during the year ended 31 December 2024 and the discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" of this report. The description of principal risks and uncertainties faced by the Group and key financial performance indicators are set out in the section headed "Management Discussion and Analysis" of this report. The financial risk management objectives and policies of the Group are set out in the consolidated financial statements of this report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results, assets and liabilities of the Group for each of the five financial years ended 31 December 2024 is set out on page 4 of this report. Such summary does not form part of the audited consolidated financial statements of the Group.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2024 are set out in Note 13 to the consolidated financial statements of this report.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in this report, the Group did not have other plans for material investments or capital assets as at 31 December 2024.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not have significant investments, material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 December 2024.

SHARE CAPITAL

Details of the Company's share capital is set out in Note 29 to the consolidated financial statements of this report.

SHARE OPTION SCHEME

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

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

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option, which must be a business day;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and

(iii) the nominal value of a Share on the date of grant of the option.

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

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

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

The following table discloses movements in the Company's share options outstanding under the Share Option Scheme during the year ended 31 December 2024:

Name/category of participants	At 31 December 2023	Date of grant of share options	Exercised during the year	Granted during the year	Lapsed during the year	Cancelled during the year	At 31 December 2024	Vesting period of share options	Exercise period (both days inclusive)	Exercise price of share options HK$ per share (Note)	Closing price of shares immediately before date of grant HK$ per share
Two employees of the Group	16,000,000	19 July 2019	–	–	–	–	16,000,000 in total	All of the share options granted have been vested on 19 October 2019	19 October 2019– 13 June 2028	3.098	3.04

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

During the year ended 31 December 2024, no share options were granted under the Share Option Scheme.

As at the date of this financial report, there were 16,000,000 outstanding share options granted under the Share Option Scheme, representing approximately 2.16% of the issued share capital of the Company. As at 1 January 2024 and 31 December 2024, the Company may grant options in respect of up to 64,000,000 Shares under the Share Option Scheme, representing approximately 8.66% of the total issued share capital of the Company as at the date of this report.

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

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

Please refer to Note 12(a) to the financial statements for further information of the Share Option Scheme and the value of share options granted.

RESTRICTED SHARE UNIT SCHEME

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

1. Purpose of the RSU Scheme

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

2. Participants of the RSU Scheme

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

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

3. Total number of shares available for issue

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

As at 31 December 2024, the total number of RSUs available for grant under the RSU Scheme was 71,993,400, the underlying shares for which (if issued) representing approximately 9.74% of the total number of issued shares of the Company as at the date of this report.

4. Details of the RSUs granted under the RSU Scheme

The number of RSUs available for grant under the RSU Scheme was 71,993,400 and 71,993,400 as at 1 January 2024 and 31 December 2024, respectively. Details of the outstanding RSUs granted under the RSU Scheme and the movements during the year ended 31 December 2024 are set out as follows:

Name/category of Grantee	Date of Grant	Number of Shares underlying the RSUs as of the date of grant (Note 1)	Number of Shares underlying the unvested RSUs as of 1 January 2024	Number of RSUs granted during the Reporting Period	Closing price of the Shares immediately before the date on which the RSUs were granted	Weighted average closing price of the Shares immediately before the vesting date	Vested during the Reporting Period	Lapsed during the Reporting Period (Note 2)	Number of Shares underlying the unvested RSUs as of 31 December 2024	Vesting period (subject to vesting conditions)	Approximate percentage of total number of Shares in issue as of 31 December 2024
Two employees of the Group (Note 3)	8 July 2022	5,000,000	4,000,000	–	HK$0.97	HK$1.02	1,000,000	–	3,000,000	(Note 4)	0.676%
Total		5,000,000	4,000,000	–	HK$0.97	HK$1.02	1,000,000	–	3,000,000	(Note 4)	0.676%

Notes:

1. Grantees are not required to make any payment in respect of grant of RSUs. Subject to the terms of the RSU Scheme, RSUs held by an Eligible Person that are vested as evidenced by the vesting notice may be exercised (in whole or in part) by the Eligible Person serving an exercise notice in writing on the trustee and copied to the Company. On 29 July 2022, the Company allotted and issued to Global Talent Alliance Limited, a wholly-owned subsidiary of the trustee appointed by the Board to administer the RSU Scheme (the "**RSU Nominee**"), 5,000,000 new shares (the "**RSU Shares**"), which are the underlying shares of the Company in respect of the 5,000,000 RSUs granted to the two grantees. The RSU Shares are held on trust by the RSU Nominee for the two grantees until the relevant RSUs have been exercised, upon which the RSU Shares will be transferred to the two grantees.

2. During the Reporting Period, no RSU granted under the RSU Scheme was cancelled.

3. The two grantees, each granted 2,500,000 RSUs, are business development staff of the Group and are third parties independent of and not connected with the Company, its subsidiaries and its connected persons.

4. Subject to the vesting criteria and conditions having been met, the 2,500,000 RSU granted to each of the two Grantees shall vest equally (i.e. 500,000 RSUs) on 8 July 2023, 2024, 2025, 2026 and 2027, respectively. The vesting of the RSUs shall be subject to the satisfaction of the following performance targets: (i) the number of business partners being introduced by the relevant grantee; (ii) number of products being introduced and launched by the Group successfully on such grantee's effort and (iii) the cost of introducing and launching the relevant products. The RSUs shall be exercised no earlier than 12 months after the respective vesting dates.

5. For details of the fair value of the granted RSUs and the basis of the measurement of fair value of RSUs, please refer to Note 12(b) to the financial statements in this report.

6. The number of RSUs which may be granted under the RSU Scheme as at 31 December 2024 was 71,993,400 RSUs.

5. Maximum Entitlement of each Eligible Person under the Scheme

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

6. **Vesting period**

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

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

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

8. **Duration**

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

The number of Shares which were issued or may be issued in respect of options and awards granted under all schemes of the Company during the year ended 31 December 2024 (being nil) divided by the weighted average number of shares of the relevant class in issue for the year ended 31 December 2024 is nil.

RESERVES

Details of movements in the reserves of the Company and the Group are set out in Note 29 to the consolidated financial statements of this report and in the consolidated statement of changes in equity, respectively.

PRE-EMPTIVE RIGHTS

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

CONNECTED TRANSACTIONS

(1) Master Chinese Medicine Purchase Agreement

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

On 14 June 2018, a master purchase agreement (the "**Master Chinese Medicine Purchase Agreement**") was entered into between Henan Fusen as purchaser and Fusen Chinese Medicine as supplier whereby the Group will purchase and Fusen Chinese Medicine will supply lonicera japonica and baikal skullcap root (黃芩) as raw materials (the "**Relevant Materials**") for production of the Group's Shuanghuanglian-based cold medicine products. The term of the Master Chinese Medicine Purchase Agreement commenced on the Listing Date, 11 July 2018, and expired on 31 December 2020. As the Master Chinese Medicine Purchase Agreement has expired on 31 December 2020 and the transactions contemplated thereunder shall continue to be entered into on a recurring basis, on 4 December 2020, Henan Fusen and Fusen Chinese Medicine entered into the renewed master Chinese medicine purchase agreement (the "**Renewed Master Chinese Medicine Purchase Agreement**"), pursuant to which the parties agreed to continue the existing cooperation as disclosed above with each other for a term of three years ended on 31 December 2023.

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

Annual Caps

The annual caps for the three years ending 31 December 2026 are approximately RMB40.0 million, RMB45.0 million and RMB50.0 million respectively (the "**Renewed Annual Caps**"). For the year ended 31 December 2024, purchases by the Group from Fusen Chinese Medicine were within the Renewed Annual Caps and amounted to approximately RMB12.3 million.

Pricing policy

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

When determining and approving the price and terms of the transactions under the 2024 Master Chinese Medicine Purchase Agreement, Henan Fusen will consider the following:

(i) the historical transaction amounts paid by the Group for products of similar type, quantity and quality;

(ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar products and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying products of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and

(iii) factors such as types of products required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the products' price.

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

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

Henan Fusen and Fusen Chinese Medicine will enter into individual agreements or orders to set out specific terms with respect to the purchase of medicinal herbs under the 2024 Master Chinese Medicine Purchase Agreement in accordance with the principal terms thereunder.

Listing Rules Implications

Fusen Chinese Medicine is a company incorporated in the PRC with limited liability and principally carries on the business of trading of medicinal herbs. Fusen Chinese Medicine is wholly-owned by Henan Fusen Shiye Group Limited (河南福森實業集團有限公司) ("**Fusen Shiye**"), a company owned as to approximately 35.08% by Mr. Cao Changcheng ("**Mr. Cao**"), who was an executive Director, the Chairman and a controlling Shareholder at the time when the 2024 Master Chinese Medicine Purchase Agreement was entered into. Fusen Chinese Medicine is a close associate of Mr. Cao and therefore a connected person of the Company under Chapter 14A of the Listing Rules, hence the transactions contemplated under the 2024 Master Chinese Medicine Purchase Agreement constituted continuing connected transactions for the Company under the Listing Rules. As the highest of the applicable percentage ratios of the 2024 Master Chinese Medicine Purchase Agreement calculated under Chapter 14A of the Listing Rules exceeded 5%, the transactions contemplated under the 2024 Master Chinese Medicine Purchase Agreement are subject to the reporting, announcement, annual review and independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules. The 2024 Master Chinese Medicine Purchase Agreement and the transactions contemplated thereunder had been approved by the Directors (including the independent non-executive Directors) and the independent Shareholders at the extraordinary general meeting of the Company held on 22 January 2024. For further details, please refer to the announcement of the Company dated 22 January 2024.

(2) Master Packaging Materials Purchase Agreement

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

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

Annual Caps

The annual caps for the three years ending 31 December 2026 are approximately RMB20.0 million, RMB25.0 million and RMB30.0 million respectively. For the year ended 31 December 2024, purchases by the Group from Fusen Health were within the annual caps and amounted to approximately RMB6.8 million.

Pricing policy

The purchase price of the printed packaging materials under the 2024 Master Packaging Materials Purchase Agreement will be determined on an order-by-order basis with reference to the prevailing comparable market price after arm's length negotiation between Henan Fusen and Fusen Health from time to time. Henan Fusen will purchase printed packaging materials from Fusen Health on an as-needed basis.

When determining and approving the price and terms of the transactions under the 2024 Master Packaging Materials Purchase Agreement, Henan Fusen will consider the following:

(i) the market price of products of similar type, quantity and quality;

(ii) comparing the purchase price with quotations from not less than three independent suppliers that provide similar products and ensuring that the purchase price shall be no less favourable than the price offered by the independent suppliers supplying products of similar type and quality and shall not be higher than the prevailing market price to ensure that the purchase price payable by Henan Fusen represents the prevailing market price and is on normal commercial terms; and

(iii) factors such as types of products required, the estimated delivery time, transportation costs, quality and quantity of products and any other factors affecting the products' price.

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

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

Henan Fusen and Fusen Health will enter into individual agreements or orders to set out specific terms with respect to the purchase of printed packaging materials under the 2024 Master Packaging Materials Purchase Agreement in accordance with the principal terms thereunder.

Implications under the Listing Rules

Fusen Health is wholly-owned by Fusen Shiye, a company owned as to approximately 35.08% by Mr. Cao, an executive Director, the Chairman and a controlling Shareholder at the time when the 2024 Master Packaging Materials Purchase Agreement was entered into. Fusen Health is a close associate of Mr. Cao and therefore a connected person of the Company under Chapter 14A of the Listing Rules. The 2024 Master Packaging Materials Purchase Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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

Confirmation from Directors in relation to Continuing Connected Transactions

The Independent non-executive Directors of the Company have reviewed the transactions contemplated under the 2024 Master Chinese Medicine Purchase Agreement and the 2024 Master Packaging Materials Purchase Agreement as stated above and Rule 14A.55 of the Listing Rules and confirmed that the continuing connected transactions have been entered into:

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

(b) on normal commercial terms or better; and

(c) according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company confirms that the Company has complied with the reporting and annual review requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions set out above. The Company also confirms that it has followed the pricing policies and guidelines when determining the prices and terms of transactions above during the year ended 31 December 2024.

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

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

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

a. nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

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

c. nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

d. with respect to the aggregate amount of each of the continuing connected transactions set out in the attached list of continuing connected transactions, nothing has come to the attention of the Company's auditor that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

In addition, all of the continuing connected transactions of the Company disclosed above constitute related party transactions set out in Note 32 to the consolidated financial statements of this report. Save as disclosed above and the exempt connected transactions as referred to in Note 32(e) to the financial statements, all other related party transactions as described in Note 32 to the financial statements did not fall under the definition of "continuing connected transaction" or "connected transaction" under the Listing Rules.

Save for the continuing connected transactions as disclosed above, and the exempt connected transactions as referred to in Note 32(e) to the financial statements, during the year ended 31 December 2024, the Company had no connected transactions or continuing connected transactions which fell to be disclosed in accordance with the provisions under Chapter 14A of the Listing Rules in relation to the disclosure of connected transactions and continuing connected transactions. The Company has complied with applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules.

DISTRIBUTABLE RESERVES

Please refer to Note 29(d) to the consolidated financial statements of this report for details of the Company's distributable reserve as at 31 December 2024.

MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

During the year ended 31 December 2024, the percentage of the Group's aggregate revenue attributable to the Group's largest customer was approximately 13.64%, while the percentage of the Group's total revenue attributable to the five largest customers in aggregate was approximately 33.30%.

During the year ended 31 December 2024, the percentage of the Group's largest supplier was approximately 14.48% of the total purchase during the year, while the percentage of the Group's five largest suppliers accounted for approximately 26.48% of the total purchase.

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

DIRECTORS

The Directors during the year ended 31 December 2024 were as follows:

Executive Directors

Cao Changcheng (曹長城) *(Chairman)* (appointed on 20 November 2016) (passed away on 31 October 2024)
Hou Taisheng (侯太生) (appointed on 7 April 2017)
Chi Yongsheng (遲永勝) (appointed on 7 April 2017)
Meng Qingfen (孟慶芬) (appointed on 7 April 2017)
Cao Zhiming (曹智銘) *(Chief Executive Officer)* (appointed on 18 January 2013) (appointed as Chairman with effect from 4 November 2024)

Independent non-executive Directors

Sze Wing Chun (施永進) (appointed on 14 June 2018)
Lee Kwok Tung Louis (李國棟) (appointed on 15 April 2019)
To Kit Wa (杜潔華) (appointed on 13 August 2020)

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

Accordingly, Mr. Hou Taisheng, Mr. Chi Yongsheng and Dr. To Kit Wa will retire by rotation pursuant to article 108 of the Company's memorandum and articles of association, and being eligible, will offer themselves for re-election as Directors at the forthcoming AGM.

PERMITTED INDEMNITY PROVISION

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT AND FIVE HIGHEST PAID INDIVIDUALS

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

EMOLUMENT POLICY

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

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

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

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the Prospectus and in this report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Controlling Shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or their subsidiaries, during the year ended 31 December 2024.

DIRECTORS' INTEREST IN SIGNIFICANT CONTRACTS

Save as the related party transactions disclosed in Note 32 to the consolidated financial statements of this report, no Directors had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

MANAGEMENT CONTRACTS

As at 31 December 2024, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" below, at no time during the year ended 31 December 2024 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or the Company's subsidiary or holding company or a subsidiary of the Company's holding company a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

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

As at 31 December 2024, the interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix C3 of the Listing Rules, were as follows:

Name of Director	Capacity/Nature	Number of Shares held/ interested	Percentage of interest
Mr. Cao Zhiming (Note 2)	Interest of a controlled corporation	154,651,000(L)	20.92%
Mr. Hou Taisheng (Note 3)	Beneficiary of a trust	13,399,165(L)	1.81%
Ms. Meng Qingfen (Note 3)	Beneficiary of a trust	11,809,433(L)	1.60%
Mr. Chi Yongsheng (Note 3)	Beneficiary of a trust	12,944,956(L)	1.75%

Notes:

1. The letter "L" denotes the person's long position in such securities.

2. Mr. Cao Zhiming is the beneficial owner of the entire issued share capital of One Victory Investments Limited ("**One Victory**") and is therefore deemed to be interested in the 154,651,000 (L) Shares held by One Victory pursuant to the SFO.

3. Each of Mr. Hou Taisheng, Mr. Chi Yongsheng, and Ms. Meng Qingfen, who is an executive Director, is a beneficiary under the Fusen Trust, a trust established by a deed of settlement dated 14 June 2013 entered into between Mr. Cao Zhiming as the settlor and The Core Trust Company Limited as the trustee (the "**Fusen Trust**"), which is entrusted to hold the entire shareholding of Rayford Global Limited ("**Rayford**") (which holds 180,180,000 Shares as at 31 December 2024) on trust for certain individual Shareholders as the beneficiaries.

Save as disclosed above, as at 31 December 2024, none of the Directors nor chief executive of the Company has registered any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as the Directors are aware, as at 31 December 2024, the following persons (not being Directors or chief executive of the Company) have or are deemed or taken to have an interest or short position in the Shares or the underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register required to be kept under Section 336 of the SFO:

Name	Capacity/Nature	Number of Shares held/interested	Percentage of interest
Full Bliss (Note 2)	Beneficial owner	206,457,000(L)	27.93%
Rayford (Note 3)	Beneficial owner	180,180,000(L)	24.37%
TCT (BVI) Limited (Note 3)	Nominee of a trustee	185,180,000(L)	25.05%
THE CORE TRUST COMPANY LIMITED (Note 3)	Trustee	185,180,000(L)	25.05%
One Victory	Beneficial owner	154,651,000(L)	20.92%
Ms. Zhou Peilin (Note 4)	Interest of spouse	154,651,000(L)	20.92%

Notes:

1. The letter "L" denotes the person's long position in such securities.

2. Full Bliss Holdings Limited ("**Full Bliss**") is wholly-owned by the estate of the late Mr. Cao Changcheng, who passed away on 31 October 2024. Mr. Cao Changcheng was the former chairman of the Board, a former executive Director and the father of Mr. Cao Zhiming.

3. The Core Trust Company Limited is the trustee of Fusen Trust, whereby Mr. Hou Taisheng, Ms. Meng Qingfen, Mr. Fu Jiancheng, Mr. Chi Yongsheng and 43 other individuals are the beneficiaries under Fusen Trust. TCT (BVI) Limited acts as the nominee to the trustee of Fusen Trust, and holds 100% of the issued shares of Rayford. TCT (BVI) Limited is wholly owned by The Core Trust Company Limited. Furthermore, Global Talent Alliance Limited, the nominee of the trustee (namely The Core Trust Company Limited) under the restricted share unit scheme of the Company approved and adopted by the Board on 8 November 2021, holds 5,000,000 Shares. Global Talent Alliance Limited is wholly owned by TCT (BVI) Limited, which in turn is wholly owned by The Core Trust Company Limited. As such, The Core Trust Company Limited and TCT (BVI) Limited are deemed to be interested in (i) 180,180,000 Shares held by Rayford; and (ii) the 5,000,000 Shares held by Global Talent Alliance Limited, pursuant to the SFO.

4. Ms. Zhou Peilin (formerly known as Ms. Zhou Rui) is Mr. Cao Zhiming's spouse and is deemed to be interested in the 154,651,000 Shares in which Mr. Cao Zhiming is interested for the purpose of the SFO.

Save as disclosed above, as at 31 December 2024, none of the substantial shareholders or other persons, other than the Directors and chief executive of the Company whose interests are set out in the paragraph headed "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had any interests or short positions in the shares or underlying shares which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register required to be kept by the Company under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2024, the Company repurchased a total of 5,734,000 Shares on the Stock Exchange at an aggregate consideration of (excluding expenses) approximately HK$7.1 million. All of the repurchased shares were cancelled as at 31 December 2024. The issued share capital of the Company was reduced by the par value thereof. Details of the repurchases of Shares during the year ended 31 December 2024 were as follows:

Month of repurchase	Number of shares repurchased	Highest price paid per share	Lowest price paid per share	Aggregate consideration (excluding expenses)	Number of shares cancelled	Number of shares repurchased but not yet cancelled
		HK$	HK$	HKD'000		
March 2023	1,718,000	1.35	1.25	2,285	–	1,947,000
April 2023	4,756,000	1.35	1.25	6,406	–	6,703,000
May 2023	976,000	1.37	1.28	1,319	–	7,679,000
June 2023	780,000	1.35	1.24	1,018	–	8,459,000
July 2023	24,000	1.30	1.25	30	–	8,483,000
September 2023	–	–	–	–	(8,483,000)	–
November 2023	2,585,000	1.50	1.31	3,672	–	2,585,000
December 2023	2,336,000	1.40	1.28	3,180	–	4,921,000
	13,175,000			17,910	(8,483,000)	
January 2024	4,410,000	1.39	1.29	5,984	–	9,331,000
April 2024	1,324,000	0.89	0.83	1,133	–	10,655,000
September 2024	–	–	–	–	(10,655,000)	–
	5,734,000			7,117	(10,655,000)	

The repurchase of Shares during the year ended 31 December 2024 was made by the Directors, pursuant to the general mandate granted by the Shareholders at the annual general meeting held on 30 May 2023 with a view to benefiting the Shareholders as a whole by enhancing the net asset value per share and earnings per share.

Save as disclosed above, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2024.

COMPETING BUSINESS

During the year ended 31 December 2024, none of the Directors or the Controlling Shareholders and their respective associates had any interests in a business, apart from the business of the Group, which competes or may compete with the business of the Group or has any other conflict of interest with the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

Non-Competition Undertakings

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

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

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

During the year ended 31 December 2024, the Company had not received any information in writing from any of the Controlling Shareholders in respect of any new business opportunity which competed or might compete with the existing and future business of the Group which were offered to or came to be the knowledge of the Controlling Shareholders or their associates (other than any member of the Group). The independent non-executive Directors have also reviewed and were satisfied that each of the Controlling Shareholders had complied with the Deed of Non-competition.

CORPORATE GOVERNANCE

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's financial conditions, results of operations, business and prospects would be affected by a number of risks and uncertainties including market risks, credit risks and liquidity risks. A summary of major risks and uncertainties of the Company's risk is set out as below and also in Note 30 to the consolidated financial statements of this report.

1. **Research and Development Risk**

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

2. **Pharmaceutical Pricing Policies in the PRC**

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

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

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

EQUITY-LINKED AGREEMENTS

Save for the Share Option Scheme and the Restricted Share Unit Scheme as disclosed above in this report, no equity-linked agreements were entered into by the Company during the year ended 31 December 2024.

COMPLIANCE ADVISER'S INTERESTS

As notified by the Company's compliance adviser, Dakin Capital Limited (the "**Compliance Adviser**"), as at 31 December 2024, except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 12 January 2018, neither the Compliance Adviser nor its directors, employees or close associates had any interests in relation to the Company, which is required to be notified to the Company pursuant to the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

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

RELIEF OF TAXATION

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

EVENT AFTER THE REPORTING PERIOD

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

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

INDEPENDENT AUDITORS

The consolidated financial statements of the Group for the year ended 31 December 2024 were audited by KPMG. A resolution will be proposed at the AGM to re-appoint KPMG as the auditors of the Company.

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

Hong Kong, 31 March 2025

Independent Auditor's Report

KPMG

Independent auditor's report to the shareholders of Fusen Pharmaceutical Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Fusen Pharmaceutical Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 131 to 210, which comprise the consolidated statement of financial position as at 31 December 2024, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2024 and of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2024 in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board ("IASB"), and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements, which indicates that the Group experienced an operating loss amounting to RMB188,800,000 for the year ended 31 December 2024, and had net current liabilities of the Group amounting to RMB312,833,000 as at 31 December 2024. In addition, the Group is committed to repay bank and other loans amounting to RMB303,540,000 and pay related interest of RMB17,644,000 within one year, of which bank and other loans of RMB207,405,000 and related interest of RMB8,592,000 will be due for repayment in the next six months from the end of the reporting period. These conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Revenue recognition

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

The Key Audit Matter	How the matter was addressed in our audit
Revenue of the Group mainly comprises sales of Shuanghuanglian Oral Solutions and Shuanghuanglian Injections to a large number of customers. The Group enters into distribution agreements with most of its customers including the terms of delivery and policies for sales rebates. Purchase orders are then placed with the Group for each purchase by the customers, which specify the terms of sales relating to pricing, return and the location of delivery. Once the products delivered are accepted by the customers, control over the goods is considered to have been transferred to the customers and revenue is recognised accordingly. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk of manipulation of the timing of recognition of revenue by management to meet specific targets or expectations.	Our audit procedures to assess the timing of revenue recognition included the following: • obtaining an understanding of and assessing the design and implementation of management's key internal controls in relation to revenue recognition; • inspecting agreements and purchase orders with customers, on a sample basis, to understand the terms of the sales transactions including the terms of delivery and/or acceptance and any sales return arrangements to assess the Group's revenue recognition policies with reference to the requirements of the prevailing accounting standards; • comparing the revenue recorded during the financial year, on a sample basis, to the purchase orders, goods delivery notes, customers' acknowledge of receipt and delivery records, where applicable; • comparing the quantity of goods delivered during the year to the record of a third-party pharmaceutical products tracking system; • inspecting goods delivery notes and/or delivery records, on a sample basis, to assess whether revenue transactions recorded just before and after the financial year end have been recognised in the appropriate financial period on the basis of the terms of sale as set out in the purchase orders; and • inspecting underlying documentation for adjustments relating to revenue raised during the year which met specific risk-based criteria.

KEY AUDIT MATTERS *(Continued)*

Impairment assessment of interest in an associate

Refer to Note 18 to the consolidated financial statements and the accounting policies in Note 2(e).

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2024, the carrying amount of the Group's interest in an associate amounted to RMB23,893,000. The associate is engaged in the production and sale of proprietary Chinese medicine in the PRC. Given the operating losses incurred by the associate, management considered that an indication of potential impairment of its interest in an associate existed as at 31 December 2024. In carrying out the impairment assessment, management engaged an external valuer to estimate the recoverable amount of the interest in an associate and compared the carrying value of the interest in an associate with the recoverable amount. The recoverable amount is the greater of its value in use ("VIU") and the fair value less costs of disposal ("FVLCOD") of the interest in an associate. The VIU calculation is determined using a discounted cash flow model. The FVLCOD calculation is determined with reference to recent or expected transaction prices, or based on income method. The key assumptions of the discounted cash flow model included revenue growth rate, gross margin and the discount rate, which required significant management judgement. We identified impairment assessment of interest in an associate as a key audit matter because of its significance to the consolidated financial statements and because assessing the key impairment assumptions involves a significant degree of management judgement.	Our audit procedures to assess the potential impairment of interest in an associate included the following: • obtaining an understanding of and assessing the design and implementation of key internal controls relating to the assessment process of the recoverable amount of investment in an associate; • assessing the qualifications, experience and expertise of the external valuer engaged by management and considering their objectivity; • involving our internal valuation specialists in evaluating the appropriateness of the impairment assessment methodology adopted with reference to the prevailing accounting standards; the appropriateness of the discount rate used in the discounted cash flow forecast by comparing with those of comparable companies and external market data if available; and the appropriateness of the fair value by comparing the key assumptions used to external market data or other supporting documents where available; • evaluating the appropriateness of the revenue growth rate and gross margin adopted in the discounted cash flow forecasts by comparing with the financial budgets approved by management and those of comparable companies; • performing a sensitivity analysis of key assumptions, including revenue growth rate, gross margin and discount rate applied in the discounted cash flow forecasts and considering whether there were any indicators of management bias in the selection of these key assumptions; and • performing a retrospective review by comparing the prior year's financial projection with the current year's results to assess whether there is any indication of management bias.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yeung Ka Chun.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
31 March 2025

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December 2024 RMB'000	2023 RMB'000
Revenue	4	**326,029**	565,608
Cost of sales		**(163,392)**	(266,102)
Gross profit		**162,637**	299,506
Other net income	5	**17,395**	146
Selling and distribution expenses		**(80,998)**	(139,541)
General and administrative expenses		**(60,285)**	(74,898)
Research and development expenses		**(106,260)**	(65,197)
(Loss)/profit from operations		**(67,511)**	20,016
Finance income		**24**	424
Finance costs		**(18,862)**	(9,267)
Net finance costs	6	**(18,838)**	(8,843)
Share of loss and impairment of a joint venture	17	**(26,661)**	(11,186)
Share of loss and impairment of an associate	18	**(77,436)**	(29,435)
Loss before taxation	7	**(190,446)**	(29,448)
Income tax	8	**1,646**	(6,847)
Loss for the year		**(188,800)**	(36,295)
Attributable to:			
Equity shareholders of the Company		**(188,783)**	(36,277)
Non-controlling interests		**(17)**	(18)
Loss for the year		**(188,800)**	(36,295)

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

For the year ended 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

		Year ended 31 December	
		2024	2023
	Note	**RMB'000**	RMB'000
Other comprehensive income for the year (after tax)			
Item that may be reclassified subsequently to profit or loss:			
— Exchange differences on translation of financial statements of the Company and overseas subsidiaries		**(75)**	(54)
Other comprehensive income for the year		**(75)**	(54)
Total comprehensive income for the year		**(188,875)**	(36,349)
Attributable to:			
Equity shareholders of the Company		**(188,858)**	(36,331)
Non-controlling interests		**(17)**	(18)
Total comprehensive income for the year		**(188,875)**	(36,349)
Loss per share	11		
Basic and diluted (RMB cents)		**(26)**	(5)

The notes on pages 138 to 210 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 11.

Consolidated Statement of Financial Position

As at 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

	Note	As at 31 December 2024 RMB'000	2023 RMB'000
Non-current assets			
Investment property	13	**14,280**	15,388
Other property, plant and equipment	13	**383,655**	350,264
Right-of-use assets	14	**237,675**	211,918
Intangible assets	15	**28,135**	22,551
Financial assets measured at fair value through profit or loss ("FVPL")	30(e)	**9,275**	11,013
Interest in a joint venture	17	**10,659**	37,302
Interest in associates	18	**23,942**	100,659
Deferred tax assets	28(a)	**6,637**	5,021
Other assets	19	**64,291**	22,827
		778,549	776,943
Current assets			
Other financial assets	30(e)	**–**	1,279
Inventories	20	**137,082**	161,718
Trade receivables	21	**113,878**	183,482
Prepayments and other receivables	22	**187,596**	185,474
Cash and cash equivalents	23	**21,056**	34,849
		459,612	566,802
Current liabilities			
Trade and bills payables	24	**123,466**	167,545
Lease liabilities		**924**	1,087
Contract liabilities	25	**8,940**	3,895
Accruals and other payables	26	**330,069**	249,351
Bank and other loans	27	**303,540**	236,556
Current taxation		**5,506**	6,086
		772,445	664,520
Net current liabilities		**(312,833)**	(97,718)
Total assets less current liabilities		**465,716**	679,225

Consolidated Statement of Financial Position *(Continued)*

As at 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

		As at 31 December	
		2024	2023
	Note	**RMB'000**	RMB'000
Non-current liabilities			
Deferred income		**18,124**	10,231
Lease liabilities		**130**	772
Bank and other loans	27	**79,100**	105,700
Deferred tax liabilities	28(a)	**–**	296
		97,354	116,999
Net assets		**368,362**	562,226
Capital and reserves			
Share capital	29(b)	**6,179**	6,310
Reserves	29(c)	**363,492**	557,208
Total equity attributable to equity shareholders of the Company		**369,671**	563,518
Non-controlling interests		**(1,309)**	(1,292)
Total equity		**368,362**	562,226

Approved and authorised for issue by the board of directors on 31 March 2025 and signed on behalf of the board by:

Cao Zhiming
Chairman and executive director

The notes on pages 138 to 210 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

	Note	Attributable to equity shareholders of the Company											
		Share capital RMB'000 (Note 29(b))	Share premium RMB'000 (Note 29(c)(i))	Treasury shares reserve RMB'000 (Note 29(c)(iii))	Capital redemption reserve RMB'000 (Note 29(c)(iii))	Statutory surplus reserves RMB'000 (Note 29(c)(ii))	Share-based payment reserve RMB'000 (Note 29(c)(iv))	Other reserves RMB'000 (Note 29(c)(v))	Exchange reserve RMB'000 (Note 29(c)(vi))	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2023		6,383	246,726	(45)	392	54,071	27,808	(11,415)	15,434	274,813	614,167	(1,274)	612,893
Loss for the year		–	–	–	–	–	–	–	–	(36,277)	(36,277)	(18)	(36,295)
Other comprehensive income		–	–	–	–	–	–	–	(54)	–	(54)	–	(54)
Total comprehensive income for the year		–	–	–	–	–	–	–	(54)	(36,277)	(36,331)	(18)	(36,349)
Equity settled share-based transactions	12	–	–	–	–	–	1,453	–	–	–	1,453	–	1,453
Purchase of own shares	29(c)(iii)	–	(15,877)	(111)	–	–	–	–	–	–	(15,988)	–	(15,988)
Cancellation of treasury shares	29(c)(iii)												
— Par value		(73)	–	73	–	–	–	–	–	–	–	–	–
— Transfer between reserves		–	(73)	–	73	–	–	–	–	–	–	–	–
Changes in the share of other reserves of investment in an associate		–	–	–	–	–	–	217	–	–	217	–	217
Balance at 31 December 2023 and 1 January 2024		6,310	230,776	(83)	465	54,071	29,261	(11,198)	15,380	238,536	563,518	(1,292)	562,226
Loss for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(188,783)**	**(188,783)**	**(17)**	**(188,800)**
Other comprehensive income		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(75)**	**–**	**(75)**	**–**	**(75)**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(75)**	**(188,783)**	**(188,858)**	**(17)**	**(188,875)**
Equity settled share-based transactions	12	**–**	**–**	**–**	**–**	**–**	**805**	**–**	**–**	**–**	**805**	**–**	**805**
Purchase of own shares	29(c)(iii)	**–**	**(6,416)**	**(48)**	**–**	**–**	**–**	**–**	**–**	**–**	**(6,464)**	**–**	**(6,464)**
Cancellation of treasury shares	29(c)(iii)												
— Par value		**(131)**	**–**	**131**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
— Transfer between reserves		**–**	**(131)**	**–**	**131**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Changes in the share of other reserves of investment in an associate		**–**	**–**	**–**	**–**	**–**	**–**	**670**	**–**	**–**	**670**	**–**	**670**
Balance at 31 December 2024		**6,179**	**224,229**	**–**	**596**	**54,071**	**30,066**	**(10,528)**	**15,305**	**49,753**	**369,671**	**(1,309)**	**368,362**

The notes on pages 138 to 210 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

	Note	Year ended 31 December 2024 RMB'000	2023 RMB'000
Operating activities			
Loss before taxation		**(190,446)**	(29,448)
Adjustments for:			
Depreciation and amortisation	7(b)	**41,711**	35,798
Realisation of deferred income		**(1,626)**	(1,092)
Net finance costs		**18,838**	8,843
Recognition of credit losses on trade and other receivables	7(b)	**9,081**	17,042
Net (gains)/losses on disposal of other property, plant and equipment	5	**(3)**	1,124
Share of loss and impairment of a joint venture		**26,661**	11,186
Share of loss and impairment of an associate		**77,436**	29,435
Equity settled share-based transactions	12	**805**	1,453
Net realised and unrealised gains of listed trading securities and other financial assets at FVPL	5	**338**	312
Net realised and unrealised losses on derivative financial instruments	5	**1,279**	3,316
Changes in working capital			
Decrease in restricted bank deposit		**–**	20,151
Decrease/(increase) in inventories		**24,636**	(51,069)
Decrease in trade receivables		**72,424**	49,862
Decrease/(increase) in prepayments and other receivables		**12,378**	(40,147)
(Decrease)/increase in trade and bills payables		**(44,079)**	3,932
Increase/(decrease) in accruals and other payables		**70,580**	(6,128)
Increase/(decrease) in contract liabilities		**5,045**	(63,655)
Increase in deferred income		**9,519**	–
Cash generated from/(used in) operations		**134,577**	(9,085)
Income tax paid		**(847)**	(11,091)
Net cash generated from/(used in) operating activities		**133,730**	(20,176)

Consolidated Cash Flow Statement *(Continued)*

For the year ended 31 December 2024 (Expressed in RMB'000 unless otherwise indicated)

		Year ended 31 December	
		2024	2023
	Note	**RMB'000**	RMB'000
Investing activities			
Payment for the purchase of property, plant and equipment		**(60,959)**	(66,241)
Payment for the purchase of intangible assets		**(15,339)**	(22,270)
Payment for the other assets		**–**	(16,955)
Proceeds from sales of property, plant and equipment		**–**	169
Purchases of financial assets measured at FVPL		**(1,000)**	(11,325)
Interest received		**24**	304
Repayments from a joint venture	32	**11,700**	8,000
Advanced to government-related construction entities		**(256,362)**	(53,158)
Repayments from government-related construction entities		**158,513**	–
Net cash used in investing activities		**(163,423)**	(161,476)
Financing activities			
Proceeds from bank and other loans	23(b)	**776,088**	340,977
Repayments of bank and other loans	23(b)	**(734,425)**	(221,247)
Borrowing costs paid	23(b)	**(17,912)**	(12,456)
Capital element of lease rentals paid	23(b)	**(1,236)**	(2,656)
Interest element of lease rentals paid	23(b)	**(57)**	(127)
Payment for purchase of own shares		**(6,464)**	(15,988)
Net cash generated from financing activities		**15,994**	88,503
Net decrease in cash and cash equivalents		**(13,699)**	(93,149)
Cash and cash equivalents at the beginning of the year	23(a)	**34,849**	128,106
Effect of foreign exchange rate changes		**(94)**	(108)
Cash and cash equivalents at the end of the year	23(a)	**21,056**	34,849

The notes on pages 138 to 210 form part of these financial statements.

1 ORGANISATION AND PRINCIPAL ACTIVITIES

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

The Company is an investment holding company. The Company and its subsidiaries (together, "the Group") are principally engaged in manufacturing and sale of pharmaceutical products. Details of the subsidiaries are set out in Note 16.

2 MATERIAL ACCOUNTING POLICIES

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

(a) Statement of compliance

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the financial statements

Going concern assumption

Due to the impact of market demand and intense competition, revenue of the Group dropped sharply in 2024. Meanwhile, the Group continued to increase its investment in research and development. As a result, the Group experienced an operating loss amounting to RMB188,800,000 in 2024, and had net current liabilities of the Group amounting to RMB312,833,000 as at 31 December 2024. In addition, the Group is committed to repay bank and other loans amounting to RMB303,540,000 and pay related interest of RMB 17,644,000 within one year, of which bank and other loans of RMB207,405,000 and related interest of RMB8,592,000 will be due for repayment in the next six months from the end of the reporting period.

These events or conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The directors of the Company have been undertaking a number of measures to mitigate the Group's liquidity pressure, which include, but not limited to, the following:

- Negotiating with banks to raise new long-term bank loans and renew existing loans. As at the date of approval of these consolidated financial statements, the Group has only successfully renewed bank loans of RMB80,000,000;

- Putting extra efforts in the collection of other receivables from government-related entities;

- Negotiating with creditors and lenders to restructure the terms and settlement schedules of existing payables and borrowings; and

- Maximising the sales efforts, including speeding up sales of existing inventories, seeking new orders through centralised procurement, and implementing more stringent cost control measures with a view to improving operating cash flows.

Assuming the success of the above measures, the directors of the Company are of the opinion that the Group would have adequate funds to meet its liabilities as and when they fall due for at least twelve months from the end of the reporting period. Accordingly, the directors of the Company consider it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, and adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(c) Changes in accounting policies

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

- Amendments to IAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current ("2020 amendments")*

- Amendments to IAS 1, *Presentation of financial statements: Non-current liabilities with covenants ("2022 amendments")*

- Amendments to IFRS 16, *Leases: Lease liability in a sale and leaseback*

- Amendments to IAS 7, *Statement of cash flows and IFRS 7, Financial Instruments: Disclosures: Supplier finance arrangements*

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

(d) Subsidiaries and non-controlling interests

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

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

(e) Associates and joint ventures

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

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

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

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

(f) Non-equity investments

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

(g) Derivative financial instruments

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

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

(h) Investment property

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

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

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

2 MATERIAL ACCOUNTING POLICIES (Continued)

(i) Other property, plant and equipment

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

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

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

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

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

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

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(j) Intangible assets

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

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

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

(k) Leased assets

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

(i) As a lessee

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

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

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

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

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract. if such modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(k) Leased assets *(Continued)*

(ii) As a lessor

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

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

(l) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

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

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

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

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

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

ECLs are measured on either of the following bases:

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

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

Measurement of ECLs (Continued)

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

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

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

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

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

Significant increases in credit risk

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

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

Significant increases in credit risk (Continued)

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

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

— the financial asset is 90 days past due.

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

Credit-impaired financial assets

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

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

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or being more than 90 days past due;

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

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(l) Credit losses and impairment of assets *(Continued)*

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

Write-off policy

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

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

(ii) Impairment of other non-current assets

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

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

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

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

(iii) Interim financial reporting and impairment

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(m) Inventories and other contract costs

(i) Inventories

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

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

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

(ii) Other contract costs

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

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

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

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

(n) Contract liabilities

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(o) Trade and other receivables

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

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

All receivables are subsequently stated at amortised cost.

(p) Cash and cash equivalents

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

(q) Interest-bearing borrowings

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

(r) Trade and other payables

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(s) Employee benefits

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

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

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

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

(ii) Share-based payments

The grant-date fair value of equity-settled share-based payments granted to employees is measured using the binomial lattice model. The amount is generally recognised as an expense, with a corresponding increase equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service conditions at the vesting date. The equity amount is recognised in the capital reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

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

2 MATERIAL ACCOUNTING POLICIES (Continued)

(t) Income tax

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

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

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (Continued)

(u) Provisions and contingent liabilities

(i) General provisions and contingent liabilities

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

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

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

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

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

(ii) Contingent liabilities assumed in business combinations

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(v) Revenue and other income

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

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

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

(i) Revenue from contracts with customers

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

(a) Sale of products

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Revenue from other sources and other income

(a) Interest income

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

(b) Government grants

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

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

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

(c) Rental income from operating leases

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

(d) Dividends

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(w) Translation of foreign currencies

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

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

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

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

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

(x) Borrowing costs

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

2 MATERIAL ACCOUNTING POLICIES (Continued)

(y) Related parties

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

a. has control or joint control over the Group;

b. has significant influence over the Group; or

c. is a member of the key management personnel of Group or the Group's parent.

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

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

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

c. Both entities are joint ventures of the same third party.

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

f. The entity is controlled or jointly controlled by a person identified in Note 2(y)(i).

g. A person identified in Note 2(y)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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

2 MATERIAL ACCOUNTING POLICIES *(Continued)*

(z) Segment reporting

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

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

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Impairment of non-financial assets

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

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Manufacturing products		
Shuanghuanglian Oral Solutions	**146,663**	275,766
Shuanghuanglian Injections	**78,326**	97,986
Others	**101,040**	176,870
	326,029	550,622
Third party products	**–**	14,986
	326,029	565,608

Revenue is recognised at a point in time.

During the year ended 31 December 2024, two of the Group's customers (2023: two customers) with whom transactions have exceeded 10% of the Group's revenue. Revenue from sales of pharmaceutical products to these two customers amounted to RMB44,483,000 and RMB37,400,000, respectively (2023: RMB77,069,000 and RMB72,148,000, respectively).

Details of credit risk are set out in Note 30(a).

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

(b) Segment information

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

5 OTHER NET INCOME

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Material and scrap sales income, net	**1,025**	1,939
Rental income	**262**	495
Government grants	**16,610**	6,242
Net realised and unrealised losses of listed trading securities and other financial assets at FVPL	**(338)**	(312)
Net realised and unrealised losses on derivative financial instruments	**(1,279)**	(3,316)
Net gains/(losses) on disposal of other property, plant and equipment and right-of-use assets	**3**	(1,124)
Others	**1,112**	(3,778)
	17,395	146

6 NET FINANCE COSTS

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Interest income on bank deposit	**24**	424
Finance income	**24**	424
Interest on bank loans and other borrowings	**(20,084)**	(12,456)
Interest on lease liabilities	**(57)**	(127)
Foreign exchange gains	**1,279**	3,316
Finance costs	**(18,862)**	(9,267)
Net finance costs	**(18,838)**	(8,843)

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Staff costs

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Salaries, wages and other benefits	**69,250**	92,526
Contributions to defined contribution retirement schemes	**8,202**	9,902
Share-based payment expenses	**805**	1,453
	78,257	103,881

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

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

(b) Other items

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Cost of inventories*	**164,227**	269,244
Depreciation of investment property and other property, plant and equipment	**34,452**	27,901
Depreciation of right-of-use assets	**7,036**	7,695
Amortisation of intangible assets	**223**	202
Auditors' remuneration — audit services	**3,800**	4,008
Recognition of credit losses on trade and other receivables	**9,081**	17,042

* Cost of inventories includes RMB43,962,000 in 2024 (2023: RMB57,551,000), relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above.

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

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

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Current tax		
Provision for the year	**9,194**	12,725
Over-provision in respect of previous years	**(8,928)**	(2,694)
	266	10,031
Deferred tax		
Origination and reversal of temporary differences	**(1,912)**	(3,184)
	(1,646)	6,847

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

The Group has no assessable profit in Hong Kong for 2024 (2023: Nil) and is not subject to any Hong Kong Profits tax. Hong Kong Profits tax rate of 2024 is 16.5% (2023: 16.5%). The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

In accordance with the Enterprise Income Tax Law of the PRC ("the Income Tax Law"), enterprise income tax rate for the Group's PRC subsidiaries for 2024 is 25% (2023: 25%).

According to the Income Tax Law, the Company's subsidiaries, Henan Fusen Pharmaceutical Company Limited ("Henan Fusen") and Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited ("Zhuhai Hengqin") were certified as High and New Technology Enterprises, and were entitled to a preferential income tax rate of 15% in 2024 and 2023. The current certification of New and High Technology Enterprise held by Henan Fusen and Zhuhai Hengqin will expire on 28 October 2027 and 28 December 2026 respectively.

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

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

(b) Reconciliation between income tax and accounting loss at applicable tax rates:

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Loss before taxation	**(190,446)**	(29,448)
Tax calculated at statutory tax rates applicable to profits in the respective jurisdictions	**(47,612)**	(7,362)
Tax effect of		
Preferential income tax rates applicable to a PRC subsidiary	**3,046**	(6,370)
Non-deductible expenses	**912**	1,179
Utilisation of deductible temporary differences not recognised in prior years	**–**	(222)
Share of loss and impairment of a joint venture	**6,665**	2,797
Share of loss and impairment of an associate	**19,359**	7,359
Unused tax losses not recognised	**24,664**	13,466
Over-provision in respect of previous years	**(8,928)**	(2,694)
PRC dividends withholding tax	**248**	(1,306)
Income tax	**(1,646)**	6,847

9 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	31 December 2024 total RMB'000
Chairman and executive director					
Mr. Cao Zhiming	–	1,604	275	83	1,962
Executive directors					
Mr. Hou Taisheng	–	75	–	7	82
Mr. Chi Yongsheng	–	78	–	7	85
Ms. Meng Qingfen	–	78	–	–	78
Independent non-executive directors					
Mr. Lee Kwok Tung, Louis	165	–	–	–	165
Mr. Sze Wing Chun	165	–	–	–	165
Dr. To Kit Wa	165	–	–	–	165
	495	1,835	275	97	2,702

9 DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	31 December 2023 total RMB'000
Chairman and executive director					
Mr. Cao Changcheng	–	65	–	–	65
Executive directors					
Mr. Hou Taisheng	–	74	–	7	81
Mr. Chi Yongsheng	–	71	–	7	78
Ms. Meng Qingfen	–	62	–	–	62
Mr. Cao Zhiming	–	1,620	3,250	127	4,997
Independent non-executive directors					
Mr. Lee Kwok Tung, Louis	162	–	–	–	162
Mr. Sze Wing Chun	162	–	–	–	162
Dr. To Kit Wa	162	–	–	–	162
	486	1,892	3,250	141	5,769

During the year ended 31 December 2024, no emoluments was paid by the Group to the directors as an inducement to join or upon joining or as compensation for loss of office (2023: Nil) and there was no arrangement under which a director waived or agreed to waive any emoluments (2023: Nil).

All of the executive directors were key management personnel of the Group during the reporting periods and their emoluments disclosed above include those for services rendered by them as the key management personnel.

10 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, one (2023: one) of them is a director whose emoluments are disclosed in Note 9. The aggregate of the emoluments in respect of the four (2023: four) individuals are as follows:

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Salaries, wages and other benefits	**1,888**	1,506
Contributions to pension schemes	**25**	10
Share-based payment expenses	**–**	1,453
	1,913	2,969

The emoluments of the four (2023: four) individuals with the highest emoluments are within the following band:

	Year ended 31 December	
	2024	2023
	Number of individuals	Number of individuals
HKD Nil–HKD1,000,000	**4**	3
HKD1,000,001–HKD1,500,000	**–**	1

11 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of RMB188,783,000 (2023: loss of RMB36,277,000) and the weighted average of 739,982,000 ordinary shares (2023: 752,056,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2024	2023
	'000	'000
Issued ordinary shares at 1 January	**749,956**	758,439
Effect of repurchase of shares (Note 29(c)(iii))	**(9,974)**	(6,383)
Weighted average number of ordinary shares at 31 December	**739,982**	752,056

(b) Diluted loss per share

The diluted loss per share for the years ended 31 December 2024 and 2023 has not taken into account the effect of the outstanding share options as its inclusion would have decreased the loss per share, hence anti-dilutive.

12 EQUITY SETTLED SHARE-BASED TRANSACTIONS

(a) Share option scheme adopted on 14 June 2018

On 14 June 2018 (the "Adoption Date"), the Company adopted the Share Option Scheme whereby the Board are authorised, at their discretion, to invite employees, director, consultant, adviser and distributor, contractor, business partner or service provider of the Group, to take up options subscribe for shares of the Company. The Share Option Scheme is valid and effective for a period of 10 years commencing on the Adoption Date unless terminated earlier by the Shareholders in general meeting. The maximum number of shares issuable upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of 800,000,000 share.

On 19 July 2019, the Company granted 16,000,000 share options to eligible persons (the "Grantees") under the Share Option Scheme. The options vest after three months from the date of grant and are then exercisable within a period of nine months. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares. In order to encourage long-term commitment to the Company and to align the interests of the eligible grantees with the Company's development, the exercise period of the outstanding options granted under the Share Option Scheme was extended and the expiry date was deferred from 19 July 2020, to 13 June 2028 ("Modification"). The Modification took effect on 30 June 2020 ("Modification Date").

No share options mentioned above has been exercised, forfeited or expired during the year of 2024 (2023: Nil). All the 16,000,000 share options remained outstanding and exercisable as at 31 December 2024 and 2023.

The options outstanding at 31 December 2024 had an exercise price of HKD3.098 (2023: HKD3.098) and a weighted average remaining contractual life of 3.5 years (2023: 4.5 years).

(b) Restricted share unit scheme ("RSU") adopted in July 2022

On 8 July 2022, the Company adopted an RSU to recognise and reward the contribution of certain eligible participants to the growth and development of the Group through an award of the Company's shares. The Company's shares to be granted under the RSU will be purchased and held by a trustee. The maximum number of shares to be subscribed for and/or purchased by trustee for the purpose of the scheme shall not exceed 10% of the total number of issued shares as at the adoption date.

On 8 July 2022, the Company granted 5,000,000 restricted shares to two of the Group's employees with a fair value of RMB4,147,000. The restricted shares granted shall vest annually on an equal basis within five years with 500,000 shares each year from the grant date of the RSUs. Moreover, up to 300,000 additional RSUs may be granted to each employee at the Board's discretion upon achievement of certain performance target.

13 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Buildings and infrastructure RMB'000	Machinery and equipment RMB'000	Others RMB'000	Construction in progress RMB'000	Sub-total RMB'000	Investment property RMB'000	Total RMB'000
Cost:							
At 1 January 2023	278,024	144,854	11,184	580	434,642	23,330	457,972
Additions	2,467	22,985	302	40,487	66,241	–	66,241
Transfers from construction in progress	52	37,412	–	(37,464)	–	–	–
Disposals	(2,347)	(921)	(684)	(140)	(4,092)	–	(4,092)
At 31 December 2023 and 1 January 2024	**278,196**	**204,330**	**10,802**	**3,463**	**496,791**	**23,330**	**520,121**
Additions	**2,237**	**30,461**	**994**	**35,186**	**68,878**	**–**	**68,878**
Transfers from construction in progress	**16,715**	**–**	**–**	**(16,715)**	**–**	**–**	**–**
Disposals	**(2,324)**	**–**	**(390)**	**–**	**(2,714)**	**–**	**(2,714)**
At 31 December 2024	**294,824**	**234,791**	**11,406**	**21,934**	**562,955**	**23,330**	**586,285**
Accumulated amortisation, depreciation and impairment:							
At 1 January 2023	(45,546)	(68,692)	(8,296)	–	(122,534)	(6,833)	(129,367)
Charge for the year	(12,997)	(13,496)	(299)	–	(26,792)	(1,109)	(27,901)
Written back on disposals	1,771	379	649	–	2,799	–	2,799
At 31 December 2023 and 1 January 2024	**(56,772)**	**(81,809)**	**(7,946)**	**–**	**(146,527)**	**(7,942)**	**(154,469)**
Charge for the year	**(13,531)**	**(19,599)**	**(214)**	**–**	**(33,344)**	**(1,108)**	**(34,452)**
Written back on disposals	**327**	**–**	**244**	**–**	**571**	**–**	**571**
At 31 December 2024	**(69,976)**	**(101,408)**	**(7,916)**	**–**	**(179,300)**	**(9,050)**	**(188,350)**
Net book value:							
At 31 December 2024	**224,848**	**133,383**	**3,490**	**21,934**	**383,655**	**14,280**	**397,935**
At 31 December 2023	221,424	122,521	2,856	3,463	350,264	15,388	365,652

13 INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Investment property

The Group leases out certain of its self-owned properties under operating leases. The leases typically run for 1 year.

Undiscounted lease payments under non-cancellable operating leases in place at the end of the reporting period will be receivable by the Group in future periods as follows:

	2024	2023
	RMB'000	RMB'000
Within 1 year	–	668

The fair value of investment property determined based on the observable quoted price for the similar items in an active market amounted RMB18,010,000 as at 31 December 2024 (2023: RMB20,800,000). The fair value measure falls into level 3 of the fair value hierarchy.

As at 31 December 2024, certain of the Group's bank borrowings were secured by the Group's property, plant and equipment and investment property, which had an aggregate carrying amount of RMB95,828,000 (31 December 2023: RMB63,564,000).

14 RIGHT-OF-USE ASSETS

	Land use right RMB'000	Leased properties RMB'000	Total RMB'000
Cost:			
At 1 January 2023	236,348	4,841	241,189
Additions	–	1,976	1,976
At 31 December 2023	**236,348**	**6,817**	**243,165**
Additions	**32,359**	**581**	**32,940**
Decrease	**–**	**(214)**	**(214)**
At 31 December 2024	**268,707**	**7,184**	**275,891**
Accumulated amortisation, depreciation and impairment:			
At 1 January 2023	(20,973)	(2,579)	(23,552)
Charge for the year	(5,200)	(2,495)	(7,695)
At 31 December 2023	**(26,173)**	**(5,074)**	**(31,247)**
Charge for the year	**(5,845)**	**(1,191)**	**(7,036)**
Decrease	**-**	**67**	**67**
At 31 December 2024	**(32,018)**	**(6,198)**	**(38,216)**
Net book value:			
At 31 December 2024	**236,689**	**986**	**237,675**
At 31 December 2023	210,175	1,743	211,918

14 RIGHT-OF-USE ASSETS *(Continued)*

(i) Right-of-use assets represent lump sum payments prepaid upfront to purchase land use rights from the government in the PRC for finite periods and there are no ongoing payments to be made under the terms of the land lease. As at 31 December 2024, the remaining periods of the land use rights ranged from 31 to 49 years (2023: ranged from 32 to 46 years).

During the year ended 31 December 2024, the Group entered into certain lease agreements for leasehold properties and therefore recognised the additions to right-of- use assets of RMB581,000 (2023: RMB1,976,000).

(ii) As at 31 December 2024, certain of the Group's bank borrowings were secured by the Group's land use rights, which had an aggregate carrying amount of RMB82,730,000 (2023: RMB85,167,000).

(iii) Details of total cash outflow for leases during the year and future cash outflows arising from leases are set out in Note 23(c) and Note 30(b), respectively.

(iv) For the year ended 31 December 2024, expense relating to short-term leases were amounted RMB474,000 (2023: RMB478,000), which are recorded in profit or loss as incurred. Interest expense on lease liabilities was disclosed in Note 6.

15 INTANGIBLE ASSETS

	Technological know-how RMB'000	Software RMB'000	In-progress research and development projects RMB'000	Total RMB'000
Cost:				
At 1 January 2023	2,000	–	15,583	17,583
Additions	–	204	22,066	22,270
Write-off	–	–	(15,583)	(15,583)
At 31 December 2023	**2,000**	**204**	**22,066**	**24,270**
Additions	**–**	**24**	**5,783**	**5,807**
At 31 December 2024	**2,000**	**228**	**27,849**	**30,077**
Accumulated amortisation:				
At 1 January 2023	(1,517)	–	–	(1,517)
Charge for the year	(200)	(2)	–	(202)
At 31 December 2023	**(1,717)**	**(2)**	**–**	**(1,719)**
Charge for the year	**(200)**	**(23)**	**–**	**(223)**
At 31 December 2024	**(1,917)**	**(25)**	**–**	**(1,942)**
Impairment:				
At 1 January 2023	–	–	(15,583)	(15,583)
Write-off	–	–	15,583	15,583
At 31 December 2023 and 2024	**–**	**–**	**–**	**–**
Net book value:				
At 31 December 2024	**83**	**203**	**27,849**	**28,135**
At 31 December 2023	283	202	22,066	22,551

The amortisation charge is included in "General and administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

(Expressed in RMB'000 unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES

The particulars of subsidiaries of the Group are as follows. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Company name	Place of incorporation/ establishment and operations and nature of legal entity	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Jinli International Limited	British Virgin Islands	1 ordinary share	100%	100%	–	Investing holding company
Wealth Depot (Hong Kong) Limited ("Wealth Depot")	Hong Kong	500,000 ordinary shares	100%	–	100%	Investing holding company
Cloud Dollar Investments Limited ("Cloud Dollar")	Hong Kong	1 ordinary share	100%	–	100%	Investing holding company
Nanyang Hengsheng Enterprise Management Services Limited* 南陽衡盛企業管理服務有限公司	The PRC limited liability company	USD8,000,000	100%	–	100%	Investing holding company
Henan Fusen Pharmaceutical Company Limited* 河南福森藥業有限公司	The PRC limited liability company	RMB76,759,800	100%	–	100%	Manufacturing and sale of pharmaceutical products
Henan Xichuan Fushan Medicinal Packaging Company Limited* 河南省淅川伏山藥用包材有限責任公司	The PRC limited liability company	RMB2,600,000	100%	–	100%	Manufacturing and sale of pharmaceutical package materials
Beijing Sanye Mingming Pharmaceutical Technology Company Limited* 北京三也明明醫藥科技有限公司	The PRC limited liability company	RMB3,000,000	50%**	–	50%	Research and development of pharmaceutical products
Shanghai Shengkuang Business Management & Consulting Co., Ltd.* 上海盛匡企業管理諮詢有限公司	The PRC limited liability company	RMB1,000,000	100%	–	100%	Business management & consulting
Fusen (Shenzhen) Biomedical R & D Co., Ltd.* 福森 (深圳) 生物醫藥研發有限公司	The PRC limited liability company	RMB15,000,000	100%	–	100%	Research and development of pharmaceutical products
FUSEN PHARMACEUTICAL (MACAU) COMPANY LIMITED* 福森藥業(澳門)有限公司	Macau	USD10,000,000	100%	–	100%	Investing holding company

(Expressed in RMB'000 unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Company name	Place of incorporation/ establishment and operations and nature of legal entity	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Jiaheng (Zhuhai Hengqin) Pharmaceutical Technology Company Limited* 嘉亨 (珠海橫琴) 醫藥科技有限公司	The PRC limited liability company	RMB10,000,000	100%	–	100%	Research and development of pharmaceutical products
Nanyang Fusen Construction Co., Ltd.* 南陽福森建設有限公司	The PRC limited liability company	RMB100,000,000	100%	–	100%	Sale of construction materials
Henan Hengsheng Pharmaceutical Co., Ltd.* 河南衡盛製藥有限公司	The PRC limited liability company	RMB100,000,000	100%	–	100%	Research and development of pharmaceutical products
Henan Jiaheng Pharmaceutical Co., Ltd.* 河南嘉亨醫藥有限公司	The PRC limited liability company	RMB100,000,000	100%	–	100%	Sale of pharmaceutical products
Henan Fusen Intelligent Energy Conservation Technology Co., Ltd.* 河南福森智慧節能科技有限公司	The PRC limited liability company	RMB50,000,000	100%	–	100%	Sale of electricity
Henan Fusen Pharmacy Co., Ltd.* 河南福森大藥房有限公司	The PRC limited liability company	RMB1,000,000	100%	–	100%	Sale of pharmaceutical products
Jiaheng (Zhumadian) Pharmaceutical Technology Co., Ltd.* 嘉亨(駐馬店)醫藥科技有限公司	The PRC limited liability company	RMB1,000,000	100%	–	100%	Research and development of pharmaceutical products
Henan Fushen Medical Technology Co., Ltd. 河南福森醫療科技有限公司	The PRC limited liability company	RMB10,000,000	100%	–	100%	Research and development of pharmaceutical products

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

** The Group is eligible to appoint majority of directors of the Board and direct the relevant activities of Sanye Mingming, and the Group obtained control over Sanye Mingming.

17 INTEREST IN A JOINT VENTURE

Jiangxi Yongfeng Kangde Pharmaceutical Company Limited ("Jiangxi Kangde"), the only joint venture in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Jiangxi Kangde is principally engaged in importing and sale of a medicine named Kefadim (chemical name: Ceftazidime for injection) and other medicines in the PRC market.

Details of the Group's interest in the joint venture are as follows:

Name of the joint venture	Place of incorporation and business	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Jiangxi Yongfeng Kangde Pharmaceutical Company Limited* 江西永豐康德醫藥有限公司	The PRC	Registered capital RMB14,265,335	35.8%	–	35.8%	Sale of pharmaceutical products

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

Summarised financial information of Jiangxi Kangde, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Gross amounts of Jiangxi Kangde

	Year ended 31 December 2024 RMB'000	2023 RMB'000
Revenue	**653,884**	225,729
Loss from continuing operations	**(22,264)**	(31,247)
Total comprehensive income	**(22,213)**	(31,097)
Included in the above results:		
Depreciation and amortisation	**4,547**	4,399
Interest income	**(47)**	(54)
Income tax	**(9,215)**	(1,274)

17 INTEREST IN A JOINT VENTURE *(Continued)*

Gross amounts of Jiangxi Kangde *(Continued)*

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Current assets	**336,161**	223,993
Non-current assets	**87,088**	86,631
Current liabilities	**(313,566)**	(171,965)
Non-current liabilities	**(102)**	(6,865)
Equity	**109,581**	131,794
Equity attributable to the shareholders	**109,581**	131,794
Included in the above assets and liabilities		
Cash and cash equivalents	**49,687**	14,133
Gross amounts of Jiangxi Kangde's net assets	**109,581**	131,794
Group's effective interest	**35.8%**	35.8%
Group's share of Jiangxi Kangde's net assets	**39,230**	47,183
Goodwill arisen on the investment	**9,399**	9,399
Balance due from Jiangxi Kangde	**38,007**	38,007
Impact of impairment*	**(75,977)**	(57,287)
Carrying amount in the Group's interest	**10,659**	37,302

* During the year ended 31 December 2024, the Group recognised an impairment loss of RMB18,690,000 on the interest in Jiangxi Kangde, based on the estimated recoverable amount of the individual assets of Jiangxi Kangde.

18 INTEREST IN ASSOCIATES

Weihai Rensheng Pharmaceutical Group Company Limited ("Weihai Rensheng"), the material associate in which the Group participates, is incorporated in the PRC with limited liability and unlisted whose quoted market price is not available. Weihai Rensheng is principally engaged in manufacturing and sale of traditional herb preparation products in the PRC market.

			Proportion of ownership interest			
Name of the associate	Place of incorporation and business	Particulars of issued and paid-up capital	Group's effective interest	Held by the Company	Held by subsidiaries	Principal activities
Weihai Rensheng Pharmaceutical Group Company Limited* 威海人生藥業集團股份有限公司	The PRC	Registered capital RMB76,022,155	34.0%	–	34.0%	Manufacturing and sale of traditional herb preparation products

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

Summarised financial information of Weihai Rensheng, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Gross amounts of Weihai Rensheng

	Year ended 31 December	
	2024	2023
	RMB'000	RMB'000
Revenue	**158,388**	186,730
Loss from continuing operations	**(15,603)**	(26,781)
Total comprehensive income	**(15,603)**	(26,781)

18 INTEREST IN ASSOCIATES *(Continued)*

Gross amounts of Weihai Rensheng *(Continued)*

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Current assets	**111,210**	88,496
Non-current assets	**415,813**	449,939
Current liabilities	**(249,016)**	(174,889)
Non-current liabilities	**(162,587)**	(232,504)
Equity	**115,420**	131,042
Equity attributable to the shareholders	**49,129**	62,760
Gross amounts of Weihai Rensheng's net assets	**49,129**	62,760
Group's effective interest	**34.0%**	34.0%
Group's share of Weihai Rensheng's net assets	**16,704**	21,339
Goodwill arisen on the investment	**99,649**	99,649
Impact of impairment	**(92,460)**	(20,329)
Carrying amount in the consolidated financial statements	**23,893**	100,659

As the performance of Weihai Rensheng is less than satisfactory, the management of the Group has carried out an impairment assessment on Weihai Rensheng CGU at 31 December 2024. The recoverable amount of Weihai Rensheng CGU is the greater of its VIU and the FVLCOD of the Group's interest in an associate. When the carrying amount of the CGU exceeds its VIU, the Group also assesses its FVLCOD to determine the Weihai Rensheng CGU's recoverable amount, which is higher than its VIU. The VIU calculation uses cash flow projections covering a five-year period based on financial budgets prepared by the management of Weihai Rensheng and strategic projections representing the best estimated future performance of Weihai Rensheng.

18 INTEREST IN ASSOCIATES *(Continued)*

Gross amounts of Weihai Rensheng *(Continued)*

The key assumptions for the discounted cash flow calculation are as follows, which are based on either the past experience or external sources of information:

	At 31 December	
	2024	2023
5-Year Compound Annual Growth Rate of Revenue	**18%**	19%
Gross Margin Range	**60% – 64%**	58% – 67%
Steady growth rate used in the extrapolation after budget period	**2.0%**	2.2%
Discount Rate	**20.0%**	19.0%

The FVLCOD of Weihai Rensheng CGU is estimated based on the aggregated fair value of the existing business (estimated using the income approach) and the drug licences (estimated using recent or expected transaction price), less costs of disposal. The key unobservable input is discount rate and transaction price of drug licences. The fair value measurement was categorised as a Level 3 fair value based on the inputs in the valuation technique used. The recoverable amount of the interest in associate estimated based on the higher of VIU and FVLCOD is RMB23,893,000. Impairment loss of RMB72,131,000 was provided during the year ended 31 December 2024. As the interest in associate has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable would result in further impairment losses.

The amount of other associated enterprises is not material, so it is not disclosed separately.

19 OTHER ASSETS

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Other receivables from government-related construction entities*	**62,234**	–
Prepayment for technological know-how	**1,100**	–
Prepayment for equipment	**957**	–
Prepayment for land use right	**–**	22,827
	64,291	22,827

* The amounts represent receivables from government related construction entities in respect of certain government projects.

20 INVENTORIES

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Raw materials	**46,197**	79,817
Work in progress	**23,764**	20,105
Finished goods	**64,114**	61,796
Contract costs	**3,007**	–
	137,082	161,718

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Carrying amount of inventories sold		
— charged to cost of sales	**163,392**	266,102
— charged to other net income	**835**	3,142
Cost of inventories	**164,227**	269,244

21 TRADE RECEIVABLES

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Bills receivable*	**52,617**	117,505
Trade debtors	**75,842**	84,711
Less: allowance for credit loss	**(14,581)**	(18,734)
	61,261	65,977
	113,878	183,482

* At 31 December 2024, the Group's bills receivable of RMB29,127,000 and RMB21,835,000 (2023: RMB76,781,000 and RMB12,677,000) were endorsed to suppliers and discounted to banks, respectively. As the Group has not transferred the substantial risks and rewards relating to these bills receivable, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables.

Ageing analysis

Bills receivable are bank acceptance bills received from customers, with maturity dates within 12 months.

As of the end of the year, the ageing analysis of trade debtors based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for credit loss, is as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Current to 3 months	**30,593**	50,473
4 to 6 months	**20,969**	7,255
7 to 12 months	**9,480**	6,805
Over 12 months	**219**	1,444
	61,261	65,977

Trade debtors are due within 1 month to 6 months from the date of billing. No interests are charged on the trade receivables. Further details on the Group's credit policy are set out in Note 30(a).

22 PREPAYMENTS AND OTHER RECEIVABLES

	Note	As at 31 December 2024 RMB'000	2023 RMB'000
Receivables in connection with compensation for relocation of production facilities from local government		**40,607**	42,744
Prepayments for raw materials and service charges		**16,264**	22,481
Deposit for raw materials		**–**	18,000
Advances to a joint venture and accrued interests		**–**	12,821
Deductible input VAT		**17,388**	12,530
Prepayments to related parties	32	**8,556**	5,494
Other receivables from government-related construction entities (Note 19)		**81,223**	53,158
Others		**23,558**	18,246
		187,596	185,474

23 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise of:

	As at 31 December 2024 RMB'000	2023 RMB'000
Bank deposits	**21,056**	34,849

(b) Reconciliation of liabilities arising from financing activities

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

23 CASH AND CASH EQUIVALENTS *(Continued)*

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

	Bank and other loans RMB'000 (Note 27)	Amounts due to related parties RMB'000 (Note 26)	Interests payable RMB'000 (Note 26)	Lease liabilities RMB'000	Total RMB'000
At 1 January 2023	225,842	4,606	2,000	2,539	234,987
Changes from financing cash flows:					
Proceeds from bank and other loans	340,977	–	–	–	340,977
Repayment of bank and other loans	(221,247)	–	–	–	(221,247)
Borrowing costs paid	–	–	(12,456)	–	(12,456)
Capital element of lease rentals paid	–	–	–	(2,656)	(2,656)
Interest element of lease rentals paid	–	–	–	(127)	(127)
Total changes from financing cash flows	119,730	–	(12,456)	(2,783)	104,491
Other changes					
Interest on bank other loans (Note 6)	–	–	12,456	–	12,456
Interest on lease liabilities	–	–	–	127	127
Increase in lease liabilities from entering into new leases during the year	–	–	–	1,976	1,976
Foreign exchange gain, net	(3,316)	–	–	–	(3,316)
Total other changes	(3,316)	–	12,456	2,103	11,243

23 CASH AND CASH EQUIVALENTS (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

	Bank and other loans RMB'000 (Note 27)	Amounts due to related parties RMB'000 (Note 26)	Interests payable RMB'000 (Note 26)	Lease liabilities RMB'000	Total RMB'000
At 31 December 2023 and 1 January 2024	**342,256**	**4,606**	**2,000**	**1,859**	**350,721**
Changes from financing cash flows:					
Proceeds from bank and other loans	776,088	–	–	–	776,088
Repayment of bank and other loans	(734,425)	–	–	–	(734,425)
Borrowing costs paid	–	–	(17,912)	–	(17,912)
Capital element of lease rentals paid	–	–	–	(1,236)	(1,236)
Interest element of lease rentals paid	–	–	–	(57)	(57)
Total changes from financing cash flows	41,663	–	(17,912)	(1,293)	22,458
Other changes					
Interest on bank other loans (Note 6)	–	–	20,084	–	20,084
Interest on lease liabilities	–	–	–	57	57
Increase in lease liabilities from entering into new leases during the year	–	–	–	581	581
Net losses on disposal of lease liabilities	–	–	–	(150)	(150)
Foreign exchange gain, net	(1,279)	–	–	–	(1,279)
Total other changes	(1,279)	–	20,084	488	19,293
At 31 December 2024	**382,640**	**4,606**	**4,172**	**1,054**	**392,472**

23 CASH AND CASH EQUIVALENTS *(Continued)*

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2024	2023
	RMB'000	RMB'000
Within operating cash flows	**474**	200
Within financing cash flows	**1,236**	2,783
	1,710	2,983

24 TRADE AND BILLS PAYABLES

Trade and bills payables are analysed as follows:

		As at 31 December	
		2024	2023
	Note	**RMB'000**	RMB'000
Bills payable		**29,127**	52,570
Trade payables			
Third parties		**91,630**	113,880
Amounts due to related parties	32	**2,709**	1,095
		123,466	167,545

24 TRADE AND BILLS PAYABLES *(Continued)*

Ageing analysis

The ageing analysis of trade and bills payables, based on the date of goods or services that have been acquired in the ordinary course of business from suppliers, is as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Current to 3 months	**56,377**	129,463
4 to 6 months	**8,298**	15,710
7 to 12 months	**19,198**	4,919
Over 12 months	**39,593**	17,453
	123,466	167,545

All trade and bills payables are expected to be settled within one year.

For the information of trade payables settled by endorsement of bills receivable, please refer to Note 21.

25 CONTRACT LIABILITIES

Contract liabilities primarily represent payments made by customers for purchases of products before the Group satisfying performance obligations. The Group normally requires certain customers to pay 30%–100% deposits upfront. It would be recognised as revenue upon the delivery of products.

The amount of RMB2,548,000 that was included in the contract liabilities at the beginning of the year has been recognised as revenue in 2024 (2023: RMB61,226,000). Almost all the balances of the contract liabilities at 31 December 2024 are expected to be recognised as revenue within one year.

26 ACCRUALS AND OTHER PAYABLES

		As at 31 December	
		2024	2023
	Note	**RMB'000**	RMB'000
Rebate payables		**29,390**	38,061
Accrued charges		**19,816**	21,319
Advances from related parties	23(b)&32	**4,606**	4,606
Other payables to related parties	32	**5,230**	4,894
Dividends payable		**4,623**	4,522
Other tax payables		**22,476**	16,256
Salary, bonus and welfare payable		**84,981**	69,679
Payables to contractors and equipment suppliers		**56,832**	48,913
Deposits from sale staff		**5,323**	5,899
Interests payable	23(b)	**4,172**	2,000
Housing fund collected from staff		**4,286**	4,286
Fund from local finance bureau*		**5,887**	5,887
Research and development expenses payable		**62,038**	5,199
Others		**20,409**	17,830
		330,069	249,351

* The item is interest-free and repayable on demand.

All the accruals and other payables are expected to be settled or recognised as profit or loss within one year or are repayable on demand.

27 BANK AND OTHER LOANS

	2024		2023	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Borrowings from banks				
— secured (Notes 13 and 14)	**3.75%–5.50%**	**128,650**	4.00%–5.20%	110,000
— guaranteed	**4.90%–5.05%**	**176,000**	4.99%–5.05%	179,579
— pledged and guaranteed	**N.A**	**–**	4.21%–4.60%	40,000
Other borrowings	**0.94%–9.00%**	**77,990**	1.42%	12,677
Total		**382,640**		342,256

The guaranteed bank loans were guaranteed by entities controlled by the ultimate controlling party of the Company and an entity controlled by a director of the Company.

As at 31 December 2024, inventories pledged as security by the Group amounted to RMB35,007,000 (2023: Nil).

The borrowings were repayable as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Within 1 year or on demand	**303,540**	236,556
After 1 year but within 2 years	**73,100**	33,700
After 2 year but within 5 years	**6,000**	72,000
	382,640	342,256

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Movement of each component of deferred tax assets and liabilities:

(i) The components of deferred tax assets recognised and the movements during the year are as follows:

	Government grants RMB'000	Allowance of credit loss RMB'000	Depreciation and amortisation RMB'000	Others RMB'000	Total RMB'000
At 1 January 2023	1,698	932	1,295	1,154	5,079
(Charged)/credited to profit or loss	(163)	(393)	(220)	718	(58)
At 31 December 2023 and 1 January 2024	**1,535**	**539**	**1,075**	**1,872**	**5,021**
Credited/(charged) to profit or loss	**1,184**	**579**	**(216)**	**250**	**1,797**
At 31 December 2024	**2,719**	**1,118**	**859**	**2,122**	**6,818**

(ii) The components of deferred tax liabilities recognised and the movements during the year are as follows:

Deferred tax arising from:	PRC dividend withholding tax RMB'000	Fair value measurements RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2023	3,538	–	–	3,538
(Credited)/charged to profit or loss	(3,386)	144	–	(3,242)
At 31 December 2023 and 1 January 2024	**152**	**144**	**–**	**296**
(Credited)/charged to profit or loss	**(152)**	**(144)**	**181**	**(115)**
At 31 December 2024	**–**	**–**	**181**	**181**

(Expressed in RMB'000 unless otherwise indicated)

28 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

(a) Movement of each component of deferred tax assets and liabilities: *(Continued)*

(iii) The net amounts of deferred tax assets and deferred tax liabilities after offsetting are as follows:

	As at 31 December 2024		As at 31 December 2023	
	Offsetting amount	**Amount after offsetting**	Offsetting amount	Amount after offsetting
Deferred tax assets	**(181)**	**6,818**	–	–
Deferred tax liabilities	**181**	**–**	–	–

(b) Deferred tax assets not recognised

As at 31 December 2024, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB206,070,000 (2023: RMB56,439,000) as it is not probable that future taxable profits against which the losses can be utilised will be available. Except for the Company's subsidiaries Cloud Dollar and Wealth Depot, whose tax losses will be carried forward indefinitely, the Group's tax losses carried forward will expire between 2025 and 2034.

(c) Deferred tax liabilities not recognised

Pursuant to Enterprise Income Tax Law in the PRC and its related regulations, the Group is subject to withholding tax at 10% (unless reduced by tax treaties/arrangements) on dividends declared to foreign investors from its PRC subsidiaries.

As at 31 December 2024 temporary differences relating to the reserves of the Company's PRC subsidiaries amounted RMB250,681,000 (2023: RMB355,359,000), comprised retained earnings of RMB196,485,000 (2023: RMB301,163,000) and statutory surplus reserve of RMB54,071,000 (2023: RMB54,071,000).

The Company controls the dividend policy of these subsidiaries, and it has been determined that 85% of the profit for the years will not be distributed in the foreseeable future. Also, the Company has no plan to liquidate these subsidiaries in the foreseeable future. As a result, no deferred tax liability was recognised relating to the profits resolved not to be distributed in the foreseeable future as mentioned above.

29 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital RMB'000	Share premium RMB'000	Treasury shares reserve RMB'000	Capital redemption reserve RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2023	6,383	246,726	(45)	392	27,808	12,367	(44,907)	248,724
Loss for the year	–	–	–	–	–	–	(7,346)	(7,346)
Other comprehensive income	–	–	–	–	–	2,617	–	2,617
Equity settled share-based transactions	–	–	–	–	1,453	–	–	1,453
Purchase of own shares	–	(15,877)	(111)	–	–	–	–	(15,988)
Cancellation of treasury shares								
— Par value	(73)	–	73	–	–	–	–	–
— Transfer between reserves	–	(73)	–	73	–	–	–	–
Balance at 31 December 2023 and 1 January 2024	**6,310**	**230,776**	**(83)**	**465**	**29,261**	**14,984**	**(52,253)**	**229,460**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(3,697)**	**(3,697)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**4,333**	**–**	**4,333**
Equity settled share-based transactions	**–**	**–**	**–**	**–**	**805**	**–**	**–**	**805**
Purchase of own shares	**–**	**(6,416)**	**(48)**	**–**	**–**	**–**	**–**	**(6,464)**
Cancellation of treasury shares								
— Par value	**(131)**	**–**	**131**	**–**	**–**	**–**	**–**	**–**
— Transfer between reserves	**–**	**(131)**	**–**	**131**	**–**	**–**	**–**	**–**
Balance at 31 December 2024	**6,179**	**224,229**	**–**	**596**	**30,066**	**19,317**	**(55,950)**	**224,437**

Note: The capital redemption reserve comprises the par value of the cancelled shares of the Company transferred from share premium pursuant to Companies Law (2020 Revision) of the Cayman Islands.

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(b) Share capital

	2024 No. of shares	**2024** Amount RMB'000	2023 No. of shares	2023 Amount RMB'000
Authorised-ordinary shares of HKD0.01 each:				
At 1 January and 31 December	**2,000,000,000**	**16,354**	2,000,000,000	16,354
Ordinary shares, issued and fully paid:				
At 1 January	**749,956,000**	**6,310**	758,439,000	6,383
Cancellation of treasury shares (Note 29(c)(iii))	**(10,655,000)**	**(131)**	(8,483,000)	(73)
At 31 December	**739,301,000**	**6,179**	749,956,000	6,310

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(c) Reserves

(i) Share premium

Share premium represented the difference between the par value of shares issued and the amount of net proceeds received from its shareholders of the Company.

(ii) Statutory surplus reserves

Pursuant to applicable PRC regulations, all PRC subsidiaries of the Group are required to appropriate 10% of their after-tax profit (after offsetting prior year losses) to the statutory surplus reserve until such reserve reaches 50% of the registered capital of each relevant PRC subsidiary. The transfer to the statutory surplus reserve must be made before distribution of dividends to shareholders. The statutory surplus can be utilised to offset accumulated losses or to increase capital of the subsidiaries and is non-distributable other than in liquidation.

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Reserves *(Continued)*

(iii) Treasury shares reserve and capital redemption reserve

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. The repurchased shares are classified as treasury shares. The par value of treasury shares purchased is debited to "treasury shares reserve" and the premium to par value is shown as an adjustment to share premium. The par value of shares cancelled shall be transferred to "capital redemption reserve", with share premium adjusted accordingly.

During the year, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Highest price paid per share HKD	Lowest price paid per share HKD	Aggregate price paid HKD'000	Number of shares cancelled	Number of treasury shares
March 2023	1,718,000	1.35	1.25	2,285	–	1,947,000
April 2023	4,756,000	1.35	1.25	6,406	–	6,703,000
May 2023	976,000	1.37	1.28	1,319	–	7,679,000
June 2023	780,000	1.35	1.24	1,018	–	8,459,000
July 2023	24,000	1.30	1.25	30	–	8,483,000
September 2023	–	–	–	–	(8,483,000)	–
November 2023	2,585,000	1.50	1.31	3,672	–	2,585,000
December 2023	2,336,000	1.40	1.28	3,180	–	4,921,000
	13,175,000			17,910	(8,483,000)	
January 2024	**4,410,000**	**1.39**	**1.29**	**5,984**	**–**	**9,331,000**
April 2024	**1,324,000**	**0.89**	**0.83**	**1,133**	**–**	**10,655,000**
September 2024	**–**	**–**	**–**	**–**	**(10,655,000)**	**–**
	5,734,000			**7,117**	**(10,655,000)**	

The amount paid for the repurchase of 5,734,000 shares (2023: 13,175,000 shares) during the year ended 31 December 2024 was paid wholly out of share premium. The aggregate consideration was HKD7,117,000 (equivalent to approximately RMB6,464,000) (2023: HKD17,910,000 (equivalent to approximately RMB15,988,000). In August 2024, the Company cancelled 10,655,000 repurchased shares, the par value of which, amounted to RMB90,000, was transferred to capital redemption reserve. As at 31 December 2024, the Group held zero of the Company's shares (2023: 4,921,000) as treasury shares. Treasury shares are recognised as deduction from equity in the Group's consolidated statement of financial position.

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(c) Reserves *(Continued)*

(iv) Share-based payment reserve

The share-based payment reserve represents the cumulative value of the equity settled share-based transactions granted to employees recognised in accordance with the accounting policy adopted for share-based payments in Note 2(s)(ii).

(v) Other reserves

Other reserves as at the end of the reporting period mainly included contributions by the shareholders and the difference between the considerations paid by the Group and the share of net assets value of the subsidiary acquired from the non-controlling interests.

(vi) Exchange reserve

The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with accounting policies set out in Note 2(w).

(d) Distributability of reserves

At 31 December 2024, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as determined under the Companies Law of the Cayman Islands, was RMB217,662,000 (2023: RMB222,768,000).

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to enhance shareholders' value in the long-term.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings) less cash and bank deposits. Adjusted capital comprises all components of equity.

29 CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

(e) Capital management *(Continued)*

The Group's adjusted net debt-to-capital ratio at 31 December 2024 and 2023 was as follows:

	Note	As at 31 December **2024** **RMB'000**	 2023 RMB'000
Bank and other loans	27	**382,640**	342,256
Less: Cash and cash equivalents	23	**21,056**	34,849
Adjusted net debt		**361,584**	307,407
Total equity		**368,362**	562,226
Adjusted net debt-to-equity ratio		**98.16%**	54.68%

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT

Exposure to credit, liquidity, interest rate, currency and equity price risks arises in the normal course of the Group's business.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from amount due from related parties, other receivables and bank deposits is limited because the counterparties are related parties, banks, government authorities and government related entity, for which the Group considers having low credit risk.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period 3.4% (2023: 1.0%) and 13.5% (2023: 38.7%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(a) Credit risk *(Continued)*

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group normally requires certain customers to pay 30%–100% deposits upfront and the remaining trade receivables are normally due within 1 to 6 months from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	2024		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	0.8%	37,441	284
1–3 months past due	3.2%	16,600	532
4–6 months past due	14%	6,108	851
7–12 months past due	35%	3,881	1,372
More than 1 year past due	98%	11,812	11,542
		75,842	14,581

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(a) Credit risk *(Continued)*

	2023		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Current	0.8%	46,960	379
1–3 months past due	3.3%	13,301	434
4–6 months past due	14%	4,661	663
7–12 months past due	33%	3,365	1,099
More than 1 year past due	98%	16,424	16,159
		84,711	18,734

Expected loss rates are based on historical loss experience. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2024 RMB'000	2023 RMB'000
Balance at 1 January	**18,734**	4,889
Write-off/(accrual) during the year	**(4,153)**	13,845
Balance at 31 December	**14,581**	18,734

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants and its relationship with finance providers, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. As mentioned in Note 2(b), the Group experienced an operating loss in 2024 and had net current liabilities. These events or conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The directors of the Company have been undertaking a number of measures to mitigate the Group's liquidity pressure.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	As at 31 December 2024 contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amounts RMB'000
Bank and other loans	320,611	83,028	6,120	–	409,759	382,640
Trade and bills payables	123,466	–	–	–	123,466	123,466
Accruals and other payables	330,069	–	–	–	330,069	330,069
Lease liabilities	945	130	–	–	1,075	1,054
Total	775,091	83,158	6,120	–	864,369	837,229

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(b) Liquidity risk *(Continued)*

	As at 31 December 2023 contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Carrying amounts RMB'000
Bank and other loans	246,337	35,072	75,515	–	356,924	342,256
Trade and bills payables	167,545	–	–	–	167,545	167,545
Accruals and other payables	249,351	–	–	–	249,351	249,351
Lease liabilities	1,141	763	–	–	1,904	1,859
Total	664,374	35,835	75,515	–	775,724	761,011

(c) Interest rate risk

The Group's interest rate risk arises primarily from bank and other loans. Interest-bearing liabilities issued at variable rates and borrowings at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group's interest rate profile as monitored by management is set out in (i) below.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(c) Interest rate risk *(Continued)*

(i) Interest rate profile

The following table details the interest rate profile of the Group's net interest-bearing liabilities at the end of the year:

	2024		2023	
	Effective interest rate	**RMB'000**	Effective interest rate	RMB'000
Fixed rate interest-bearing borrowings:				
Bank loans	**4.1%–5.50%**	**63,950**	4.60%–5.20%	65,000
Other borrowings	**0.94%–9.00%**	**53,740**	1.42%	12,677
Variable rate interest-bearing liabilities:				
Bank loans	**3.05%–5.05%**	**264,950**	4.00%–5.05%	264,579
Lease liabilities	**4.75%**	**1,054**	4.75%	1,859
Total		**383,694**		344,115

(ii) Sensitivity analysis

Increases in interest rates will increase the cost of interest-bearing liabilities, and therefore could have an adverse effect on the Group's financial position. For the year ended 31 December 2024 and 2023, if interest rates on the variable rate borrowings had increased/decreased 50 basis points while all other variables are held constant, the effect on loss after taxation is approximately RMB1,131,000 and RMB1,132,000 respectively.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(d) Currency risk

The Group mainly operates in the PRC and is exposed to foreign currency risk, primarily from cash balances that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transaction relates. The currencies giving rise to this risk is primarily USD.

The following table details the Group's major exposure as at 31 December 2024 to currency risk arising from assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Exposure to foreign currencies (expressed in RMB)	
	As at December 2024	As at December 2023
	USD RMB'000	USD RMB'000
Cash and cash equivalents	–	18
Bank loans	–	(49,579)
Gross exposure arising from recognised assets and liabilities	–	(49,561)
Notional amounts of a cross-currency swap contract entered	–	49,579
Net exposure	–	18

As at 31 December 2024, the Group has no assets or liabilities denominated in a currency other than the functional currency of the entity.

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(e) Fair values measurement

Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2024	Fair value measurements as at 31 December 2024 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets measured at FVPL	**9,275**	–	–	**9,275**

	Fair value at 31 December 2023	Fair value measurements as at 31 December 2023 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets measured at FVPL	11,013	–	–	11,013
Capped cross currency swap	1,279	–	1,279	–
	12,292	–	1,279	11,013

30 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENT *(Continued)*

(e) Fair values measurement *(Continued)*

Financial assets and liabilities measured at fair value *(Continued)*

During the years ended 31 December 2023 and 2024, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The fair value of capped cross currency swap is the estimated amount that the Group would receive or pay to transfer the swap at the end of the reporting period, taking into account the spot exchange rate as at the year end.

The fair value of the financial assets measured at FVPL is approximate to the investment cost due to short duration from the transaction date to the end of the reporting date.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2024 and 2023.

31 COMMITMENTS

Contract commitments outstanding at 31 December 2024 and 2023 not provided for in the financial statements were as follows, which is mainly related to research and development activities, government related projects and equipment procurement:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Contracted for	**352,328**	238,196

32 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions disclosed elsewhere in the financial statements, the Group has entered into the following material related party transactions during the year:

	Note	As at 31 December 2024 RMB'000	2023 RMB'000
Sales of goods	(i)	**1,871**	4,228
Purchase of goods	(ii)	**19,570**	34,450
Receiving ancillary services	(iii)	**290**	290
Repayment from a joint venture	(iv)	**11,700**	8,000
Net withdrawal with a related party	(v)	**(15)**	(261)

Notes:

(i) Represent the electricity sold to a company controlled by a director. The Group also sold pharmaceutical products to its joint venture in 2023, amounted of RMB3,584,000.

(ii) Mainly represent medicinal herbs (lonicera japonica), steams, packaging materials, and daily necessities purchased from entities controlled by the ultimate controlling party of the Company.

(iii) Represent ancillary services such as short-term leases of premises, accommodation, catering and other services acquired from entities controlled by the ultimate controlling party of the Company.

(iv) Represent repayment of advances by the joint venture of the Group.

(v) Represent net withdrawal placed in the bank which is the associate of the ultimate controlling party of the Company.

32 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Group's directors as disclosed in Note 9 and certain of the highest paid employees as disclosed in Note 10, is as follows:

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Salaries, wages and other benefits	**3,185**	6,265
Retirement benefits	**97**	141
	3,282	6,406

Total remuneration is disclosed in "staff costs" (see Note 7(a)).

(c) Balances with related parties

	As at 31 December	
	2024	2023
	RMB'000	RMB'000
Prepayment and other receivables-advances and accrued interests	**3,472**	15,172
Prepayment and other receivables-prepayments	**8,556**	5,494
Trade receivables	**11,400**	14,392
Trade and bills payables	**2,709**	1,095
Accruals and other payables-advances	**4,606**	4,606
Accruals and other payables-other payables	**5,230**	4,894
Cash and cash equivalents	**12**	27

Except for advances to a joint venture and bank loans, other amounts due to or from related parties are unsecured, interest-free and repayable or receivable on demand.

32 MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Financial guarantees provided by related parties

As disclosed in Note 27, certain bank loans were guaranteed by entities controlled by the ultimately controlling party of the Company and an entity controlled by a director of the Company.

(e) Applicability of the Listing Rules relating to connected transactions

During the year, the related party transactions in respect of purchase of medicinal herbs, construction materials and packaging materials as mentioned in Note 32(a)(ii), constitute continuing connected transactions and connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in section "Connected Transactions" of the Directors' Report.

The advances to a joint venture as disclosed in Note 32(a)(iv) and Note 32(a)(v) do not constitute connected transactions as the directors considered that the joint venture and the Bank are not connected parties of the Group as defined in Chapter 14A of the Listing Rules.

Except for the above, the directors considered all other transactions in 2023 and 2024 disclosed in Note 32(a) are exempted according to 14A.76(1)(c) and 14A.90 of the Listing Rules.

33 IMMEDIATE AND ULTIMATE CONTROLLING PARTIES

At 31 December 2024, the directors consider the immediate parent of the Company to be Full Bliss Holdings Limited and the ultimate controlling party of the Company to be Mr. Cao Zhiming.

(Expressed in RMB'000 unless otherwise indicated)

34 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2024 RMB'000	2023 RMB'000
Non-current assets			
Right-of-use assets		**269**	–
Interests in subsidiaries		**248,701**	243,278
		248,970	243,278
Current assets			
Prepayments and other receivables		**33,019**	32,914
Cash and cash equivalents		**1,137**	1,269
		34,156	34,183
Current liabilities			
Lease liabilities		**192**	–
Accruals and other payables		**58,371**	48,001
		58,563	48,001
Net current liabilities		**(24,407)**	(13,818)
Non-Current liabilities			
Lease liabilities		**126**	–
		126	–
Net assets		**224,437**	229,460
Capital and reserves			
Share capital	29(b)	**6,179**	6,310
Reserves	29(c)	**218,258**	223,150
Total equity		**224,437**	229,460

(Expressed in RMB'000 unless otherwise indicated)

35 COMPARATIVE FIGURES

Certain comparative figures on the consolidated cash flow statement have been re-presented to conform to the presentation for the year.

36 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2024

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, which are not yet effective for the year ended 31 December 2024 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for years beginning on or after
Amendments to IAS 21, The effects of changes in foreign exchange rates — Lack of exchangeability	1 January 2025
Amendments to IFRS 9, Financial instruments and HKFRS 7, Financial instruments: disclosures — Amendments to the classification and measurement of financial instruments	1 January 2026
Annual improvements to IFRSs — Volume 11	1 January 2026
IFRS 18, Presentation and disclosure in financial statements	1 January 2027
IFRS 19, Subsidiaries without public accountability: disclosures	1 January 2027

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.