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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SUNSHINE LAKE PHARMA CO., LTD.

Introduction

We report on the historical financial information of Sunshine Lake Pharma Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-91, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as of 31 December 2022, 2023 and 2024 and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2022, 2023 and 2024 (the "Track Record Period"), and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-91, forms an integral part of this report, which has been prepared for inclusion in the listing document of the Company dated 30 June 2025 (the "Listing Document") in connection with the initial listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

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

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as of 31 December 2022, 2023 and 2024 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

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

Adjustments

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

Dividends

We refer to Note 29(b) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

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Certified Public Accountants

8th Floor, Prince's Building 10
Chater Road
Central, Hong Kong
30 June 2025

HISTORICAL FINANCIAL INFORMATION

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

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by KPMG in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in Renminbi)

	Note	Years ended 31 December		
		2022	2023	2024
		RMB'000	*RMB'000*	*RMB'000*
Revenue	4	3,813,566	6,385,616	4,018,905
Cost of sales		(891,377)	(1,308,568)	(960,274)
Gross profit		2,922,189	5,077,048	3,058,631
Other (losses)/income	5	(1,294,012)	(422,669)	89,743
Distribution costs		(1,244,177)	(1,577,083)	(1,197,046)
Administrative expenses		(387,872)	(480,720)	(557,116)
Research and development costs		(791,642)	(827,415)	(887,653)
Reversals/(recognition) of impairment loss on trade and other receivables		2,575	(3,079)	(126,011)
(Loss)/profit from operations		(792,939)	1,766,082	380,548
Finance costs	6(a)	(686,884)	(380,591)	(239,787)
Share of (loss)/profit of an associate		–	(29)	293
(Loss)/profit before taxation	6	(1,479,823)	1,385,462	141,054
Income tax	7	63,908	(371,584)	(116,251)
(Loss)/profit for the year		(1,415,915)	1,013,878	24,803
(Loss)/profit for the year attributable to:				
Equity shareholders of the Company		(1,209,205)	184,924	(207,434)
Non-controlling interests		(206,710)	828,954	232,237
(Loss)/profit for the year		(1,415,915)	1,013,878	24,803
(Loss)/earnings per share	10			
Basic and diluted (in RMB)		(3.29)	0.44	(0.47)

The accompanying notes form part of the Historical Financial Information.

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CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in Renminbi)

	Years ended 31 December		
	2022	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*
(Loss)/profit for the year	(1,415,915)	1,013,878	24,803
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 overseas subsidiaries	1,018	(1,772)	833
	1,018	(1,772)	833
Total comprehensive income for the year	(1,414,897)	1,012,106	25,636
Total comprehensive income for the year attributable to :			
Equity shareholders of the Company	(1,208,323)	183,324	(206,685)
Non-controlling interests	(206,574)	828,782	232,321
Total comprehensive income for the year	(1,414,897)	1,012,106	25,636

The accompanying notes form part of the Historical Financial Information.

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Renminbi)

	Note	As of 31 December		
		2022	2023	2024
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Fixed assets	*11*			
– Property, plant and equipment		3,528,052	3,732,000	3,896,563
– Right-of-use assets				
– Ownership interests in leasehold land held for own use..........		360,362	351,444	342,526
– Other properties leased for own use		114,095	96,092	151,901
		4,002,509	4,179,536	4,390,990
Intangible assets	*12*	1,914,857	1,605,045	1,573,456
Goodwill	*13*	–	–	–
Financial assets measured at fair value through profit or loss ("FVPL")....	*15*	–	19,587	17,066
Deferred tax assets	*28(b)*	301,634	298,078	283,490
Interests in an associate...........		–	12,571	25,464
Prepayments	*16*	319,335	130,806	662,288
		6,538,335	6,245,623	6,952,754
Current assets				
Inventories	*17*	366,473	528,980	737,821
Prepayments	*16*	137,972	358,864	426,380
Trade and other receivables.........	*18*	2,274,423	2,018,488	1,894,293
Financial assets measured at FVPL ...	*15*	290,000	18,686	3,839
Restricted cash	*19(a)*	110,270	1,567,300	435,617
Cash and cash equivalents..........	*19(a)*	971,510	1,920,158	1,480,810
		4,150,648	6,412,476	4,978,760
Current liabilities				
Contract liabilities................	*20*	84,528	117,375	155,019
Trade and other payables...........	*21*	4,917,390	2,594,007	2,421,629
Bank loans and other borrowings.....	*22*	1,007,145	3,289,197	2,196,225
Lease liabilities	*23*	33,611	31,703	41,147
Interest-bearing borrowings	*24*	2,906,963	–	–
Current taxation.................	*28(a)*	8,672	146,209	231
		8,958,309	6,178,491	4,814,251
Net current (liabilities)/assets		(4,807,661)	233,985	164,509
Total assets less current liabilities...		1,730,674	6,479,608	7,117,263

	Note	As of 31 December		
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Non-current liabilities				
Bank loans and other borrowings.....	22	2,250,029	1,961,313	2,287,068
Deferred income	26	271,891	274,398	262,954
Lease liabilities	23	82,689	68,578	99,741
		2,604,609	2,304,289	2,649,763
Net (liabilities)/assets		(873,935)	4,175,319	4,467,500
Capital and reserves	29			
Paid-in capital/share capital.........		279,627	463,943	463,943
Reserves		(3,968,311)	(136,022)	(119,794)
(Net deficit)/total equity attributable to equity shareholders of the Company....................		(3,688,684)	327,921	344,149
Non-controlling interests	14	2,814,749	3,847,398	4,123,351
(Net deficit)/total equity		(873,935)	4,175,319	4,467,500

The accompanying notes form part of the Historical Financial Information.

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STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(Expressed in Renminbi)

	Note	As of 31 December		
		2022	2023	2024
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Fixed assets	*11*			
– Property, plant and equipment		318,004	284,142	237,477
– Right-of-use assets				
– Ownership interests in leasehold land held for own use		11,210	10,887	10,565
– Other properties leased for own use		108,306	92,065	154,015
		437,520	387,094	402,057
Intangible assets	*12*	146,190	254,936	469,158
Investments in subsidiaries	*14*	3,415,282	3,415,282	3,415,820
Prepayments	*16*	562,486	14,912	11,980
		4,561,478	4,072,224	4,299,015
Current assets				
Inventories	*17*	27,011	114,360	84,950
Prepayments	*16*	71,250	77,916	119,099
Trade and other receivables	*18*	2,077,904	1,068,024	921,375
Restricted cash	*19*	33,489	–	40,004
Cash and cash equivalents	*19*	40,710	219,506	63,518
		2,250,364	1,479,806	1,228,946
Current liabilities				
Contract liabilities	*20*	1,177,941	798,226	993,144
Trade and other payables	*21*	3,238,884	1,180,895	1,607,830
Bank loans and other borrowings	*22*	783,802	969,679	854,614
Lease liabilities	*23*	29,365	30,032	37,333
		5,229,992	2,978,832	3,492,921
Net current liabilities		(2,979,628)	(1,499,026)	(2,263,975)
Total assets less current liabilities		1,581,850	2,573,198	2,035,040

	Note	As of 31 December		
		2022	2023	2024
		RMB'000	*RMB'000*	*RMB'000*
Non-current liabilities				
Bank loans and other borrowings.....	*22*	1,558,500	1,673,027	1,397,832
Deferred income	*26*	76,207	79,058	71,193
Lease liabilities	*23*	81,056	66,340	105,525
		1,715,763	1,818,425	1,574,550
Net (liabilities)/assets		(133,913)	754,773	460,490
Capital and reserves				
Paid-in capital/share capital.........	*29(c)*	279,627	463,943	463,943
Reserves	*29(d)*	(413,540)	290,830	(3,453)
(Net deficit)/total equity		(133,913)	754,773	460,490

The accompanying notes form part of the Historical Financial Information.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Renminbi)

	Note	Paid-in capital	Capital reserve	Merger reserve	Treasury stock	Exchange reserve	Statutory reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		Attributable to equity shareholders of the Company									
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 29(c)	*Note 29(d)(i)*		*Note 29(e)*	*Note 29(d)(iv)*	*Note 29(d)(iii)*				
Balance at 1 January 2022		279,158	(728,249)	(3,722,790)	(1,882,868)	5,506	168,983	(4,262,613)	(10,142,873)	3,021,453	(7,121,420)
Changes in equity for 2022:											
Loss and total comprehensive income for the year.		-	-	-	-	-	-	(1,209,205)	(1,209,205)	(206,710)	(1,415,915)
Exchange differences on translation of financial statements of overseas subsidiaries		-	-	-	-	1,018	-	-	1,018	-	1,018
Total comprehensive income for the year.		-	-	-	-	1,018	-	(1,209,205)	(1,208,187)	(206,710)	(1,414,897)
Capital contribution from shareholders.		469	37,531	-	-	-	-	-	38,000	-	38,000
Recognition of financial instruments with preferential rights issued to investors	25	-	(37,531)	-	(469)	-	-	-	(38,000)	-	(38,000)
Disposal of a subsidiary		-	-	-	-	-	-	-	-	6	6
Derecognition of financial instruments with preferential rights issued to investors	25	-	7,564,226	-	98,150	-	-	-	7,662,376	-	7,662,376
Balance at 31 December 2022		279,627	6,835,977	(3,722,790)	(1,785,187)	6,524	168,983	(5,471,818)	(3,688,684)	2,814,749	(873,935)

Attributable to equity shareholders of the Company

	Note	Paid-in capital/share capital	Capital reserve	Merger reserve	Treasury stock	Share-based payment reserve	Exchange reserve	Statutory reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 29(c)	*Note 29(d)(i)*		*Note 29(e)*	*Note 29(d)(ii)*	*Note 29(d)(iv)*	*Note 29(d)(iii)*				
Balance at 1 January 2023		279,627	6,835,977	(3,722,790)	(1,785,187)	-	6,524	168,983	(5,471,818)	(3,688,684)	2,814,749	(873,935)
Changes in equity for 2023:												
Profit and total comprehensive income for the year		-	-	-	-	-	-	-	184,924	184,924	828,954	1,013,878
Exchange differences on translation of financial statements of overseas subsidiaries		-	-	-	-	-	(1,772)	-	-	(1,772)	-	(1,772)
Total comprehensive income for the year		-	-	-	-	-	(1,772)	-	184,924	183,152	828,954	1,012,106
Capital contribution from shareholders		10,550	1,605,507	-	-	-	-	-	-	1,616,057	-	1,616,057
Deemed contribution from a shareholder		-	318,107	-	1,770,384	-	-	-	-	2,088,491	223,829	2,312,320
Conversion into a joint stock limited liability company	29(e)	159,823	(5,144,525)	-	(8,153)	-	-	-	4,992,855	-	-	-
Issuance of new shares	29(c)(i)	13,943	-	-	-	-	-	-	-	13,943	-	13,943
Equity-settled share-based payment	29(c)(ii)	-	-	-	-	108,346	-	-	-	108,346	21,932	130,278
Appropriation of statutory reserve	27	-	-	-	-	-	-	57,215	(57,215)	-	-	-
Acquisition of non-controlling interests	14(c)	-	6,616	-	-	-	-	-	-	6,616	(42,066)	(35,450)
Balance at 31 December 2023		463,943	3,621,682	(3,722,790)	(22,956)	108,346	4,752	226,198	(351,254)	327,921	3,847,398	4,175,319

	Note	Paid-in capital/share capital	Capital reserve	Merger reserve	Treasury stock	Share-based payment reserve	Exchange reserve	Statutory reserve	Accumulated losses	Total	Non-controlling interests	Total equity
		Attributable to equity shareholders of the Company										
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 29(c)	Note 29(d)(i)		Note 29(e)	Note 29(d)(ii)	Note 29(d)(iv)	Note 29(d)(iii)				
Balance at 1 January 2024		463,943	3,621,682	(3,722,790)	(22,956)	108,346	4,752	226,198	(351,254)	327,921	3,847,398	4,175,319
Changes in equity for 2024:												
Profit and total comprehensive income for the year		-	-	-	-	-	-	-	(207,434)	(207,434)	232,237	24,803
Exchange differences on translation of financial statements of overseas subsidiaries		-	-	-	-	-	833	-	-	833	-	833
Total comprehensive income for the year		-	-	-	-	-	833	-	(207,434)	(206,601)	232,237	25,636
Equity-settled share-based payment	27	-	-	-	-	222,829	-	-	-	222,829	43,716	266,545
Balance at 31 December 2024		463,943	3,621,682	(3,722,790)	(22,956)	331,175	5,585	226,198	(558,688)	344,149	4,123,351	4,467,500

The accompanying notes form part of the Historical Financial Information.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Renminbi)

	Note	Years ended 31 December 2022	2023	2024
		RMB'000	*RMB'000*	*RMB'000*
Operating activities				
Cash generated from operations......	*19(b)*	1,417,574	1,548,597	748,173
Corporate Income Tax ("CIT") paid...	*28(a)*	(256,608)	(230,491)	(247,641)
Net cash generated from operating activities		1,160,966	1,318,106	500,532
Investing activities				
Interest received		8,027	41,137	72,792
Payments for purchase of property, plant and equipment.............		(563,001)	(332,423)	(1,061,906)
Payments for development costs		(237,040)	(162,319)	(163,299)
Payments for purchase of intangible assets		(217,196)	(40,480)	–
Decrease/(increase) in restricted cash .		181,501	(1,457,030)	1,131,683
Payments for investments in financial assets measured at FVPL		(290,000)	(1,300,000)	(2,761,573)
Proceeds from disposal of financial assets measured at FVPL		–	1,594,645	2,763,105
Payments for purchase of listed equity securities		–	(15,200)	–
Payment for investment in an associate		–	(12,600)	(12,600)
Dividends received from listed equity securities		–	247	309
Proceeds received from disposal of property, plant and equipment		8,110	1,031	61,283
Net cash (used) in/generated from investing activities		(1,109,599)	(1,682,992)	29,794

	Note	Years ended 31 December		
		2022	2023	2024
		RMB'000	*RMB'000*	*RMB'000*
Financing activities				
Proceeds from bank loans	*19(c)*	1,897,029	2,682,215	3,100,917
Proceeds from borrowings under sale and leaseback transactions	*19(c)*	159,239	691,914	379,556
Repayments of bank loans..........	*19(c)*	(1,499,069)	(1,123,929)	(3,792,158)
Payments for capital element of obligations arising from sale and leaseback transactions	*19(c)*	(63,305)	(256,699)	(478,177)
Repurchase of convertible bonds	*19(c)*	(971,386)	(3,047,989)	–
Interest paid	*19(c)*	(311,471)	(257,897)	(105,172)
Other borrowing costs paid		(38,560)	(3,854)	(13,907)
Net advance from/(repayment to) related parties	*19(c)*	2,369,734	(1,225,814)	–
Payment for acquisition of a subsidiary under common control...		(1,841,563)	–	–
Deposits paid for sale and leaseback transactions		(7,500)	(9,000)	(375)
Proceeds from capital contribution from shareholders		38,000	1,630,000	–
Deemed contribution from a shareholder		–	2,312,320	–
Payment for acquisition of non-controlling interests		–	(35,450)	–
Capital element of lease rentals paid ..	*19(c)*	(36,806)	(35,452)	(35,829)
Interest element of lease rentals paid..	*19(c)*	(7,917)	(6,074)	(6,508)
Listing expenses paid		–	–	(19,013)
Net cash (used in)/generated from financing activities		(313,575)	1,314,291	(970,666)
Net (decrease)/increase in cash and cash equivalents		(262,208)	949,405	(440,340)
Cash and cash equivalents at 1 January		1,232,268	971,510	1,920,158
Effect of foreign exchange rate changes		1,450	(757)	992
Cash and cash equivalents at 31 December..................	*19(a)*	971,510	1,920,158	1,480,810

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

Sunshine Lake Pharma Co., Ltd. (廣東東陽光藥業股份有限公司, "the Company"), formerly known as Sunshine Lake Pharma Ltd. (廣東東陽光藥業有限公司), was established as a limited liability company in Dongguan City, Guangdong Province, the People's Republic of China (the "PRC") on 29 December 2003.

On 19 June 2023, the Company was converted into a joint stock limited liability company and with a registered capital of RMB450,000,000 in preparation for the listing of the Company's H shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Upon completion of this conversion, the Company changed its name to Sunshine Lake Pharma Co., Ltd..

The Company and its subsidiaries (together, the "Group") are principally engaged in the research and development, manufacturing and sales of pharmaceuticals. As of the date of this report, the Company has direct or indirect interests in the subsidiaries, principal of which are set out in Note 14.

All companies comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"). Further details of the material accounting policy information adopted are set out in Note 2.

The IASB has issued a number of new and revised IFRS Accounting Standards. For the purpose of preparing this Historical Financial Information, the Group has adopted all applicable new and revised IFRS Accounting Standards to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting year beginning on 1 January 2024. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning 1 January 2024 are set out in Note 35.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Historical Financial Information is presented in Renminbi ("RMB"), rounded to the nearest thousand, unless otherwise indicated except per share data.

2 MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the financial assets and derivative financial instruments are stated at fair value as explained in Note 2(q).

(b) Use of estimates and judgements

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

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

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

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, 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. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statements 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 non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

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

(d) Associates

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.

An interest in an associate is accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequently, the Historical Financial Information include the Group's share of the profit or loss and other comprehensive income of those investees, until the date on which significant influence ceases.

When the Group's share of losses exceeds its interest in the associate, 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, after applying the ECL model to such other long-term interests where applicable (see Note 2(j)(i)).

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 is stated at cost less impairment losses (see Note 2(j)(ii)).

(e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as of the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(f) Other investments in equity securities

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

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 25.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at fair value through other comprehensive income (FVOCI) (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as of FVPL or FVOCI, are recognised in profit or loss as other income.

(g) Property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)):

- Plant and buildings held for own use which are situated on leasehold land (see Note 2(i)); and
- Other items of property, plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(x)).

Construction in progress is transferred to respective items under property, plant and equipment when it is ready for its intended use. No depreciation is provided against construction in progress.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Plant and buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion

– Machinery	5 – 15 years
– Motor vehicles	5 – 10 years
– Office equipment and others	5 – 15 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets (other than goodwill) and research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads. Other development expenditure is recognised as an expense in the period in which it is incurred.

Development cost under intangible assets is transferred to respective items under intangible assets when it is ready for its intended use. No amortisation is provided against development cost.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Patents	10 – 13 years
– Generic drug intellectual property rights	10 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(i) Lease assets

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

As a lessee

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

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 calculated 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 hence are charged to profit or loss in the accounting period in which they are 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 plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Note 2(j)(ii)). The right-of-use asset is depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in debt securities carried at amortised cost. Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to 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 change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of IFRS 16, *Leases*. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

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

For sale and leaseback transactions, the Group considers whether the initial transfer of the underlying asset to the buyer-lessor is a sale. The Group applies IFRS 15 to determine whether a sale has taken place.

When the transfer to buyer-lessor is a sale, the Group derecognises the underlying asset and applies the lessee accounting model to the leaseback — the Group measures the right-of-use asset at the retained portion of the previous carrying amount (i.e. at cost), and recognises only the amount of any gain or loss related to the rights transferred to the lessor.

When the transfer to buyer-lessor is not a sale, the Group continues to recognise the underlying asset, and recognises a financial liability for any amount received from the buyer-lessor.

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments

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

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

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

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, current market conditions and forward-looking information. According to the past experience of the Group, the loss patterns for different customers are not significantly different. Therefore, the receivables are not segmented when calculating the loss allowance.

For all other financial instruments, 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

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower 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 (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

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, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with Note 2(w)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

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 delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation; or
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

Write-off policy

The gross carrying amount of a financial asset is written-off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the asset becomes 365 days past due or when the Group 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

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Property, plant and equipment;
- Right-of-use assets;
- Intangible assets;
- Interests in an associate;
- Goodwill;
- Prepayments; and
- Investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

- *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if measurable).

- *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(k) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realisable value.

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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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

A right to recover returned goods is recognised for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in Note 2(w)(i).

(l) Contract liabilities

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(w)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see Note 2(m)).

(m) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if 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 using the effective interest method and including allowance for credit losses (see Note 2(j)(i)).

(n) Shares issued

Shares issued are classified as equity if they bear discretionary dividends, do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of the Group's equity instruments. Discretionary dividends on such shares issued are recognised as distributions within equity.

A financial liability is recognised if the Group has the obligation to redeem any equity instruments issued on a specific date or at the option of the shareholders (including the options that are only exercisable in case of occurrence of certain contingent triggering events). The liability is recognised and measured at the present value of the exercise price.

(o) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

(p) Convertible bonds

Convertible bonds that can be converted into ordinary shares at the option of the holder, where a fixed number of shares are issued for a fixed amount of cash or other financial assets, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the host liability component. Transaction costs that relate to the issue of the convertible note are allocated to the host liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the host liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured at fair value. The host liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the host liability component is calculated using the effective interest method.

If the bonds are converted, the shares issued are measured at fair value and any difference between the fair value of shares issued and the carrying amounts of the derivative and liability components are recognised in profit or loss. If the bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

(q) Derivative financial instruments

Derivative financial instruments are recognised at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(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.

(s) Cash and cash equivalents

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

(t) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Annual contributions to retirement benefit schemes operated by the government in the PRC are recognised in the profit or loss as and when 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 fair value of share-based payments awards granted to employees is recognised as an employee cost with a corresponding increase in share-based payment reserve within equity. The fair value is measured at grant date with reference to the price per share in the latest equity financing transaction or fair value valuation techniques, taking into account the terms and conditions upon which the share-based payments awards were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the shares, the total estimated fair value of share-based payments awards is spread over the vesting period, taking into account the probability that the shares will vest.

During the vesting period, the number of shares that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior periods is charged/credited to the profit or loss for the period of the review with a corresponding adjustment to the share-based payment reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of shares that vest (with a corresponding adjustment to the share-based payment reserve).

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(u) Income tax

Income tax for the period comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the period 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 investments in subsidiaries and associates 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; and

- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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.

(w) 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 goods 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:

(x) 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.

Sale of goods

Revenue is recognised once the products delivered to the location designated by the distributor and accepted as the control of the goods are considered to have been transferred to the distributor. 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.

The Group typically offers sales rebates to customers when their purchase amount or settlement amount during the period reaches certain agreed thresholds. Such rights of sales rebates give rise to variable consideration. The Group calculates variable consideration according to the rebate bases and the rebate ratios which are stipulated in the sales contracts. At the time of sale of goods, the Group recognises revenue after taking into account the adjustment to transaction price arising from the aforementioned sales rebates.

(ii) Revenue from other sources and other income

(a) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see Note 2(j)(i)).

(b) Government grants

Government grants are recognised in the statements 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 periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset by way of recognised in other income.

(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.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of each reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

(z) Segment reporting

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

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

3 ACCOUNTING ESTIMATES AND JUDGEMENTS

The key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Impairments

(i) In considering the impairment losses that may be required for certain property, plant and equipment, intangible assets, goodwill, interests in leasehold land held for own use and prepayments, the recoverable amount of these assets needs to be determined. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate the fair value less costs of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as revenue and operating costs.

(ii) The Group estimates the loss allowances for trade and bills receivables by assessing the ECLs. This requires the use of estimates and judgements. ECLs are based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, and an assessment of both the current and forecast general economic conditions at the end of the reporting period. Where the estimation is different from the original estimate, such difference will affect the carrying amounts of trade and bills receivables and thus the impairment loss in the period in which such estimate is changed. The Group keeps assessing the ECLs of trade and bills receivables during their expected lives.

(b) Development costs

Development costs are capitalised in accordance with the accounting policy for research and development ("R&D") costs in Note 2(h) to the Historical Financial Information. Critical judgement by the Group's management is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the best information available at the end of the reporting period. In addition, all internal activities related to the R&D of new products are continuously monitored by the Group's management.

(c) Recognition of deferred tax assets

Deferred tax assets in respect of tax losses carried forward and deductible temporary differences are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the relevant assets and liabilities, using tax rates enacted or substantively enacted at the end of each reporting date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires a significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

4 REVENUE

(a) Revenue

The principal activities of the Group are research and development, manufacturing and sales of pharmaceuticals.

Revenue represents the sales value of goods supplied to customers. Revenue is after deduction of any trade discounts. The amount of each significant category of revenue is as follows:

	Years ended 31 December		
	2022	2023	2024
	RMB'000	*RMB'000*	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15			
Sales of anti-infective drugs	3,242,508	5,745,811	2,797,632
Sales of chronic disease treatment drugs	517,258	580,743	1,067,707
Others	53,800	59,062	153,566
	3,813,566	6,385,616	4,018,905

The Group's customer base is diversified and includes three, three, and three customers with whom transactions have exceeded 10% of the Group's revenue for the years ended 31 December 2022, 2023 and 2024, including sales to entities which are known to the Group to be under common control which being treated as a single customer. Revenue from these customers was amounted to RMB2,219,873,000, RMB3,748,539,000, and RMB1,979,757,000 for the years ended 31 December 2022, 2023 and 2024 respectively. Details of concentrations of credit risk arising from these customers are set out in Note 30(a).

The aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contract mainly related to the license transfer contract of the Group. The remaining performance obligations are expected to be recognised as revenue in the future performance period according to the corresponding drug research and development progress.