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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING BIOSTAR PHARMACEUTICALS CO., LTD., CCB INTERNATIONAL CAPITAL LIMITED AND CHINA SECURITIES (INTERNATIONAL) CORPORATE FINANCE COMPANY LIMITED

Introduction

We report on the historical financial information of Beijing Biostar Pharmaceuticals Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages I - 4 to I - 59, which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at December 31, 2022, 2023 and May 31, 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 December 31, 2022, 2023 and the five months ended May 31, 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 - 59 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 23 October 2024 (the "Prospectus") 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 the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation 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 at December 31, 2022, 2023 and May 31, 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.

Review of stub period corresponding financial information

We have reviewed the stub period corresponding financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended May 31, 2023 and other explanatory information (the "Stub Period Corresponding Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Corresponding Financial Information in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Corresponding Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Corresponding Financial Information, for the purpose of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.



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

Certified Public Accountants

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23 OCT 2024



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 Huazhen LLP Chengdu Branch in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").



CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(Expressed in RMB)

	Note	Year ended December 31,		Five months ended May 31,	
		2022	2023	2023	2024
		RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	4	32,820	66,635	27,047	28,564
Cost of sales		<u>(8,940)</u>	<u>(19,810)</u>	<u>(8,712)</u>	<u>(4,269)</u>
Gross profit		23,880	46,825	18,335	24,295
Other net income	5	51,376	31,694	14,758	11,436
Selling and distribution expenses		(97,910)	(95,397)	(42,672)	(29,278)
Administrative expenses		(51,501)	(43,900)	(16,078)	(19,941)
Research and development expenses		(82,739)	(126,537)	(58,180)	(43,825)
(Impairment loss)/reversal of impairment loss on trade and other receivables		(1,211)	1,284	711	(22)
Other operating expenses		<u>(2,335)</u>	<u>(3,556)</u>	<u>(274)</u>	<u>(93)</u>
Loss from operations		(160,440)	(189,587)	(83,400)	(57,428)
Finance costs	6(a)	<u>(71)</u>	<u>(57)</u>	<u>(29)</u>	<u>(25)</u>
Loss before taxation	6	(160,511)	(189,644)	(83,429)	(57,453)
Income tax	7(a)	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loss for the year/period attributable to equity shareholders of the Company		<u>(160,511)</u>	<u>(189,644)</u>	<u>(83,429)</u>	<u>(57,453)</u>
Loss per share	10				
Basic and diluted		<u>(0.46)</u>	<u>(0.54)</u>	<u>(0.24)</u>	<u>(0.16)</u>

The accompanying notes form part of the Historical Financial Information.



CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in RMB)

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Loss for the year/period	(160,511)	(189,644)	(83,429)	(57,453)
Other comprehensive income for the year/period (with nil tax effect)				
<i>Item that may be reclassified subsequently to profit or loss:</i>				
<i>Exchange differences on translation of financial statements of an overseas subsidiary</i>	<u>(826)</u>	<u>476</u>	<u>481</u>	<u>107</u>
Total comprehensive income for the year/period attributable to equity shareholders of the Company	<u>(161,337)</u>	<u>(189,168)</u>	<u>(82,948)</u>	<u>(57,346)</u>

The accompanying notes form part of the Historical Financial Information.



CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in RMB)

	Note	As at December 31,		As at May 31,
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	11	102,902	122,710	148,254
Right-of-use assets	12	14,862	13,477	14,391
Intangible assets	13	2,832	1,627	1,125
Rental deposits		1,072	1,000	1,042
		121,668	138,814	164,812
Current assets				
Inventories	14	31,109	27,267	31,161
Trade and other receivables	15(a)	38,950	15,947	17,727
Prepayments	16	5,348	14,300	13,557
Financial assets measured at fair value through profit or loss ("FVPL")	17	444,991	235,611	130,216
Fixed deposits with banks	18(a)	224,166	302,318	338,958
Cash and cash equivalents	18(a)	60,106	38,087	35,927
		804,670	633,530	567,546
Current liabilities				
Trade and other payables	19	39,608	42,987	54,346
Amounts due to related parties	28(d)	188	24	9
Provision	24	10,838	—	—
Lease liabilities	20	1,091	732	1,445
		51,725	43,743	55,800
Net current assets		752,945	589,787	511,746
Total assets less current liabilities		874,613	728,601	676,558
Non-current liabilities				
Lease liabilities	20	813	167	763
Deferred income	21	1,525	820	589
Other payables	19	4,350	4,453	4,692
		6,688	5,440	6,044
NET ASSETS		867,925	723,161	670,514
CAPITAL AND RESERVES				
Share capital	25(c)	350,000	350,000	350,000
Reserves		517,925	373,161	320,514
TOTAL EQUITY		867,925	723,161	670,514

The accompanying notes form part of the Historical Financial Information.



STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

(Expressed in RMB)

	Note	As at December 31,		As at May 31,
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment		910	832	796
Right-of-use assets	12	2,048	966	2,006
Intangible assets	13	2,493	1,343	865
Investments in subsidiaries	1(b)	472,676	504,311	506,202
Rental deposits		729	729	729
Amounts due from related parties		—	453,341	458,015
		478,856	961,522	968,613
Current assets				
Other receivables	15(a)	1,018	2,017	2,522
Prepayments	16	3,499	8,102	6,906
Amounts due from related parties		300,949	—	—
Financial assets measured at FVPL	17	259,105	50,099	25,000
Fixed deposits with banks	18(a)	224,165	238,575	239,781
Cash and cash equivalents	18(a)	21,388	28,640	22,688
		810,124	327,433	296,897
Current liabilities				
Trade and other payables	19	15,211	15,579	8,872
Amounts due to related parties		113	—	—
Lease liabilities	20	1,091	732	1,445
		16,415	16,311	10,317
Net current assets		<u>793,709</u>	<u>311,122</u>	<u>286,580</u>
Total assets less current liabilities		1,272,565	1,272,644	1,255,193
Non-current liabilities				
Lease liabilities	20	813	167	763
		813	167	763
NET ASSETS		<u>1,271,752</u>	<u>1,272,477</u>	<u>1,254,430</u>
CAPITAL AND RESERVES				
Share capital	25(c)	350,000	350,000	350,000
Reserves		921,752	922,477	904,430
TOTAL EQUITY		<u>1,271,752</u>	<u>1,272,477</u>	<u>1,254,430</u>

The accompanying notes form part of the Historical Financial Information.



CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in RMB)

	<i>Note</i>	<u>Share capital</u> <i>RMB'000</i>	<u>Capital reserves</u> <i>RMB'000</i>	<u>Exchange reserve</u> <i>RMB'000</i>	<u>Accumulated losses</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
Balance at January 1, 2022 . . .		350,000	972,053	—	(378,187)	943,866
Changes in equity for 2022						
Loss for the year		—	—	—	(160,511)	(160,511)
Exchange differences on translation of financial statements of an overseas subsidiary		—	—	(826)	—	(826)
Total comprehensive income		—	—	(826)	(160,511)	(161,337)
Equity-settled share-based payment	22(d)	—	80,736	—	—	80,736
Consideration received for restricted share units (“RSUs”) granted by the Company		—	4,660	—	—	4,660
Balance at December 31, 2022 .		<u>350,000</u>	<u>1,057,449</u>	<u>(826)</u>	<u>(538,698)</u>	<u>867,925</u>
Balance at January 1, 2023 . . .		350,000	1,057,449	(826)	(538,698)	867,925
Changes in equity for 2023						
Loss for the year		—	—	—	(189,644)	(189,644)
Exchange differences on translation of financial statements of an overseas subsidiary		—	—	476	—	476
Total comprehensive income		—	—	476	(189,644)	(189,168)
Equity-settled share-based payment	22(d)	—	44,404	—	—	44,404
Balance at December 31, 2023 .		<u>350,000</u>	<u>1,101,853</u>	<u>(350)</u>	<u>(728,342)</u>	<u>723,161</u>



	<i>Note</i>	<u>Share capital</u>	<u>Capital reserves</u>	<u>Exchange reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)						
Balance at January 1, 2023 . . .		350,000	1,057,449	(826)	(538,698)	867,925
Changes in equity for the five months ended May 31, 2023						
Loss for the period		—	—	—	(83,429)	(83,429)
Exchange differences on translation of financial statements of an overseas subsidiary		—	—	481	—	481
Total comprehensive income		—	—	481	(83,429)	(82,948)
Equity-settled share-based payment	22(d)	—	24,426	—	—	24,426
Balance at May 31, 2023		<u>350,000</u>	<u>1,081,875</u>	<u>(345)</u>	<u>(622,127)</u>	<u>809,403</u>
Balance at January 1, 2024 . . .		350,000	1,101,853	(350)	(728,342)	723,161
Changes in equity for the five months ended May 31, 2024						
Loss for the period		—	—	—	(57,453)	(57,453)
Exchange differences on translation of financial statements of an overseas subsidiary		—	—	107	—	107
Total comprehensive income		—	—	107	(57,453)	(57,346)
Equity-settled share-based payment	22(d)	—	4,699	—	—	4,699
Balance at May 31, 2024		<u>350,000</u>	<u>1,106,552</u>	<u>(243)</u>	<u>(785,795)</u>	<u>670,514</u>

The accompanying notes form part of the Historical Financial Information.



CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in RMB)

	Note	Year ended December 31,		Five months ended May 31,	
		2022 RMB'000	2023 RMB'000	2023 RMB'000 (unaudited)	2024 RMB'000
Operating activities					
Net cash used in operating activities	18(b)	(79,438)	(149,332)	(69,053)	(51,014)
Investing activities					
Payment for the purchase of property, plant and equipment		(31,861)	(27,840)	(9,735)	(28,760)
Payment for the addition of intangible assets		(817)	—	—	—
Payment for investment in financial assets measured at FVPL	26(e)	(717,000)	(535,000)	(85,000)	(210,000)
Proceeds from redemption of financial assets measured at FVPL		819,814	753,477	265,742	317,483
Placement of fixed deposits with banks		(250,632)	(435,801)	(150,440)	(212,686)
Proceeds from redemption of fixed deposits with banks		<u>33,708</u>	<u>374,993</u>	<u>117,734</u>	<u>183,198</u>
Net cash (used in)/generated from investing activities		(146,788)	129,829	138,301	49,235
Financing activities					
Proceeds of net advances from a related party	18(c)	70	—	—	9
Repayment of net advances to a related party	18(c)	—	(68)	(68)	—
Capital element of lease rentals paid	18(c)	(1,126)	(1,005)	(269)	(194)
Interest element of lease rentals paid	18(c)	(71)	(57)	(29)	(25)
Consideration received for RSUs granted by the Company		<u>4,660</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net cash generated from/(used in) financing activities		<u>3,533</u>	<u>(1,130)</u>	<u>(366)</u>	<u>(210)</u>
(Decrease)/increase in cash and cash equivalents		(222,693)	(20,633)	68,882	(1,989)
Cash and cash equivalents at January 1	18(a)	268,415	60,106	60,106	38,087
Effect of foreign exchange rate changes		<u>14,384</u>	<u>(1,386)</u>	<u>(3,198)</u>	<u>(171)</u>
Cash and cash equivalents at December 31/May 31	18(a)	<u><u>60,106</u></u>	<u><u>38,087</u></u>	<u><u>125,790</u></u>	<u><u>35,927</u></u>

The accompanying notes form part of the Historical Financial Information.



NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Renminbi unless otherwise stated)

1 BASIS OF PREPARATION AND PRESENTATION OF THE HISTORICAL FINANCIAL INFORMATION

(a) General Information

Beijing Biostar Pharmaceuticals Co., Ltd. (the “Company”) was incorporated in the People’s Republic of China (the “PRC”) on July 11, 2002 as a limited liability company under the Companies Law of the PRC and was converted from a limited liability company into a joint stock company with limited liability on May 8, 2021.

The Company and its subsidiaries (together as the “Group”) are principally engaged in the research and development (“R&D”), manufacturing and sale of innovative drugs.

The financial statements of the Company for the year ended December 31, 2022 have been audited by KPMG Huazhen LLP. As at the date of this report, no audited financial statements have been prepared for the Company for the year ended December 31, 2023 and the five months ended May 31, 2024.

(b) Subsidiaries

As at May 31, 2024, the Company has direct interests in its subsidiaries, all of which are private limited liability companies and the particulars of which are set out below:

<u>Company name</u>	<u>Place and date of incorporation/ establishment/ operation</u>	<u>Particulars of issued and paid-in capital</u>	<u>Proportion of ownership interest directly held by the Company</u>	<u>Principal activities</u>
Chengdu Biostar Pharmaceuticals Co., Ltd. 成都華昊中天藥業有限公司 (notes (i) and (ii))	the PRC/ January 26, 2015	RMB200,000,000/ RMB200,000,000	100%	Pharmaceutical production, research and development, and sales and marketing of pharmaceutical products
Biostar Pharma, Inc. (note (ii))	the United States of America (the “USA”)/ April 27, 2022	USD4,000,000/ USD4,000,000	100%	Pharmaceutical research and development

Notes:

- (i) The entity is a limited liability company under the law of the PRC. The official name of the entity is in Chinese. The English translation of the name is for reference only.
- (ii) No audited financial statements have been prepared.

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

(c) Basis of preparation

The Historical Financial Information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). Further details of the material accounting policy information are set out in Note 2.



The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing the Historical Financial Information, the Group has adopted all applicable new and revised HKFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting period ended May 31, 2024. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended May 31, 2024 are set out in Note 30.

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 “Stock Exchange”).

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

The Stub Period Corresponding Financial Information has been prepared in accordance with the same basis of preparation and presentation adopted in respect of the Historical Financial Information.

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

2 MATERIAL ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except those assets and liabilities are stated at their fair value as explained in the accounting policies set out below.

(b) Use of estimates and judgments

The preparation of the Historical Financial Information in conformity with HKFRSs 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 HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

(c) Subsidiaries

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. 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.

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 non-controlling interests 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(h)(ii)), unless it is classified as held for sale (or included in a disposal group classified as held for sale).

(d) Other investments

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

Investments 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 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 26(e). These investments are subsequently accounted for as follows, depending on their classification.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Expected credit losses, interest income calculated using the effective interest method (see Note 2(q)(ii)), foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
- fair value through other comprehensive income (FVOCI) — recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses are recognised in profit or loss and computed in the same manner as if the financial asset was measured at amortised cost. The difference between the fair value and the amortised cost is recognised in other comprehensive income. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value through profit or loss if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

(e) Property, plant and equipment

Property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses (see Note 2(h)(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 value, if any, using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.



The estimated useful lives and residual value rates for the reporting periods are as follows:

	<u>estimated useful lives</u>	<u>residual value rate</u>
— Buildings	20 years	5%
— Machinery and equipment	5–10 years	5–10%
— Vehicles	4–5 years	5–10%
— Furniture, fixtures and others	3–5 years	5–10%

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

Construction in progress represents plant and buildings under construction and equipment pending installation and is stated at cost less impairment losses (see Note 2(h)(ii)). Construction in progress is transferred to property, plant and equipment when it is ready for its intended use. No depreciation is provided against construction in progress.

(f) Intangible assets

Intangible assets, including intellectual properties and softwares, 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(h)(ii)).

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, if any, and is generally recognised in profit or loss.

The estimated useful lives for the reporting periods based on the Group's past experiences and different purposes of usage of the assets and the authorised period for such usage are as follows:

— Intellectual properties	2.75–12 years
— Softwares	3–10 years

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

(g) 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.

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 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 Note 2(h)(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 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 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 principal portion of contractual payments that are due to be settled within twelve months after the reporting period.

(h) 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 following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade receivables 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 and 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.

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 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.

Significant increases in credit risk

When determining whether the credit risk of a financial instrument 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 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, except for investments in non-equity 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).

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 borrower will enter into bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.



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 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

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than property carried at revalued amounts, investment property, inventories and other contract costs, contract assets and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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 and its fair value less costs of disposal. Value in use 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.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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.

(i) Inventories

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

Cost is calculated using the first in first out 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. Low value consumables, packaging materials, and other turnover materials are amortised using the one-time amortisation method and included in the cost of relevant assets or current profit and loss.

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.

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.

(j) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(q)(i)). A contract liability would also be 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 would also be recognised (see Note 2(k)).



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

(k) 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 (see Note 2(h)(i)).

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks, 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 ECLs (see Note 2(h)(i)).

(m) 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.

(n) 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.

(ii) Share-based payments

The grant-date fair value of equity-settled share-based payment arrangements (i.e. restricted shares) granted to employees is recognised as an expense, with a corresponding increase in 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 and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(o) Income tax

Income tax 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 other comprehensive income.

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.

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.

(p) 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.

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.

(q) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services.



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. Revenue excludes value added tax or other sales taxes.

Revenue from sales of goods

The Group recognises revenue of the sales contract between the Group and its customers at a point in time when the customer obtains control of the relevant goods. The Group fulfils its performance obligations in accordance with the provisions of the contract. Generally, when the product is transported to the location designated by the sales customer and accepted by the customer, control of the product is deemed to have been transferred to the customer, and the Group recognises revenue accordingly.

Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers. Unless special approval granted, the Group generally provides credit terms to customers within 90 days upon customer acceptance.

The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 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.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using 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. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired).

(iii) 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 periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised as deferred income and subsequently recognised in profit or loss over the useful life of the assets.

(r) 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 other comprehensive income and accumulated in the exchange reserve, except to the extent that the translation difference is allocated to non-controlling interests.



(s) Research and development expenses

Research and development expenses comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Because of the nature of the Group's research and development activities, the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(t) Related parties

- (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.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, 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 JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) *Research and development expenses*

Development expenses incurred on the Group's pipelines are capitalised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development.

Development expenses which do not meet these criteria are expensed when incurred. Management will assess the progress of each of the research and development projects and determine the criteria met for capitalisation. During the reporting periods, the Group's development expenditures incurred did not meet these capitalisation principles for any products and were expensed as incurred.

(ii) *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 period. 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.

(b) Sources of estimation uncertainty

Note 22 contains information about the assumptions relating to equity-settled share-based transactions. Other significant sources of estimation uncertainty are as follows:

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expenses to be recorded during the reporting periods. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.



4 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activity of the Group is R&D, manufacturing and sale of innovative drugs.

(i) Disaggregation of revenue

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

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Revenue from contracts with customers within the scope of HKFRS 15				
Sales of goods	<u>32,820</u>	<u>66,635</u>	<u>27,047</u>	<u>28,564</u>

During the Track Record Period, the Group recognised its revenue from contracts with customers at a point in time in accordance with the accounting policies as set forth in Note 2(q).

The Group's customer base includes three, one, one (unaudited) and nil customers with whom transactions have exceeded 10% of the Group's revenues for the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024 respectively. Revenues from these customers amounted to approximately RMB16,170,000, RMB8,047,000, RMB6,263,000 (unaudited) and nil for the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024 respectively, details of concentrations of credit risk arising from these customers are set out in Note 26(a).

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at December 31, 2022, 2023 and May 31, 2024, there is no remaining performance obligation under the Group's existing contracts.

(b) Segment reporting

(i) Segment information

The Group manages its businesses as a whole in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment.

Accordingly, no reportable segment information is presented.

(ii) Geographic information

No geographical information is presented as the revenue and loss from operations of the Group are substantially derived from activities in the PRC and all of its non-current assets and capital expenditure are located/incurred in the PRC.



5 OTHER NET INCOME

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest income from bank deposits . .	3,341	13,138	5,120	6,653
Net foreign exchange gains	19,602	4,652	1,605	1,074
Government grants (Note (i))	10,467	4,586	511	1,531
Net realised and unrealised gains on investments in financial assets measured at FVPL	10,848	9,097	7,521	2,088
Compensation from suppliers	7,010	220	—	90
Others	108	1	1	—
	<u>51,376</u>	<u>31,694</u>	<u>14,758</u>	<u>11,436</u>

Note:

- (i) Government grants mainly include rewards received from local governments for the Group's IPO application and grants received to encourage the Group for talent introduction and innovation. There are no unfulfilled conditions attaching to these government grants.

6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest expenses on lease liabilities (Note 18(c))	<u>71</u>	<u>57</u>	<u>29</u>	<u>25</u>

(b) Staff costs

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, wages, bonuses and other benefits	63,412	69,624	23,585	26,960
Contributions to defined contribution retirement plan	5,247	6,291	2,557	3,112
Equity-settled share-based payment expenses* (Note 22(d))	<u>80,736</u>	<u>44,404</u>	<u>24,426</u>	<u>4,699</u>
	<u>149,395</u>	<u>120,319</u>	<u>50,568</u>	<u>34,771</u>

* For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, equity-settled share-based payment expenses include RMB2,315,000, RMB1,187,000, RMB418,000 (unaudited) and RMB262,000 respectively recognised in inventories.



(c) Other items

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Depreciation charge				
— property, plant and equipment (Note 11)	7,962	8,032	3,485	3,216
— right-of-use assets (Note 12)	1,364	1,385	577	589
Amortisation charge of intangible assets (Note 13)	1,176	1,205	311	502
Listing expenses	—	5,409	—	9,062
Research and development expenses* .	82,739	126,537	58,180	43,825
Cost of inventories [#] (Note 14)	4,394	15,819	6,864	3,161

* For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, research and development expenses include RMB42,601,000, RMB36,705,000, RMB15,364,000 (unaudited) and RMB11,522,000 respectively relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each types of these expenses.

[#] For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, cost of inventories includes RMB4,038,000, RMB13,224,000, RMB4,714,000 (unaudited) and RMB1,877,000 respectively relating to staff costs, depreciation and amortisation expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each types of these expenses.

7 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(a) Taxation in the consolidated statements of profit or loss represents:

(i) PRC Corporate Income Tax

Effective from January 1, 2008, the PRC statutory income tax rate is 25% under the PRC Corporate Income Tax Law. The Group's subsidiaries in the PRC are subject to PRC income tax at 25% unless otherwise specified.

According to the PRC Corporate Income Tax Law and its relevant regulations, entities qualified as a high-technology enterprise ("HNTE") are entitled to a preferential income tax rate of 15%. The Company obtained its certificate of HNTE on December 17, 2021, with a validity period of three years. The Company is entitled to a preferential income tax rate of 15% during the Track Record Period.

According to Announcement No. 23 of the Ministry of Finance in 2020, from January 1, 2021 to December 31, 2030, enterprise income tax will be levied at a reduced rate of 15% on encouraged industrial enterprises located in the western region ("Western Development"). Encouraged industrial enterprises refer to those listed in the Catalogue of Encouraged Industries in the Western Region. The industrial projects specified in the regulations are mainly engaged in business, and their main business income accounts for more than 70% of the total revenue of the enterprise. The Group's subsidiary in the PRC applies a preferential income tax rate of 15% for the Western Development during the Track Record Period.



(ii) *USA Corporate Income Tax*

Pursuant to the income tax rules and regulations of the United States, the Group's subsidiary in the United States was liable to United States federal income tax determined by income ranges and state income tax for the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024. The Group's subsidiary in the United States did not have assessable profits during the Track Record Period.

(b) **Reconciliation between tax expense and accounting loss at applicable tax rates**

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Loss before taxation	<u>(160,511)</u>	<u>(189,644)</u>	<u>(83,429)</u>	<u>(57,453)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned . .	(40,128)	(47,411)	(20,857)	(14,364)
Effect of preferential income tax rates	16,052	18,964	8,343	5,745
Tax effect of non-deductible expenses	4,277	791	192	259
Tax effect of unused tax losses not recognised	26,320	37,702	18,594	12,998
Tax effect of bonus deduction for research and development expenses (note (i))	<u>(6,521)</u>	<u>(10,046)</u>	<u>(6,272)</u>	<u>(4,638)</u>
Actual tax expense	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

(i) An additional 100% of qualified research and development expenses incurred is allowed to be deducted from taxable income under the PRC income tax laws and its relevant regulations.



8 DIRECTORS' EMOLUMENTS

Directors' emoluments are as follows:

	Year ended December 31, 2022					Total RMB'000
	Directors' fee RMB'000	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Share-based payments	
		RMB'000	RMB'000	RMB'000	RMB'000	
Executive Directors						
Mrs. Tang Li (唐莉)	—	1,305	298	—	42,615	44,218
Mr. Qiu Rongguo (邱榮國)	—	1,297	300	—	—	1,597
Mr. Nie Xiuqing (聶秀清) (resigned in March 2022)	—	428	—	15	3,548	3,991
Mr. Xie Heng (謝恆) (appointed in March 2022)	—	2,227	486	—	2,923	5,636
Mr. Zhang Cheng (張成)	—	567	119	17	3,276	3,979
Independent Non-executive Directors						
Ms. Li Xinyu (李心愉) (resigned in March 2022)	25	—	—	—	—	25
Mr. Wang Lixin (王立新)	100	—	—	—	—	100
Mr. Meng Songdong (孟頌東) (appointed in March 2022)	75	—	—	—	—	75
Ms. Xu Yanfang (許艷芳) (appointed in March 2022)	75	—	—	—	—	75
Non-executive Directors						
Mr. Zhu Pai (朱濤)	—	—	—	—	—	—
Mr. Li Yupeng (李宇鵬)	—	—	—	—	—	—
Supervisors						
Mr. Zhang Shufeng (張樹豐)	—	—	—	—	—	—
Ms. Zhou Quan (周奎)	—	247	31	13	305	596
Mr. Kong Rixiang (孔日祥)	—	446	87	26	3,276	3,835
	<u>275</u>	<u>6,517</u>	<u>1,321</u>	<u>71</u>	<u>55,943</u>	<u>64,127</u>



Year ended December 31, 2023

	Salaries, allowances and benefits in kind					Total
	Directors' fee		Discretionary bonuses	Retirement scheme contributions	Share-based payments	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Mrs. Tang Li (唐莉)	—	1,622	294	—	18,488	20,404
Mr. Qiu Rongguo (邱榮國) . . .	—	1,604	296	—	—	1,900
Mr. Xie Heng (謝恆) (resigned in March 2023) (Note (ii)) . . .	—	535	234	—	—	769
Mr. Zhang Cheng (張成)	—	594	141	41	4,279	5,055
Mr. Guan Jin (關津) (appointed in March 2023)	—	977	287	128	517	1,909
Independent Non-executive Directors						
Mr. Wang Lixin (王立新)	150	—	—	—	—	150
Mr. Meng Songdong (孟頌東)	150	—	—	—	—	150
Ms. Xu Yanfang (許艷芳) (resigned in December 2023)	150	—	—	—	—	150
Mr. Ran Dong (冉棟) (appointed in December 2023)	—	—	—	—	—	—
Non-executive Directors						
Mr. Zhu Pai (朱湃)	—	—	—	—	—	—
Mr. Li Yupeng (李宇鵬) (resigned in December 2023)	—	—	—	—	—	—
Mr. Tang Jin (唐進) (appointed in December 2023) (Notes (i))	—	246	80	—	4,279	4,605
Supervisors						
Mr. Zhang Shufeng (張樹豐)	—	—	—	—	—	—
Ms. Zhou Quan (周堃)	—	254	34	34	116	438
Mr. Kong Rixiang (孔日祥)	—	398	77	128	4,279	4,882
	<u>450</u>	<u>6,230</u>	<u>1,443</u>	<u>331</u>	<u>31,958</u>	<u>40,412</u>



Five months ended May 31, 2023 (unaudited)

	Directors' fee	Salaries,	Discretionary	Retirement	Share-based	Total
		allowances and		scheme		
		benefits in	bonuses	contributions		
	RMB'000	kind	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors						
Mrs. Tang Li (唐莉)	—	622	123	—	15,559	16,304
Mr. Qiu Rongguo (邱榮國) . . .	—	616	123	—	—	739
Mr. Xie Heng (謝恆) (resigned in March 2023) (Note (ii)) . . .	—	535	234	—	—	769
Mr. Zhang Cheng (張成)	—	221	59	17	1,466	1,763
Mr. Guan Jin (關津) (appointed in March 2023)	—	415	86	26	52	579
Independent Non-executive Directors						
Mr. Wang Lixin (王立新)	63	—	—	—	—	63
Mr. Meng Songdong (孟頌東) . . .	63	—	—	—	—	63
Ms. Xu Yanfang (許艷芳)	63	—	—	—	—	63
Non-executive Directors						
Mr. Zhu Pai (朱湃)	—	—	—	—	—	—
Mr. Li Yupeng (李宇鵬)	—	—	—	—	—	—
Supervisors						
Mr. Zhang Shufeng (張樹豐)	—	—	—	—	—	—
Ms. Zhou Quan (周荃)	—	101	14	12	48	175
Mr. Kong Rixiang (孔日祥)	—	184	32	26	1,466	1,708
	<u>189</u>	<u>2,694</u>	<u>671</u>	<u>81</u>	<u>18,591</u>	<u>22,226</u>



Five months ended May 31, 2024

	Directors' fee	Salaries, allowances and	Discretionary	Retirement	Share-based	Total
		benefits in		bonuses		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Executive Directors						
Mrs. Tang Li (唐莉)	—	748	146	—	1,398	2,292
Mr. Qiu Rongguo (邱榮國) . . .	—	738	144	—	—	882
Mr. Zhang Cheng (張成)	—	233	63	18	—	314
Mr. Guan Jin (關津)	—	456	129	28	767	1,380
Independent Non-executive						
Directors						
Mr. Wang Lixin (王立新)	38	—	—	—	—	38
Mr. Meng Songdong (孟頌東) . . .	38	—	—	—	—	38
Mr. Ran Dong (冉棟)	38	—	—	—	—	38
Non-executive Directors						
Mr. Zhu Pai (朱湃)	—	—	—	—	—	—
Mr. Tang Jin (唐進)	—	106	36	—	—	142
Supervisors						
Mr. Zhang Shufeng (張樹豐)	—	—	—	—	—	—
Ms. Zhou Quan (周荃)	—	109	15	16	108	248
Mr. Kong Rixiang (孔日祥)	—	197	35	28	—	260
	<u>114</u>	<u>2,587</u>	<u>568</u>	<u>90</u>	<u>2,273</u>	<u>5,632</u>

Notes:

- (i) Mr. Tang Jin was appointed as non-executive director of the Group in December 2023 and his emoluments disclosed above represented the compensation for his services to provide guidance and advice on the human resources and administrative matters to the board of directors.
- (ii) The RSUs granted to Mr. Xie Heng in 2022 were forfeited when he resigned in March 2023.
- (iii) During the Track Record Period, no director has waived or agreed to waive any emoluments and no emoluments were paid or payable by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.



9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, of five individuals with the highest emoluments, five, three, three (unaudited), and three respectively are directors whose emoluments are disclosed in Note 8.

The aggregate of the emoluments in respect of the remaining individuals are as follows:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Salaries and other emoluments	—	935	332	762
Discretionary bonuses	—	194	81	99
Share-based payments	—	8,558	2,931	1,275
Retirement scheme contributions	—	83	51	69
	<u>—</u>	<u>9,770</u>	<u>3,395</u>	<u>2,205</u>

The emoluments of the remaining individuals with the highest emoluments are within the following bands:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>Number of</i> <i>individuals</i>	<i>Number of</i> <i>individuals</i>	<i>Number of</i> <i>individuals</i> (unaudited)	<i>Number of</i> <i>individuals</i>
HKD500,001 – HKD1,000,000	—	—	—	1
HKD1,500,001 – HKD2,000,000	—	—	2	1
HKD5,000,001 – HKD5,500,000	—	1	—	—
HKD5,500,001 – HKD6,000,000	—	1	—	—

During the Track Record Period, no emoluments were paid or payable by the Group to the above non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.



10 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year attributable to ordinary equity shareholders of the Company and the weighted average number of ordinary shares in issue during the reporting periods, calculated as follows.

(i) Loss attributable to ordinary equity shareholders of the Company used in basic loss per share calculation:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Loss for the year attributable to ordinary equity shareholders of the Company for the purpose of basic loss per share	<u>(160,511)</u>	<u>(189,644)</u>	<u>(83,429)</u>	<u>(57,453)</u>

(ii) *Weighted average number of ordinary shares*

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
			(unaudited)	
Issued ordinary shares at January 1 and weighted average number of ordinary shares at December 31/ May 31	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>	<u>350,000</u>

(b) Diluted loss per share

For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, the Company did not have any outstanding ordinary shares or potential ordinary shares with potential dilution effects. Therefore, diluted loss per share is the same as basic loss per share.



11 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Machinery and equipment	Furniture, fixtures and others	Vehicles	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:						
At January 1, 2022	67,927	21,880	15,324	1,348	2,049	108,528
Purchases	1,953	—	2,512	—	28,157	32,622
Transfer from construction in progress	2,810	—	409	—	(3,219)	—
At December 31, 2022 and January 1, 2023	<u>72,690</u>	<u>21,880</u>	<u>18,245</u>	<u>1,348</u>	<u>26,987</u>	<u>141,150</u>
Purchases	317	—	286	—	27,237	27,840
Transfer from construction in progress	390	76	1,027	—	(1,493)	—
Transfer to construction in progress	(637)	—	—	—	637	—
At December 31, 2023 and January 1, 2024	<u>72,760</u>	<u>21,956</u>	<u>19,558</u>	<u>1,348</u>	<u>53,368</u>	<u>168,990</u>
Purchases	—	—	235	—	28,525	28,760
Transfer from construction in progress	2,090	—	—	—	(2,090)	—
At May 31, 2024	<u>74,850</u>	<u>21,956</u>	<u>19,793</u>	<u>1,348</u>	<u>79,803</u>	<u>197,750</u>
Accumulated depreciation						
At January 1, 2022	(11,252)	(9,433)	(8,369)	(1,232)	—	(30,286)
Charge for the year	(3,325)	(1,796)	(2,841)	—	—	(7,962)
At December 31, 2022 and January 1, 2023	<u>(14,577)</u>	<u>(11,229)</u>	<u>(11,210)</u>	<u>(1,232)</u>	<u>—</u>	<u>(38,248)</u>
Charge for the year	(3,506)	(1,803)	(2,723)	—	—	(8,032)
Transfer to construction in progress	166	—	—	—	(166)	—
At December 31, 2023 and January 1, 2024	<u>(17,917)</u>	<u>(13,032)</u>	<u>(13,933)</u>	<u>(1,232)</u>	<u>(166)</u>	<u>(46,280)</u>
Charge for the period	(1,491)	(751)	(974)	—	—	(3,216)
At May 31, 2024	<u>(19,408)</u>	<u>(13,783)</u>	<u>(14,907)</u>	<u>(1,232)</u>	<u>(166)</u>	<u>(49,496)</u>
Net book value:						
At May 31, 2024	<u>55,442</u>	<u>8,173</u>	<u>4,886</u>	<u>116</u>	<u>79,637</u>	<u>148,254</u>
At December 31, 2023	<u>54,843</u>	<u>8,924</u>	<u>5,625</u>	<u>116</u>	<u>53,202</u>	<u>122,710</u>
At December 31, 2022	<u>58,113</u>	<u>10,651</u>	<u>7,035</u>	<u>116</u>	<u>26,987</u>	<u>102,902</u>



12 RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

The Group

	<i>Note</i>	<u>As at December 31,</u>		<u>As at May 31,</u>
		<u>2022</u>	<u>2023</u>	<u>2024</u>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Ownership interests in leasehold land held for own use, carried at depreciated cost in the PRC, with remaining lease term of:				
— between 10 and 50 years	(i)	12,814	12,511	12,385
Other properties leased for own use, carried at depreciated cost		2,048	966	2,006
		<u>14,862</u>	<u>13,477</u>	<u>14,391</u>

The Company

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other properties leased for own use, carried at depreciated cost	2,048	966	2,006

The analysis of expense items in relation to leases recognised in the consolidated financial statements is as follows:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Depreciation charge of right-of-use assets by class of underlying asset:				
Ownership interests in leasehold land	303	303	126	126
Other properties leased for own use	1,061	1,082	451	463
	<u>1,364</u>	<u>1,385</u>	<u>577</u>	<u>589</u>
Interest expenses on lease liabilities				
(Note 6(a))	71	57	29	25
Expense relating to short-term leases	490	445	173	178

For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, additions to right-of-use assets were RMB1,886,000, nil, nil (unaudited) and RMB1,503,000 respectively. These amounts are all related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in Notes 18(d) and 26(b), respectively.



(i) **Ownership interests in leasehold land held for own use**

Interests in leasehold land held for own use represent payments for land use rights of land located in Chinese Mainland where the Group's plants situate. Lump sum payments were made upfront and there are no ongoing payments to be made under the terms of the land lease in Chinese Mainland.

13 INTANGIBLE ASSETS

The Group

	Intellectual properties	Softwares	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:			
At January 1, 2022	3,322	301	3,623
Addition	<u>628</u>	<u>189</u>	<u>817</u>
At December 31, 2022, January 1, 2023, December 31, 2023, January 1, 2024 and May 31, 2024	<u>3,950</u>	<u>490</u>	<u>4,440</u>
Accumulated amortisation:			
At January 1, 2022	(378)	(54)	(432)
Charge for the year	<u>(1,133)</u>	<u>(43)</u>	<u>(1,176)</u>
At December 31, 2022 and January 1, 2023	(1,511)	(97)	(1,608)
Charge for the year	<u>(1,142)</u>	<u>(63)</u>	<u>(1,205)</u>
At December 31, 2023 and January 1, 2024	(2,653)	(160)	(2,813)
Charge for the period	<u>(476)</u>	<u>(26)</u>	<u>(502)</u>
At May 31, 2024	<u>(3,129)</u>	<u>(186)</u>	<u>(3,315)</u>
Net book value:			
At May 31, 2024	<u>821</u>	<u>304</u>	<u>1,125</u>
At December 31, 2023	<u>1,297</u>	<u>330</u>	<u>1,627</u>
At December 31, 2022	<u>2,439</u>	<u>393</u>	<u>2,832</u>



The Company

	<u>Intellectual properties</u>	<u>Softwares</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost:			
At January 1, 2022	3,322	76	3,398
Addition	<u>628</u>	<u>—</u>	<u>628</u>
At December 31, 2022, January 1, 2023, December 31, 2023, January 1, 2024 and May 31, 2024	<u>3,950</u>	<u>76</u>	<u>4,026</u>
Accumulated amortisation:			
At January 1, 2022	(378)	(15)	(393)
Charge for the year	<u>(1,133)</u>	<u>(7)</u>	<u>(1,140)</u>
At December 31, 2022 and January 1, 2023	(1,511)	(22)	(1,533)
Charge for the year	<u>(1,142)</u>	<u>(8)</u>	<u>(1,150)</u>
At December 31, 2023 and January 1, 2024	(2,653)	(30)	(2,683)
Charge for the period	<u>(475)</u>	<u>(3)</u>	<u>(478)</u>
At May 31, 2024	<u>(3,128)</u>	<u>(33)</u>	<u>(3,161)</u>
Net book value:			
At May 31, 2024	<u>822</u>	<u>43</u>	<u>865</u>
At December 31, 2023	<u>1,297</u>	<u>46</u>	<u>1,343</u>
At December 31, 2022	<u>2,439</u>	<u>54</u>	<u>2,493</u>

14 INVENTORIES

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	4,755	5,252	5,600
Goods in progress	23,709	21,511	22,677
Finished goods	2,370	504	2,884
Goods in transit	<u>275</u>	<u>—</u>	<u>—</u>
	<u>31,109</u>	<u>27,267</u>	<u>31,161</u>

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(unaudited)	
Carrying amount of inventories sold ..	4,397	15,046	6,854	3,161
Write-down of inventories	—	773	10	—
Reversal of write-down of inventories	<u>(3)</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>4,394</u>	<u>15,819</u>	<u>6,864</u>	<u>3,161</u>



15 TRADE RECEIVABLES AND OTHER RECEIVABLES

(a) Trade and other receivables

The Group

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	34,620	11,159	12,946
Other receivables	450	496	415
Value Added Tax (“VAT”) recoverable	3,880	4,292	4,366
	<u>38,950</u>	<u>15,947</u>	<u>17,727</u>

The Company

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	137	61	80
VAT recoverable	881	1,956	2,442
	<u>1,018</u>	<u>2,017</u>	<u>2,522</u>

(b) Ageing analysis

As at December 31, 2022 and 2023 and May 31, 2024, the ageing analysis of trade receivables (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

The Group

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months (inclusive)	9,564	7,699	11,565
Over 3 months and less than one year	25,056	3,460	1,381
	<u>34,620</u>	<u>11,159</u>	<u>12,946</u>

Unless otherwise approved, trade receivables are due within 90 days from the date of billing. Further details on the Group’s credit policy and credit risk arising from trade receivables are set out in Note 26(a).



16 PREPAYMENTS

The Group

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for:			
— research and development service	4,370	12,814	9,479
— listing expense	—	849	1,504
— others	978	637	2,574
	5,348	14,300	13,557

The Company

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for:			
— research and development service	3,017	7,105	5,043
— listing expense	—	849	1,504
— others	482	148	359
	3,499	8,102	6,906

17 FINANCIAL ASSETS MEASURED AT FVPL

The Group

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets measured at FVPL — current			
— Wealth management products and structured deposits issued by banks	444,991	235,611	130,216

The Company

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets measured at FVPL — current			
— Wealth management products and structured deposits issued by banks	259,105	50,099	25,000

The current balances of financial assets measured at FVPL represent wealth management products and structured deposits issued by various banks in the PRC with a floating return which will be paid together with the principal on the maturity date.

The analysis on the fair value measurement of the above financial assets is disclosed in Note 26(e).



18 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

The Group

	Note	As at December 31,		As at May 31,
		2022	2023	2024
		RMB'000	RMB'000	RMB'000
Cash at bank		284,272	340,405	374,885
Less: fixed deposits with banks	(i)	(224,166)	(302,318)	(338,958)
Cash and cash equivalents in the consolidated statements of financial position		<u>60,106</u>	<u>38,087</u>	<u>35,927</u>

The Company

	As at December 31,		As at May 31,
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Cash at bank	245,553	267,215	262,469
Less: fixed deposits with banks	(224,165)	(238,575)	(239,781)
Cash and cash equivalents in the statements of financial position	<u>21,388</u>	<u>28,640</u>	<u>22,688</u>

(i) Fixed deposits with banks

As at December 31, 2022 and 2023 and May 31, 2024, fixed deposits with banks held by the Group include a principal amount of USD31,800,000 (equivalent to RMB221,474,000) and USD41,780,000 (equivalent to RMB295,915,000), USD41,731,000 (equivalent to RMB296,659,000) respectively intended to be held at maturity exceeding three months from the date of acquisition, and accrued interest receivable based on the effective interest rate method.

Remittance of funds out of Chinese Mainland is subject to relevant rules and regulations of foreign exchange control.



(b) Reconciliation of loss before taxation to net cash used in operating activities:

	Note	Year ended December 31,		Five months ended May 31,	
		2022	2023	2023	2024
		RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Loss before taxation		(160,511)	(189,644)	(83,429)	(57,453)
Adjustments for:					
Write-down of inventories	14	—	773	10	—
Impairment loss/(reversal of impairment loss) on trade and other receivables		1,211	(1,284)	(711)	22
Depreciation of property, plant and equipment	11	7,962	8,032	3,485	3,216
Depreciation of right-of-use assets	12	1,364	1,385	577	589
Amortisation of intangible assets	13	1,176	1,205	311	502
Finance costs	6(a)	71	57	29	25
Net realised and unrealised gains on investments in financial assets measured at FVPL	5	(10,848)	(9,097)	(7,521)	(2,088)
Interest income from fixed deposits with banks		(2,849)	(11,692)	(3,612)	(5,931)
Equity-settled share-based payment expenses	22(d)	80,736	44,404	24,426	4,699
Net foreign exchange gains	5	(19,602)	(4,652)	(1,605)	(1,074)
Cash used in operations before changes in working capital		(101,290)	(160,513)	(68,040)	(57,493)
Changes in working capital:					
(Increase)/decrease in inventories		(8,442)	3,069	2,480	(3,894)
(Increase)/decrease in trade and other receivables		(6,902)	25,221	19,718	(1,713)
(Increase)/decrease in prepayments		(340)	(8,952)	(11,941)	743
Increase/(decrease) in trade and other payables		28,232	3,386	(322)	11,574
Increase/(decrease) in provision		10,838	(10,838)	(10,602)	—
Decrease in deferred income		(1,534)	(705)	(346)	(231)
Net cash used in operating activities		<u>(79,438)</u>	<u>(149,332)</u>	<u>(69,053)</u>	<u>(51,014)</u>



(c) 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 statements of cash flows as cash flows from financing activities.

	<u>Other payables</u>	<u>Lease liabilities</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note 20)</i>	<i>RMB'000</i>
At January 1, 2022	—	1,144	1,144
Changes from financing cash flows:			
Proceeds of net advances from a related party	70	—	70
Capital element of lease rentals paid	—	(1,126)	(1,126)
Interest element of lease rentals paid	—	(71)	(71)
Total changes from financing cash flows	70	(1,197)	(1,127)
Other changes:			
Increase in lease liabilities from entering into new leases during the year	—	1,886	1,886
Interest expenses (Note 6(a))	—	71	71
Total other changes	—	1,957	1,957
At December 31, 2022	<u>70</u>	<u>1,904</u>	<u>1,974</u>
	<u>Other payables</u>	<u>Lease liabilities</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note 20)</i>	<i>RMB'000</i>
At January 1, 2023	70	1,904	1,974
Changes from financing cash flows:			
Repayment of net advances to a related party	(68)	—	(68)
Capital element of lease rentals paid	—	(1,005)	(1,005)
Interest element of lease rentals paid	—	(57)	(57)
Total changes from financing cash flows	(68)	(1,062)	(1,130)
Exchange adjustments	(2)	—	(2)
Other changes:			
Interest expenses (Note 6(a))	—	57	57
Total other changes	—	57	57
At December 31, 2023	<u>—</u>	<u>899</u>	<u>899</u>



	<u>Other payables</u>	<u>Lease liabilities</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note 20)</i>	<i>RMB'000</i>
(Unaudited)			
At January 1, 2023	70	1,904	1,974
Changes from financing cash flows:			
Repayment of net advances to a related party	(68)	—	(68)
Capital element of lease rentals paid	—	(269)	(269)
Interest element of lease rentals paid	—	(29)	(29)
Total changes from financing cash flows	(68)	(298)	(366)
Other changes:			
Interest expenses <i>(Note 6(a))</i>	—	29	29
Total other changes	—	29	29
At May 31, 2023	<u>2</u>	<u>1,635</u>	<u>1,637</u>
	<u>Other payables</u>	<u>Lease liabilities</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i> <i>(Note 20)</i>	<i>RMB'000</i>
At January 1, 2024	—	899	899
Changes from financing cash flows:			
Proceeds of net advances from a related party	9	—	9
Capital element of lease rentals paid	—	(194)	(194)
Interest element of lease rentals paid	—	(25)	(25)
Total changes from financing cash flows	9	(219)	(210)
Other changes:			
Increase in lease liabilities from entering into new leases during the period	—	1,503	1,503
Interest expenses <i>(Note 6(a))</i>	—	25	25
Total other changes	—	1,528	1,528
At May 31, 2024	<u>9</u>	<u>2,208</u>	<u>2,217</u>

(d) **Total cash outflow for leases**

Amounts included in the consolidated statements of cash flows for leases comprise the following:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Within operating cash flows	490	445	173	178
Within financing cash flows	1,197	1,062	298	219
	<u>1,687</u>	<u>1,507</u>	<u>471</u>	<u>397</u>



These amounts relate to the following:

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Lease rentals paid	1,687	1,507	471	397

19 TRADE AND OTHER PAYABLES

The Group

	As at December 31,		As at May 31,
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current			
Trade payables	20,099	24,440	40,409
Other payables	7,615	7,802	6,147
Accrued payroll and staff benefits	11,894	10,745	7,790
	39,608	42,987	54,346
Non-current			
Deposits received	4,350	4,453	4,692
	43,958	47,440	59,038

Except for an amount of RMB4,350,000, RMB4,453,000 and RMB4,692,000 as at December 31, 2022 and 2023 and May 31, 2024 respectively, all trade and other payables are expected to be settled within one year.

The Company

	As at December 31,		As at May 31,
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Current			
Trade payables	11,020	10,475	5,794
Other payables	11	227	94
Accrued payroll and staff benefits	4,180	4,877	2,984
	15,211	15,579	8,872

As at December 31, 2022 and 2023 and May 31, 2024, the ageing analysis of trade payables (which are included in trade and other payables), based on the invoice date, is as follows:

The Group

	As at December 31,		As at May 31,
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Within 1 year	18,103	23,736	39,103
1 to 2 years	626	346	704
2 to 3 years	1,106	357	600
More than 3 years	264	1	2
	20,099	24,440	40,409



The Company

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	9,480	10,275	4,953
1 to 2 years	355	50	641
2 to 3 years	957	150	200
More than 3 years	228	—	—
	11,020	10,475	5,794

20 LEASE LIABILITIES

As at December 31, 2022 and 2023 and May 31, 2024, the lease liabilities were repayable as follows:

The Group and the Company

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	1,091	732	1,445
After 1 year but within 2 years	813	167	506
After 2 years but within 5 years	—	—	257
	813	167	763
	1,904	899	2,208

21 DEFERRED INCOME

The Group

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	1,525	820	589

22 EQUITY SETTLED SHARE-BASED TRANSACTIONS

Restricted Share Unit Scheme

On October 30, 2020, an employee share incentive scheme was approved by the board of directors, according to which 28,285,670 shares of RSUs in sum would be granted by the Company to eligible employees of the Group and Mrs. Tang Li was authorised to implement the detailed share incentive scheme including but not limited to determine batches and vesting conditions, number of RSUs and prices granted to each employee, make adjustments to the share incentive scheme, etc.

For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, Mrs. Tang Li or other designated employees repurchased 6,374,480 shares, 310,460 shares, 81,050 shares and 89,400 shares respectively of the above-mentioned RSUs granted by the Company from previous employees who resigned from the Group at the pre-determined price lower than fair value, which constituted new share-based payments.



For the years ended December 31, 2022 and 2023 and the five months ended May 31, 2023 and 2024, Mrs. Tang Li granted 3,688,300 shares, 383,530 shares, nil shares and nil shares respectively of RSUs from her own shares to eligible employees of the Group, including 100,000 shares, nil shares, nil shares and nil shares of RSUs to an employee resigned from the Group shortly.

(a) The terms and conditions of the grants are as follows:

	<u>Number of instruments</u>	<u>Vesting conditions</u>	<u>Vesting period</u>	<u>Subscription prices</u>
RSUs granted to directors:				
2020 batch 1	2,549,500	Note (i)	36 months	RMB 0.2–5
2020 batch 2	865,100	Note (i)	60 months	RMB 0.47
2021 batch 1	924,000	Note (i)	36 months	RMB 0.2–4.47
2022 batch 1	4,126,960	Nil	12 months	RMB 0–5
2022 batch 2	1,610,000	Note (i)	36/51 months	RMB 0–5
2022 batch 3	250,000	Note (i)	60 months	RMB 5
2023 batch 1	260,460	Nil	12 months	RMB 0.17–4.5
2023 batch 2	150,000	Note (i)	36 months	RMB 5
2024 batch 1	89,400	Nil	12 months	RMB 4.5
RSUs granted to employees:				
2020 batch 1	4,516,000	Note (i)	36 months	RMB 0.2–5
2021 batch 1	3,829,000	Note (i)	36 months	RMB 0.2–4.47
2022 batch 2	3,925,820	Note (i)	36 months	RMB 0–5
2022 batch 3	150,000	Note (i)	60 months	RMB 5
2023 batch 2	283,530	Note (i)	36 months	RMB 4.48–6

Note:

(i) The restricted shares are vested upon achievement of certain performance conditions, such as service period, performance target or the completion of the listing of the Company's shares.

(b) The number and subscription prices of outstanding RSUs are as follows:

	<u>Number of RSUs</u>			
	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
			(unaudited)	
At January 1	10,443,100	14,903,600	14,903,600	5,327,670
Granted during the year/period	10,062,780	693,990	81,050	89,400
Vested during the year/period	(600,000)	(8,409,460)	(3,596,000)	—
Forfeited during the year/period	(5,002,280)	(1,860,460)	(1,681,050)	(358,450)
At December 31/May 31	<u>14,903,600</u>	<u>5,327,670</u>	<u>9,707,600</u>	<u>5,058,620</u>
Subscription price per RSU at				
December 31/May 31	RMB 0–5	RMB 0–6	RMB 0–5	RMB 0–6



(c) *Fair value and assumptions*

The fair value of services received in return for RSUs granted is measured by reference to the fair value of RSUs granted and the subscription price paid by the eligible directors and employees. The estimates of the fair value of RSUs are measured at the grant date referring to market price offered by the independent investors or fair value assessed by independent appraisers. The fair value of RSUs at grant date and key assumptions used in determining the fair value of RSUs are as follows:

Fair value of RSUs and assumptions	2022 share incentive batch	2023 share incentive batch	2024 share incentive batch
Fair value per unit at grant date	RMB14.72	RMB16.18	RMB 16.18
Discount rate	12%	13%	13%
Expected dividends	Nil	Nil	Nil

(d) Equity-settled share-based payment expenses recognised in the consolidated financial statements during the Track Record Period:

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Research and development expenses	21,430	11,848	5,444	1,569
Selling and distribution expenses	35,546	15,773	10,928	1,054
Administrative expenses	20,094	13,678	6,709	1,814
Cost of sales	1,351	1,918	927	—
Inventories	2,315	1,187	418	262
	80,736	44,404	24,426	4,699

23 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(a) **Deferred tax assets not recognised:**

In accordance with the accounting policy set out in Note 2(o), as at December 31, 2022 and 2023 and May 31, 2024, the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB291,220,000, RMB320,422,000 and RMB350,760,000, respectively, as it is not probable that future taxable profits against which the losses can be utilised before they expire.

Pursuant to the relevant laws and regulations in the PRC and the United States, the unrecognised tax losses as at December 31, 2022 and 2023 and May 31, 2024 will expire in the following years:

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
2023	16,067	—	—
2024	53,488	53,488	53,488
2025	49,249	49,249	49,249
2026	10,156	10,156	10,156
2027	53,541	53,541	53,541
After 2027	108,719	153,988	184,326
	291,220	320,422	350,760



All the tax losses of the Company can be carried forward for a maximum period of ten years pursuant to Notice No. 76 issued by the Ministry of Finance and the State Administration of Taxation of the PRC on July 11, 2018, since the Company obtained its certificate of HNTTE (see Note 7(a)).

All the tax losses of the Group's subsidiary in the PRC, Chengdu Biostar Pharmaceuticals Co., Ltd., can be carried forward for a maximum period of five years under the PRC Corporate Income Tax Law.

24 PROVISION

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1	—	10,838	10,838	—
Additional provision made	10,838	4,987	—	—
Provision utilised	—	(15,825)	(10,602)	—
At December 31/May 31	<u>10,838</u>	<u>—</u>	<u>236</u>	<u>—</u>

The Group's product was included in the National Reimbursement Drug List (the "NRDL") in January 2023 and a lower medical insurance price was implemented since March 1, 2023. The Group recognised a provision for price reduction compensation to customers due to the official inclusion in the NRDL for products sold to these customers but not yet sold to patients before March 1, 2023.

25 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 statements of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the Track Record Period are set out below:

The Company

	Note	Share capital	Capital reserves	Accumulated losses	Total
		RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2022		350,000	972,053	(98,642)	1,223,411
Changes in equity for 2022:					
Loss for the year		—	—	(37,055)	(37,055)
Equity-settled share-based payment	22(d)	—	80,736	—	80,736
Consideration received for RSUs granted by the Company		—	4,660	—	4,660
Balance at December 31, 2022		<u>350,000</u>	<u>1,057,449</u>	<u>(135,697)</u>	<u>1,271,752</u>



	<i>Note</i>	<u>Share capital</u> <i>RMB'000</i>	<u>Capital reserves</u> <i>RMB'000</i>	<u>Accumulated losses</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
Balance at January 1, 2023		350,000	1,057,449	(135,697)	1,271,752
Changes in equity for 2023:					
Loss for the year		—	—	(43,679)	(43,679)
Equity-settled share-based payment	<i>22(d)</i>	—	44,404	—	44,404
Balance at December 31, 2023		<u>350,000</u>	<u>1,101,853</u>	<u>(179,376)</u>	<u>1,272,477</u>
	<i>Note</i>	<u>Share capital</u> <i>RMB'000</i>	<u>Capital reserves</u> <i>RMB'000</i>	<u>Accumulated losses</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
(Unaudited)					
Balance at January 1, 2023		350,000	1,057,449	(135,697)	1,271,752
Changes in equity for the five months ended May 31, 2023:					
Loss for the period		—	—	(22,683)	(22,683)
Equity-settled share-based payment	<i>22(d)</i>	—	24,426	—	24,426
Balance at May 31, 2023		<u>350,000</u>	<u>1,081,875</u>	<u>(158,380)</u>	<u>1,273,495</u>
	<i>Note</i>	<u>Share capital</u> <i>RMB'000</i>	<u>Capital reserves</u> <i>RMB'000</i>	<u>Accumulated losses</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
Balance at January 1, 2024		350,000	1,101,853	(179,376)	1,272,477
Changes in equity for the five months ended May 31, 2024:					
Loss for the period		—	—	(22,746)	(22,746)
Equity-settled share-based payment	<i>22(d)</i>	—	4,699	—	4,699
Balance at May 31, 2024		<u>350,000</u>	<u>1,106,552</u>	<u>(202,122)</u>	<u>1,254,430</u>

(b) **Dividends**

The directors of the Company did not propose the payment of any dividend for the Track Record Period.



(c) **Share capital**

As at December 31, 2022, 2023 and May 31, 2024, the Company has 350,000,000, 350,000,000 and 350,000,000 shares issued with par value of RMB1 for each share, respectively.

	As at December 31,				As at May 31,	
	2022		2023		2024	
	<u>No. of shares</u>	<u>Amount</u>	<u>No. of shares</u>	<u>Amount</u>	<u>No. of shares</u>	<u>Amount</u>
	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>		<i>RMB'000</i>
At December 31/						
May 31	<u>350,000,000</u>	<u>350,000</u>	<u>350,000,000</u>	<u>350,000</u>	<u>350,000,000</u>	<u>350,000</u>

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.

(d) **Nature and purpose of reserves**

(i) **Capital reserves**

The capital reserves comprise the following:

- the difference between the consideration received and the par value of the issued shares of the Company; and
- the portion of the grant date fair value of RSUs granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in Note 2(n).

(ii) **Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations with functional currency other than RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(r).

(e) **Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

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.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.



26 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency 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 cash and cash equivalents and bank deposits are limited because the counterparties are banks for which the Group considers representing low credit risk. The Group's exposure to credit risk arising from refundable rental deposits is considered to be low, taking into account the landlords' credit rating, the remaining lease term and the period covered by the rental deposits.

The Group does not provide any guarantees which would expose the Group to credit risk.

Trade receivables

The Group has established a credit risk management policy under which 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. Unless special approval granted, trade receivables are due within 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at December 31, 2022 and 2023 and May 31, 2024, the trade receivables of the Group's five largest customers account for 64.1%, 39.6% and 34.8% of the total trade receivables, respectively.

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:

	Expected loss rate	As at December 31, 2022	
		Gross carrying amount	Loss allowance
		RMB'000	RMB'000
Current (not past due)	2	6,250	94
Within three months past due	5	29,962	1,498
		<u>36,212</u>	<u>1,592</u>



	Expected loss rate	As at December 31, 2023	
		Gross carrying amount	Loss allowance
		<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due)	2	7,588	114
Within three months past due	5	3,879	194
		<u>11,467</u>	<u>308</u>

	Expected loss rate	As at May 31, 2024	
		Gross carrying amount	Loss allowance
		<i>RMB'000</i>	<i>RMB'000</i>
Current (not past due)	2	9,376	143
Within three months past due	5	3,900	187
		<u>13,276</u>	<u>330</u>

Expected loss rates are based on actual 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/period is as follows:

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At January 1	381	1,592	1,592	308
Impairment losses recognised	1,592	308	881	330
Impairment losses reversed	(381)	(1,592)	(1,592)	(308)
At December 31//May 31	<u>1,592</u>	<u>308</u>	<u>881</u>	<u>330</u>

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.



The following tables show the remaining contractual maturities at December 31, 2022, 2023 and May 31, 2024 of the Group's non-derivative 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:

The Group

As at December 31, 2022					
Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at December 31, 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities	1,148	832	—	1,980	1,904
Amounts due to related parties	188	—	—	188	188
Provision	10,838	—	—	10,838	10,838
Trade and other payables	39,608	—	4,350	43,958	43,958
	<u>51,782</u>	<u>832</u>	<u>4,350</u>	<u>56,964</u>	<u>56,888</u>

As at December 31, 2023					
Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at December 31, 2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities	916	167	—	1,083	899
Amounts due to related parties	24	—	—	24	24
Trade and other payables	42,987	—	4,453	47,440	47,440
	<u>43,927</u>	<u>167</u>	<u>4,453</u>	<u>48,547</u>	<u>48,363</u>

As at May 31, 2024					
Contractual undiscounted cash outflow					
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	Carrying amount at May 31, 2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Lease liabilities	1,489	525	260	2,274	2,208
Amounts due to related parties	9	—	—	9	9
Trade and other payables	54,346	—	4,692	59,038	59,038
	<u>55,844</u>	<u>525</u>	<u>4,952</u>	<u>61,321</u>	<u>61,255</u>



(c) **Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is primarily exposed to fair value interest rate risk in relation to lease liabilities, and cash flow risk in relation to variable-rate bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group considers that the exposure to fair value interest rate risk and cash flow risk is not significant because the current market interest rates are relatively low and stable.

(d) **Currency risk**

The Group is exposed to currency risk primarily through bank deposits and inter-company receivables that are denominated in a foreign currency, i.e., a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to this risk is primarily United States Dollars. The Group manages this risk as follows:

(i) **Exposure to currency risk**

The following table details the Group's exposure at December 31, 2022, 2023 and May 31, 2024 to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in RMB, translated using the spot rate at the period end date.

	As at December 31,		As at May 31,
	2022	2023	2024
	<i>United States Dollars RMB'000</i>	<i>United States Dollars RMB'000</i>	<i>United States Dollars RMB'000</i>
Fixed deposits with banks	224,166	233,729	234,590
Cash and cash equivalents	8,359	10,018	3,259
Amounts due from related parties	—	35,414	35,544
	232,525	279,161	273,393

(ii) **Sensitivity analysis**

The following table indicates the instantaneous change in the Group's loss before taxation and accumulated losses that would arise if foreign exchange rates to which the Group has significant exposure at December 31, 2022 and 2023 and May 31, 2024 had changed at that date, assuming all other risk variables remained constant.

	As at December 31, 2022		As at December 31, 2023		As at May 31, 2024	
	Increase/ (decrease) in foreign exchange rates	Effect on loss before tax and accumulated losses RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on loss before tax and accumulated losses RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on loss before tax and accumulated losses RMB'000
United States Dollars	10%	23,253	10%	27,916	10%	27,339
	(10%)	(23,253)	(10%)	(27,916)	(10%)	(27,339)



Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss before tax and accumulated losses measured in the respective functional currencies, translated into RMB at the exchange rate ruling at December 31, 2022 and 2023 and May 31, 2024 for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at December 31, 2022 and 2023 and May 31, 2024, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis during the Track Record Period.

(e) **Fair value measurement**

(i) *Financial assets measured at fair value*

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at December 31, 2022, 2023 and May 31, 2024 on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 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

The following table presents the Group's financial assets that are measured at fair value at December 31, 2022, 2023 and May 31, 2024:

The Group

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Level 2			
Financial assets measured at FVPL			
— Wealth management products and structured deposits issued by banks	444,991	235,611	130,216

Information about Level 2 fair value measurements

For bank wealth management products held as of December 31, 2022, 2023 and May 31, 2024, the Group measures them at the second level fair value. Among them, the fair value of wealth management products is determined with reference to the quotation published by the issuing bank; the fair value of structured deposits is determined by the expected return rate listed in the bank's announcement or the product prospectus.

During the Track Record Period, 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 December 31, 2022 and 2023 and May 31, 2024 in which they occur.



The movements during the Track Record Period in the balance of these Level 2 financial assets of the Group at fair value through profit or loss are as follows:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Financial assets measured at FVPL				
At January 1	536,958	444,991	444,991	235,611
Payment for purchases	717,000	535,000	85,000	210,000
Changes in fair value recognised in profit or loss during the year/period	2,700	5,821	5,251	600
Redemption	(811,667)	(750,201)	(263,472)	(315,995)
At December 31/May 31	<u>444,991</u>	<u>235,611</u>	<u>271,770</u>	<u>130,216</u>

(ii) *Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at December 31, 2022 and 2023 and May 31, 2024.

27 COMMITMENTS

Commitments outstanding at December 31, 2022 and 2023 and May 31, 2024 not provided for in the consolidated financial statements were as follows:

	<u>As at December 31,</u>		<u>As at May 31,</u>
	<u>2022</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted for construction in progress	54,618	25,898	8,285
Authorised but not contracted for construction in progress	<u>81,624</u>	<u>82,504</u>	<u>82,096</u>
	<u>136,242</u>	<u>108,402</u>	<u>90,381</u>



28 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the Historical Financial Information, other material related party transactions entered by the Group during the reporting periods are as follows:

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	<u>Year ended December 31,</u>		<u>Five months ended May 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2023</u>	<u>2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	10,299	10,220	4,234	4,095
Contributions to defined contribution retirement plan	135	542	141	154
Equity-settled share-based payment expenses	<u>58,519</u>	<u>39,535</u>	<u>21,245</u>	<u>3,357</u>
	<u>68,953</u>	<u>50,297</u>	<u>25,620</u>	<u>7,606</u>

Total remuneration is included in "staff costs" (see Note 6(b)).

(b) Identity of related parties

<u>Name of party</u>	<u>Relationship with the Group</u>
Tang Li 唐莉	ultimate controlling shareholder
Qiu Rongguo 邱榮國	ultimate controlling shareholder
Kong Rixiang 孔日祥	supervisor
Zhang Cheng 張成	executive director
Nie Xiuqing 聶秀清	executive director (resigned in March 2022)
珠海華欣昊緣商業管理合夥企業(有限合夥) ("Huaxin Haoyuan")	company controlled by ultimate controlling shareholder
北京北進緣科技有限公司 ("Beijing Beijinyuan")	company controlled by ultimate controlling shareholder



(c) Significant related party transactions

	Year ended December 31,		Five months ended May 31,	
	2022	2023	2023	2024
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Trade related:				
— Purchasing materials from				
Beijing Beijinyuan	—	19	—	—
Non-trade related:				
— Repayment of net advances from				
Nie Xiuqing 聶秀清	355	—	—	—
Proceeds/(repayment) of net advances from/to				
Tang Li 唐莉	70	(68)	(68)	9
Consideration received for share incentive scheme from				
Huaxin Haoyuan	4,660	—	—	—

(d) Balances with related parties

The Group

	Amounts owed by the Group to related parties		
	As at December 31,		As at May 31,
	2022	2023	2024
	RMB'000	RMB'000	RMB'000
Amounts due to:			
— Trade related:			
Beijing Beijinyuan	—	19	—
— Non-trade related			
Tang Li 唐莉	73	3	9
Zhang Cheng 張成	1	1	—
Kong Rixiang 孔日祥	20	—	—
Qiu Rongguo 邱榮國	94	1	—
	188	5	9

The balances of non-trade related amounts due to related parties are unsecured, interest-free, payable on demand and had been settled in June 2024.

29 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At December 31, 2022, 2023 and May 31, 2024, the directors consider the immediate parent of the Group is BAYGEN QT INC., a company incorporated in the United States, and the ultimate controlling party of the Group to be Mrs. Tang Li and Mr. Qiu Rongguo. BAYGEN QT INC. does not produce financial statements available for public.



30 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD ENDED MAY 31, 2024

Up to the date of issue of this report, the HKICPA has issued a number of new or amended standards, which are not yet effective for the period ended May 31, 2024 and which have not been adopted in the Historical Financial Information. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 21, <i>Lack of exchangeability</i>	January 1, 2025
Amendments to HKFRS 9 and HKFRS 7, <i>Amendments to the Classification and Measurement of Financial Instruments</i>	January 1, 2026
HKFRS 18, <i>Presentation and Disclosure in Financial Statements</i>	January 1, 2027
HKFRS 19, <i>Subsidiaries without Public Accountability: Disclosures</i>	January 1, 2027
Amendments to HKFRS 10 and HKAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

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, the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

31 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to May 31, 2024 which would materially affect the Group's operating and financial performance.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries comprising the Group in respect of any period subsequent to May 31, 2024.