



Report of the Directors

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

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at Room 1601, Emperor Group Centre, 288 Hennessy Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are research and development, production and sales of traditional Chinese medicine and pharmaceutical products in the People's Republic of China (the "PRC"). Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a fair review of the business, a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2024, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman's Statement", "Management Discussion and Analysis", "Corporate Governance Report" and "Notes to the Consolidated Financial Statements" sections of this report. In addition, a discussion on the Company's environmental policies and performance, the Company's compliance with the relevant laws and regulations that have a significant impact on the Company and the Company's relationships with its employees, customers and suppliers are contained in "Corporate Governance Report" section of this report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2024 are set out in the section headed "Management Discussion and Analysis" and the consolidated financial statements on pages 87 to 198 of this annual report.

The Board recommended the payment of a final dividend of HK0.35 cents (approximately RMB0.32 cents) per share (2023: Nil) and a special dividend of HK8.30 cents (approximately RMB7.66 cents) per share (2023: Nil) for the year ended 31 December 2024. The total distribution for year ended 31 December 2024 is HK8.65 cents (approximately RMB7.98 cents) per share (2023: nil).

DIVIDEND POLICY

The Board has adopted a dividend policy, with effect from 1 January 2019. The dividend policy of the Company aims to provide reasonable and sustainable returns to the Shareholders and at the same time, maintain a stable financial position so that the Company can fully grasp any available investment and expansion opportunities from time to time.

The Board may declare dividends on an annual basis and/or declare interim dividends (as the case may be). Dividends may be distributed in the form of cash or shares. The Company determines the profit attributable to its Shareholders based on the Hong Kong Accounting Standards. The Board must take into account:

- the Group's actual and anticipated operating results, liquidity and financial condition;
- capital commitment requirement;
- market environment and challenges;
- future development and investment opportunities; and
- any other factors that the Board deems appropriate.

The management will continue to review the dividend policy and propose any amendments for the Board's approval.

DISTRIBUTABLE RESERVES

The reserves available for distribution to shareholders by the Company as at 31 December 2024 are approximately RMB0.994 billion (31 December 2023: approximately RMB0.985 billion).

INVESTMENT PROPERTY, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in investment property, other property, plant and equipment and leasehold land during the year are set out in notes 17 and 18 to the consolidated financial statements.

SHARE CAPITAL AND RESERVES

Details of the movements in share capital and reserves of the Company and the Group during the year are set out in note 43 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the year or subsisted at the end of the year.

BANK LOANS AND OTHER BORROWINGS AND UNSECURED NOTES

Particulars of bank loans and other borrowings and unsecured notes of the Group as at 31 December 2024 are set out in notes 32 and 33 to the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 3 of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2024 are set out in note 42 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities (including sale of treasury shares, if any). As at 31 December 2024, the Company did not hold any treasury shares.

DIRECTORS

The Board comprises the following Directors during the Reporting Period and up to the date of this report:

Executive Directors

| | |
|-------------------|--|
| Mr. YANG Jun | <i>Chairman (appointed on 27 September 2024)</i> |
| Mr. LI Hongjian | <i>(appointed on 27 September 2024)</i> |
| Mr. CHEN Yinglong | <i>Former Chairman (resigned on 27 September 2024)</i> |

Non-executive Directors

| | |
|------------------|---|
| Mr. LIU Haijian | <i>(appointed on 15 January 2025)</i> |
| Mr. LI Xiangrong | <i>(appointed on 15 January 2025)</i> |
| Mr. ZU Jing | <i>(appointed on 15 January 2025)</i> |
| Ms. XU Jinghui | <i>(appointed on 15 January 2025)</i> |
| Mr. HUANG Hao | <i>(appointed on 15 January 2025)</i> |
| Mr. YANG Binghua | <i>(resigned on 15 January 2025)</i> |
| Mr. WANG Kan | <i>(resigned on 15 January 2025)</i> |
| Mr. MENG Qingxin | <i>(resigned on 15 January 2025)</i> |
| Ms. LI Ru | <i>(resigned on 15 January 2025)</i> |
| Mr. YANG Wenming | <i>(re-designated as a non-executive Director from an executive Director on 21 March 2024, and resigned on 15 January 2025)</i> |
| Mr. CHENG Xueren | <i>(re-designated as a non-executive Director from an executive Director and the managing Director on 21 March 2024, and resigned on 15 January 2025)</i> |

Independent Non-executive Directors

| |
|-------------------------|
| Mr. XIE Rong |
| Mr. YU Tze Shan Hailson |
| Mr. QIN Ling |
| Mr. LI Weidong |

During the Reporting Period and up to the date of this report, Mr. CHEN Yinglong resigned as the executive Director due to change of work arrangement on 27 September 2024; Mr. YANG Binghua, Mr. WANG Kan, Mr. MENG Qingxin, Ms. LI Ru, Mr. YANG Wenming and Mr. CHENG Xueren resigned as the non-executive Directors due to change of work arrangement on 15 January 2025.

Each of the independent non-executive Directors has submitted an annual confirmation letter to the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and the Company considers all the independent non-executive Directors to be independent.

All the Directors are appointed for a specific term subject to retirement by rotation and re-election in accordance with the articles of association of the Company (the “Articles of Association”).

In accordance with Article 92 of the Articles of Association, Mr. YANG Jun, Mr. LI Hongjian, Mr. LIU Haijian, Mr. LI Xiangrong, Mr. ZU Jing, Ms. XU Jinghui and Mr. HUANG Hao shall hold office only until the first AGM after their appointments and shall then be eligible for re-election.

In accordance with Article 101 of the Articles of Association, Mr. YU Tze Shan Hailson and Mr. QIN Ling shall retire by rotation at the AGM and, being eligible, offer themselves for re-election. None of the Directors proposed for re-election at the AGM has an unexpired employment agreement or appointment letter which is not determinable by the Company and any of its subsidiaries within one year without payment of compensation, other than statutory obligations.

DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the existing Directors and senior management as at the date of this report are set out on pages 73 to 79 of this report.

EXECUTIVE DIRECTORS’ EMPLOYMENT AGREEMENTS

Mr. YANG Jun entered into an employment agreement with the Company with effect from 27 September 2024, which shall automatically be effective thereafter until terminated by either party by giving one month’s prior notice.

Mr. LI Hongjian entered into an employment agreement with the Company with effect from 27 September 2024, which shall automatically be effective thereafter until terminated by either party by giving one month’s prior notice.

NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

Mr. LIU Haijian entered into an appointment letter with the Company for a term of three years commencing from 15 January 2025.

Mr. LI Xiangrong entered into an appointment letter with the Company for a term of three years commencing from 15 January 2025.

Mr. ZU Jing entered into an appointment letter with the Company for a term of three years commencing from 15 January 2025.

Ms. XU Jinghui entered into an appointment letter with the Company for a term of three years commencing from 15 January 2025.

Mr. HUANG Hao entered into an appointment letter with the Company for a term of three years commencing from 15 January 2025.

INDEPENDENT NON-EXECUTIVE DIRECTORS' APPOINTMENT LETTERS

Mr. XIE Rong renewed an appointment letter with the Company for a term of three years commencing from 5 February 2025.

Mr. YU Tze Shan Hailson renewed an appointment letter with the Company for a term of three years commencing from 25 November 2022.

Mr. QIN Ling renewed an appointment letter with the Company for a term of three years commencing from 18 February 2025.

Mr. LI Weidong renewed an appointment letter with the Company for a term of three years commencing from 18 February 2025.

MANAGEMENT CONTRACTS

No contract, other than employment contracts, concerning the management and administration of the whole or any substantial part of the Company's business was entered into or existed during the year.

DONATIONS

During the Reporting Period, the charitable and other donations (including amounts in kind) made by the Group amounted to approximately RMB14,436,770.96.

DIRECTORS OF SUBSIDIARIES

A list of names of the directors who held office in the Company's subsidiaries during the year and up to the date of this report is available on the Company's website at www.china-tcm.com.cn.

DIRECTORS' FEES

The emoluments of the executive Directors are determined by the remuneration and evaluation committee of the Company (the "Remuneration and Evaluation Committee") and the emoluments of the non-executive Directors and independent non-executive Directors are recommended by the Remuneration and Evaluation Committee to the Board, having regard to the relevant Director's experience, responsibility and the time devoted to the business of the Group. For the year ended 31 December 2024, the fee for the eligible independent non-executive Directors was fixed at HK\$250,000 per annum.

PERMITTED INDEMNITY PROVISION

Article 178 of the Articles of Association provides that every Director or other officer or auditors shall be indemnified out of assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Such provisions were in force during the year and remained in force as of the date of this report.

Article 179 of the Articles of Association provides that every Director or other officer or auditors shall be entitled to be insured against any liability to the Company, an associated company or any other party in respect of any negligence, default, breach of duty or breach of trust (save for fraud) of which he may be guilty in relation to the Company or an associated company. The Company has arranged appropriate liability insurance to indemnify its Directors and executive officers in respect of legal actions against the Directors and officers. The amount of coverage is reviewed on an annual basis.

CHANGES OF DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of Directors' information after the date of 2024 interim report is as follows:

- Mr. YANG Jun was appointed as an executive Director and the chairman of the Board, with effect from 27 September 2024.
- Mr. LI Hongjian was appointed as an executive Director and president (i.e. the general manager of the Company), with effect from 27 September 2024.
- Mr. LIU Haijian was appointed as a non-executive Director, with effect from 15 January 2025. He was also appointed as a non-executive director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129), with effect from 4 March 2025.
- Mr. LI Xiangrong was appointed as a non-executive Director, with effect from 15 January 2025. He was also appointed as a non-executive director of Chongqing Taiji Industry (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600129), with effect from 4 March 2025.
- Mr. ZU Jing was appointed as a non-executive Director, with effect from 15 January 2025. He was also appointed as a non-executive director of Sinopharm Group Co. Ltd. (a company listed on the Stock Exchange, stock code: 01099), with effect from 12 February 2025.
- Ms. XU Jinghui was appointed as a non-executive Director, with effect from 15 January 2025.
- Mr. HUANG Hao was appointed as a non-executive Director, with effect from 15 January 2025.
- Mr. CHEN Yinglong resigned as an executive Director, the chairman of the Board and the chairman of the nomination committee and strategic committee of the Board, with effect from 27 September 2024.
- Mr. YANG Binghua, Mr. WANG Kan, Mr. MENG Qingxin, Ms. LI Ru, Mr. YANG Wenming and Mr. CHENG Xueren resigned as non-executive Directors, with effect from 15 January 2025.

Save as disclosed above, the Company is not aware of any other information which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE OF INTERESTS

Directors' and Chief Executives' Interests

As at 31 December 2024, none of the Directors and chief executives of the Company had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix C3 to the Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 31 December 2024, the interests and short positions of the shareholders, other than a Director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

| Name of Substantial Shareholders | Capacity | Number of Ordinary Shares | Approximate Percentage of Total Interests to Issued Shares |
|----------------------------------|-------------------------------------|--|--|
| Sinopharm Hongkong | Beneficial owner | 1,634,705,642 (long position) (Note 1) | 32.46% |
| CNPGC | Interest of controlled corporations | 1,634,705,642 (long position) (Note 1) | 32.46% |
| Ping An Life | Beneficial owner | 604,296,222 (long position) (Note 2) | 12.00% |
| Ping An Group | Interest of controlled corporations | 604,296,222 (long position) (Note 2) | 12.00% |

Notes:

1. The 1,634,705,642 shares are held by Sinopharm Group Hongkong Co., Limited ("Sinopharm Hongkong"), which is indirectly wholly owned by China National Pharmaceutical Group Corporation ("CNPGC").
2. The 604,296,222 shares are held by Ping An Life Insurance Company of China, Ltd. ("Ping An Life") which is a subsidiary of Ping An (Group) Company of China, Ltd. ("Ping An Group"). Ping An Group is deemed to be interested in Ping An Life's interest in the Company under the SFO.

Save as disclosed above, the register which was required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or short positions of the Shareholders (other than a Director or chief executive officer of the Company) in the shares and underlying shares of the Company as at 31 December 2024.

CONTINUING CONNECTED TRANSACTIONS

Factoring Services Framework Agreement with Sinopharm Puxin Commercial Factoring Company Limited ("Sinopharm Puxin")

On 27 December 2023, Shandong Yifang Pharmaceutical Co., Ltd. and its subsidiary ("Shandong Yifang") entered into the factoring services framework agreement (the "Factoring Services Framework Agreement") with Sinopharm Puxin, pursuant to which Sinopharm Puxin agreed to provide commercial factoring services to Shandong Yifang during the period from 27 December 2023 to 26 December 2024.

The Board advised the agreement cap of the Factoring Services Framework Agreement and the transactions contemplated thereunder is RMB50,000,000. The agreement cap of the Factoring Services Framework Agreement and the transactions contemplated thereunder is determined with reference to the forecast of the financing needs of Shandong Yifang in terms of obtaining commercial factoring services from Sinopharm Puxin combined with its average daily factoring scale from 2023 to 2024. At the same time, a portion of buffer has been reserved from a prudent perspective after taking into account fluctuations in the price of capital in the future and small fluctuations in the business volume of Shandong Yifang.

As at the date of this report, CNPGC is the controlling shareholder, indirectly holding 1,634,705,642 shares of the Company, representing approximately 32.46% of the total number of issued shares of the Company, and the Group holds 87.30% equity of Shandong Yifang and Sinopharm Puxin is a wholly-owned subsidiary of CNPGC. As such, Sinopharm Puxin is a connected person of the Company and the Factoring Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The execution of the Factoring Services Framework Agreement would enable Shandong Yifang to expand the diversified financing channels and optimise its financial structure, and its efficiency of capital usage would also be improved.

As far as the Directors are aware, Sinopharm Puxin has established stringent internal control measures to ensure effective risk management and compliance with relevant laws and regulations of the PRC. Meanwhile, the Group also adopts reasonable internal control procedures and corporate governance measures in relation to its utilisation of the commercial factoring services provided by Sinopharm Puxin to Shandong Yifang.

For further details of the Factoring Services Framework Agreement, please refer to the announcement of the Company dated 27 December 2023.

During the period from 1 January 2024 to 26 December 2024, Shandong Yifang did not receive any factoring services provided by Sinopharm Puxin, therefore there was no actual amount of factoring services.

Master Purchase Agreement and Master Supply Agreement with CNPGC (2023-2025)

On 11 November 2022, the Company and CNPGC entered into master agreements (the “Master Agreements”) to govern the terms of the purchases and the sales and to set the annual caps for the three years ended/ending 31 December 2023, 2024 and 2025.

Pursuant to the master purchase agreement (the “Master Purchase Agreement”), the Group conditionally agreed to purchase TCM and chemical materials (the “Materials”) to be supplied by the CNPGC and its subsidiaries (the “CNPGC Group”) during the period from 1 January 2023 to 31 December 2025. The value of the purchases shall not exceed the annual caps of RMB300 million, RMB450 million and RMB675 million for each of the three years ended/ending 31 December 2023, 2024 and 2025 respectively.

Pursuant to the master supply agreement (the “Master Supply Agreement”), the Group conditionally agreed to sell the pharmaceutical products (the “Products”) to the CNPGC Group during the period from 1 January 2023 to 31 December 2025. The value of the sales shall not exceed the annual caps of RMB1,750 million, RMB2,100 million and RMB2,500 million for each of the three years ended/ending 31 December 2023, 2024 and 2025 respectively.

The principal business activities of the Group are the manufacture and sales of TCM and pharmaceutical products in the PRC with a focus on concentrated TCM granules, TCM finished drugs and TCM decoction pieces.

As at the date of this report, CNPGC is the controlling shareholder, indirectly holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. As such, CNPGC is a connected person of the Company. The Master Purchase Agreement and the Master Supply Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Master Agreements were entered into for the purpose of enabling the Group to continue the business relationship with the CNPGC Group in compliance with the Listing Rules as well as to capture the business opportunities that may be brought about by the CNPGC Group to the Group. CNPGC is the only life- and health-oriented central enterprise directly under the State-owned Assets Supervision and Administration Commission of the State Council, with a whole healthcare industry chain covering research and development, manufacturing, logistics and distribution, retail chains, healthcare, engineering services, etc. Members of the CNPGC Group have been the suppliers of the Materials and customers of the Products since 1998. The CNPGC Group is a reliable business partner of the Group which has a strong supply capacity and a well-established distribution network. The Master Purchase Agreement enables the Group to source stable and quality supply of the Materials, while the Master Supply Agreement enables the Group to tap into a larger market and approach a much wider clientele base with the support of the extensive sales and distribution network of the CNPGC Group in the PRC. As CNPGC Group is one of the largest pharmaceutical companies in the PRC and has comparatively strong planting resources as well as advanced processing technologies, the Directors considered that the partnership with the CNPGC Group can secure the distribution of the Products to hospitals and retail pharmacies in the PRC via the CNPGC Group as the Group’s distributor.

For details of the Master Agreements, please refer to the Company's announcements dated 11 November 2022 and 20 December 2022 and the Company's circular dated 15 December 2022. The Master Supply Agreement and the respective annual caps were approved by the Company's independent shareholders at the extraordinary general meeting of the Company held on 4 January 2023.

During the year ended 31 December 2024, the actual purchases of the Materials by the Group from CNPGC Group amounted to RMB119,267,000 (excluding value added tax) which was below the annual cap of RMB450,000,000 for the year ended 31 December 2024.

During the year ended 31 December 2024, the actual sales of the Products by the Group to CNPGC Group amounted to RMB1,298,907,000 (excluding value added tax) which was below the annual cap of RMB2,100,000,000 for the year ended 31 December 2024.

Financial Services Framework Agreement with Sinopharm Group Finance Co., Ltd. ("Sinopharm Group Finance") (2022 – 2025)

On 18 November 2022, the Company entered into the Financial Services Framework Agreement (the "Financial Services Framework Agreement") with Sinopharm Group Finance, pursuant to which Sinopharm Group Finance agreed to provide the financial services to the Group during the period from 20 November 2022 to 19 November 2025.

Pursuant to the Financial Services Framework Agreement, the annual caps for the deposit services (i.e. the maximum daily deposit balance, including accrued interest) during the effective period of the Financial Services Framework Agreement, the maximum daily outstanding deposit balance is RMB600 million.

As at the date of this report, CNPGC is the controlling shareholder, indirectly holding 1,634,705,642 shares, representing approximately 32.46% of the total number of issued shares of the Company. Sinopharm Group Finance is owned as to approximately 58.2%, 9.1%, 10.9%, 10.9% and 10.9% by CNPGC, Sinopharm Group Co. Ltd., China National Biotech Group Company Limited, China National Traditional Chinese Medicine Co., Limited and Shanghai Shyndec Pharmaceutical Co., Ltd., respectively, and CNPGC is the parent company of Sinopharm Group Finance. As such, Sinopharm Group Finance is a connected person of the Company and the Financial Services Framework Agreement and the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Board considers that entering into the Financial Services Framework Agreement is in the interest of the Group as it provides an option to the Group in procuring financial services for its treasury management. Given the Group's close relationship with the CNPGC Group, the application procedures for financial services from Sinopharm Group Finance (being a subsidiary of CNPGC) are more efficient, convenient and flexible than those of the independent commercial banks. In addition, according to the Financial Services Framework Agreement, the terms of financial services offered by Sinopharm Group Finance will be no less favourable than those offered by the independent commercial banks to the Group.

For further details of the Financial Services Framework Agreement, please refer to the announcement of the Company dated 18 November 2022.

During the year ended 31 December 2024, the maximum daily deposit balance by the Group in Sinopharm Group Finance amounted to RMB586,714,000 which was below the annual cap for the maximum daily deposit balance of RMB600 million for the year ended 31 December 2024.

Research and Development Agreements with SIPI and SPERC

On 23 December 2013 and 5 March 2014, Guangdong Medi-World, an indirect wholly-owned subsidiary of the Company, entered into research and development agreements (the “R&D Agreements”) with Shanghai Institute of Pharmaceutical Industry (“SIPI”) and Shanghai Pharmaceutical Engineering Research Centre Co., Ltd. (上海現代藥物製劑工程研究中心有限公司 or “SPERC”) respectively in relation to the engagement by Guangdong Medi-World of SIPI and SPERC for the provision to Guangdong Medi-World of the research and development of certain drugs. The aggregate maximum research and development fee payable by Guangdong Medi-World pursuant to the R&D Agreements amounts to approximately RMB136,270,000.

Both SIPI and SPERC are subordinated unit/company of China State Institute of Pharmaceutical Industry (“CSPI”), which is a subsidiary of CNPGC. CNPGC wholly owned Sinopharm Hongkong, a controlling shareholder of the Company. Therefore, each of SIPI and SPERC is a connected person of the Company under the Listing Rules and the transactions contemplated under the R&D Agreements constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

SIPI is principally engaged in the research of organic synthesized pharmaceuticals, microbiological and biochemical pharmaceuticals, biotechnological drugs, traditional Chinese medicines and novel preparations, pharmaceutical preparations, and new drug delivery systems.

SPERC is principally engaged in the development, consultancy, service and transfer of applied technology on traditional Chinese medicine, chemical drug, healthcare product and medicinal materials, design, analysis and sale of pharmaceutical equipment, research of technical test on medicinal material and packaging material.

The Group is committed to product innovation and has dedicated resources to the research and development on new drugs in order to stay competitive in the industry and capitalise on the growth opportunities of the Chinese medicine market brought about by the recent reforms in the pharmaceutical industry in the PRC. With the expertise and technical know-how of SIPI and SPERC, the collaboration under the R&D Agreements is expected to enrich the product mix of the Group with new products and benefit the Group in terms of sustainable development.

For details of the R&D Agreements, please refer to the announcements of the Company dated 23 December 2013 and 5 March 2014.

During the year ended 31 December 2024, there was no actual research and development fee payable by the Group to SIPI and SPERC. The sum of such fees payable by the Group to SIPI and SPERC during 2014 to 2024 amounted to RMB21,780,000 (including value added tax), which was below the contract amount of RMB136,270,000 under the R&D Agreements.

Review by the Independent Non-executive Directors

The independent non-executive Directors have reviewed the above continuing connected transactions of the Group and have confirmed that the transactions have been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

During the year ended 31 December 2024, the Group entered into certain transactions with related parties as defined in accordance with applicable accounting standards, and details of which are set out in note 40 to the consolidated financial statements. Such related party transactions include the transactions as disclosed in the “CONTINUING CONNECTED TRANSACTIONS” of this section. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of Listing Rules.

Review by the Auditor

For the propose to Rule 14A.56 of the Listing Rules, the auditor of the Company has provided a letter to the Board, confirmed that nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions:

- (i) have not been approved by the Board;
- (ii) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
- (iii) were not entered into, in all material respects, in accordance with relevant agreements governing the transactions; and
- (iv) have exceeded the annual caps.

The Company has received a copy of the auditor’s letter.

ARRANGEMENT TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DEBENTURES ISSUED

During the year ended 31 December 2024, no debenture was issued by the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors or any of their respective associates have engaged in any business that competes or may compete with the business of the Group or have any other conflict of interests with the Group during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director or his connected entity had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

CONTROLLING SHAREHOLDER'S INTEREST IN CONTRACTS

Save as disclosed in "CONTINUING CONNECTED TRANSACTIONS" of this section, none of the Company or any of its subsidiaries entered into contract of significance with the controlling shareholder or any of its subsidiaries other than the Group, nor was there any contract of significance between the Group and the controlling shareholder or any of its subsidiaries other than the Group in relation to provision of services.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the largest customer and the five largest customers of the Group accounted for around 7.9% and 12.3% of the Group's total revenue during the year. The revenue attributable to CNPGC Group accounted for around 7.9% of the Group's total revenue during the year.

The purchases from the Group's largest supplier and the five largest suppliers accounted for around 2.1% and 8.8% of the Group's total purchases during the year. The purchases from CNPGC Group accounted for around 2.1% of the Group's total purchases during the year.

Save as disclosed above, at any time during the year, none of the Directors, their close associates, or any shareholders of the Company (which to the best knowledge of the Directors own more than 5% of the Company's issued shares) had any interest in the Group's five largest suppliers and customers.

RETIREMENT SCHEME

Details of the employees' retirement schemes of the Group are set out in note 35 to the consolidated financial statements.

AUDITOR

The consolidated financial statements for the year ended 31 December 2024 have been audited by Ernst & Young. The auditor of the Company has not changed in the past three years.

AUDIT COMMITTEE

The Group's final results and audited financial statements for the year ended 31 December 2024 have been reviewed by the audit committee of the Company (the "Audit Committee"). Information relating to the terms of reference of the Audit Committee and its composition are set out in the Corporate Governance Report on pages 60 to 61 of this report.

CORPORATE GOVERNANCE

The Company is dedicated to maintaining a high standard of corporate governance. Information regarding the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 51 to 72 of this report.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float as not less than 25% of the Company's issued shares are held by the public.

By Order of the Board

YANG Jun
Chairman

Hong Kong, 25 March 2025