歌礼
ascletis

Ascletis Pharma Inc.
歌禮製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

STOCK CODE: 1672

2022
ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Jinzi Jason WU
(Chairman and Chief Executive Officer)
Mrs. Judy Hejingdao WU
(Senior Vice President)

Independent Non-executive Directors

Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

AUDIT COMMITTEE

Mr. Jiong GU *(Chairman)*
Dr. Yizhen WEI
Ms. Lin HUA

REMUNERATION COMMITTEE

Ms. Lin HUA *(Chairman)*
Dr. Yizhen WEI
Mrs. Judy Hejingdao WU

NOMINATION COMMITTEE

Dr. Jinzi Jason WU *(Chairman)*
Ms. Lin HUA
Dr. Yizhen WEI

AUTHORISED REPRESENTATIVES

Dr. Jinzi Jason WU
Mrs. Judy Hejingdao WU

COMPANY SECRETARY[1]

Mr. Ming Fai CHUNG

(effective from August 22, 2022)

REGISTERED OFFICE

Walkers Corporate Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

CORPORATE HEADQUARTERS IN THE PRC

12/F, Building D
198 Qidi Road
HIPARK
Xiaoshan District
Hangzhou
Zhejiang Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor
Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Walkers Corporate Limited
190 Elgin Avenue
George Town
Grand Cayman KY1-9008
Cayman Islands

HONG KONG SHARE REGISTRAR

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

Note:

1. Mr. Lok Kwan YIM resigned as the company secretary of the Company on August 22, 2022.

Corporate Information

HONG KONG LEGAL ADVISER

Kirkland & Ellis
26/F, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDITOR

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

STOCK CODE

1672

COMPANY WEBSITE

www.ascletis.com

Chairman's Statement

Dear Shareholders,

It is my pleasure to address you as we concluded another successful year at Ascletis. In spite of the unprecedented challenges that the pandemic has brought upon the world, we have remained resilient and focused on advancing our mission of improving patients' lives.

During the year of 2022 and up to the date of this report, the Group has successfully entered into commercial supply agreements of ritonavir tablets with both multi-national and domestic pharmaceutical companies such as Pfizer China, which once again demonstrated the Group's strong capabilities of business development.

Over the past year, we have made significant progress in our research and development programs. Our team has continued to work tirelessly to advance our pipeline of innovative therapies. The Group has obtained thirteen IND approvals from the U.S. FDA and/or China NMPA, advanced two new drug candidates into Phase II and supported the ongoing clinical development of six drug candidates for Phase II or Phase III. This R&D efficiency once again demonstrated operational excellence of the Group when compared with its peers in China biotech industry.

Our commitment to sustainability remains a top priority, and we are proud of the progress we have made in this area. We have implemented a number of initiatives to reduce our carbon footprint. We believe that our efforts in sustainability not only benefit the environment but also help us to operate more efficiently and effectively as a business.

I am deeply grateful for your trust in us. We understand that investing in a biotech company can be both exciting and challenging, and we take our responsibility to you as shareholders very seriously. We are committed to delivering on our promises, operating with integrity and transparency, and creating value for you over the long term.

Chairman's Statement

In the year of 2023, the Group will accelerate clinical trials of multiple drug candidates including ASC40 (FASN) for acne, ASC22 (PD-L1) for CHB functional cure, ASC10 for RSV, ASC40 (FASN) and ASC41 (THR-β) for NASH, and ASC40 (FASN) for rGBM. In addition, the Group will continue to actively explore partnership opportunities with both global and domestic companies to maximize its proprietary pipeline assets.

Once again, thank you for your continued support of our biotech company. We are excited about the future and look forward to updating you on our progress in the years to come.

Dr. Jinzi Jason WU
Chairman & Chief Executive Officer

Financial Summary

A summary of the results, the assets and liabilities of the Group for the last five financial years from the audited financial statements and related accounting records is set out below:

	2018 *RMB' 000*	2019 *RMB' 000*	2020 *RMB' 000*	2021 *RMB' 000*	**2022** ***RMB' 000***
Revenue					
Promotion service revenue	3,474	47,638	64,603	70,918	**40,440**
HCV product revenue	72,273	124,419	(29,602)	33	**8,798**
Ritonavir revenue	–	–	–	–	**4,826**
Collaboration revenue	90,578	1,386	–	5,925	**26**
Total	166,325	173,443	35,001	76,876	**54,090**
Gross (loss)/profit	153,946	124,283	(23,497)	39,173	**(24,692)**
Loss before tax	(19,870)	(95,969)	(209,241)	(199,017)	**(314,843)**
Loss for the year	(19,745)	(95,969)	(209,241)	(199,017)	**(314,843)**
Loss attributable to the owners of the Group	(7,258)	(95,969)	(209,241)	(199,017)	**(314,843)**
Net loss margin	(11.9)%	(55.3)%	(597.8)%	(258.9)%	**(582.1)%**

	RMB	*RMB*	*RMB*	*RMB*	***RMB***
Loss per share – Basic and diluted	(0.84) cents	(9.10) cents	(20.12) cents	(18.13) cents	**(28.96) cents**

			As of December 31,		
	2018 *RMB' 000*	2019 *RMB' 000*	2020 *RMB' 000*	2021 *RMB' 000*	**2022** ***RMB' 000***
Non-current assets	164,267	233,813	237,085	198,408	**112,316**
Current assets	3,363,336	3,192,574	2,829,987	2,631,551	**2,544,726**
Non-current liabilities	6,786	14,518	11,650	9,916	**8,967**
Current liabilities	93,405	87,652	73,772	90,971	**108,189**
Total equity	3,427,412	3,324,217	2,981,650	2,729,072	**2,539,886**

Corporate Profile

OUR VISION

Ascletis' vision is to become the most innovative world-class biomedical company addressing global unmet medical needs in the areas of viral diseases, NASH and oncology.

OVERVIEW

The total revenue of the Group decreased by 29.6% from approximately RMB76.9 million for the year ended December 31, 2021 to approximately RMB54.1 million for the year ended December 31, 2022 due to the termination of promotion service for Pegasys® in Mainland China with Roche Pharma China.

As at December 31, 2022, the Group had cash and cash equivalents of approximately RMB2,470.8 million, which is expected to be sufficient to support its R&D activities and operations until 2027.

The research and development expenses of the Group increased by 25.2% from approximately RMB213.3 million for the year ended December 31, 2021 to approximately RMB267.1 million for the year ended December 31, 2022, primarily because the Group's multiple drug candidates have been advanced into Phase II or Phase III clinical trials and the Group's ongoing investment on the research and development.

The Group has established a broad pipeline of assets with a focus on viral disease, NASH/PBC and oncology. During the Reporting Period and up to the date of this report, the Group successfully obtained 13 IND approvals from both China NMPA and the U.S. FDA, advanced two new candidates into Phase II and supported the clinical development of six ongoing candidates at Phase II or Phase III. This R&D efficiency once again demonstrated operational excellence of the Group when compared with its peers in China biotech industry.

The gross profit of the Group decreased from approximately RMB39.2 million for the year ended December 31, 2021 to gross loss of approximately RMB24.7 million for the year ended December 31, 2022. The decreased gross profit was primarily due to the impairment of inventories in relation to HCV product. If the impairment of HCV product related inventories was excluded, the gross profit would be approximately RMB23.9 million for the year ended December 31, 2022, representing a gross profit margin of 44.1% in 2022, which would be comparable of gross profit margin of 61.0% in 2021.

The loss of the Group increased from RMB199.0 million for the year ended December 31, 2021 to RMB314.8 million for the year ended December 31, 2022. The increased loss was mainly due to (i) the impairment of inventories in relation to HCV product; and (ii) the impairment of intangible assets in relation to HCV product. Excluding HCV product related impairments, the loss for the year ended December 31, 2022 would be RMB211.5 million, which would be comparable to the loss of RMB191.3 million for the year ended December 31, 2021.

Corporate Profile

During the Reporting Period and up to the date of this report, the Group has made the following progress:

(i) successfully entered into commercial supply agreements of ritonavir with both domestic and multi-national pharmaceutical companies including Pfizer Investment Co., Ltd. (輝瑞投資有限公司) ("**Pfizer China**"), Hainan Simcere Pharmaceutical Co., Ltd. (海南先聲藥業有限公司), a subsidiary of Simcere Pharmaceutical Group Limited (HKEX stock code: 2096, "**Simcere**") and an undisclosed pharmaceutical company in China;

(ii) completed 180 patients enrollment for Phase II clinical trial of FASN inhibitor ASC40 for acne. Clinical efficacy observed in patients who had completed 12-week treatment of ASC40 or placebo was comparable to that from two U.S. FDA approved acne drugs – WINLEVI® and TWYNEO®. The Phase II results are expected to be published in the second quarter of 2023;

(iii) presented Phase IIb clinical trial results of subcutaneous PD-L1 antibody ASC22 (Envafolimab) for functional cure of chronic hepatitis B (CHB) at oral session of the International Liver Congress™ 2022 (ILC 2022) by the European Association for the Study of the Liver (EASL). 42.9% patients with baseline hepatitis B surface antigen (HBsAg) ≤ 100 IU/mL (n=7) obtained sustained HBsAg loss, which indicates functional cure of CHB. After the pre-Phase III clinical trial meeting with Center for Drug Evaluation (CDE) of China NMPA in June 2022, the pathway to the registration, including patient population, dose and treatment duration, etc. of ASC22 (Envafolimab) for functional cure of CHB has been agreed. Based on this meeting, the enrollment of 50 CHB patients with HBsAg ≤ 100 IU/mL in the expansion cohort of Phase IIb clinical trial of ASC22 (Envafolimab) for functional cure of CHB has been initiated. Topline interim results of this expansion cohort are expected to be published in the third quarter of 2023;

(iv) completed the first patient dosing in Phase II clinical trial of THRβ agonist ASC41 in biopsy-confirmed NASH patients in China with 52-week treatment. Topline interim results of liver fat reduction, LDL-C reduction, liver enzymes and biomarkers of approximately 40 NASH patients after 12-week treatment are expected to be obtained in the third quarter of 2023;

(v) achieved positive interim results from Phase IIb clinical trial of FASN inhibitor ASC40 (denifanstat) in biopsy-confirmed NASH patients with 52 weeks of treatment. ASC40 showed statistically significant improvements across key disease markers after 26 weeks of treatment. Topline biopsy results after 52 weeks of treatment are expected to be published in the fourth quarter of 2023;

(vi) of 180 planned patients, 77 patients with recurrent glioblastoma (rGBM) were enrolled as of the date of this report in the Phase III clinical trial of FASN inhibitor ASC40. The enrollment of approximately 120 rGBM patients, which is needed for the planned interim analysis, is expected to be enrolled in the third quarter of 2023;

(vii) announced positive Phase I clinical results of broad-spectrum antiviral double prodrug ASC10; obtained U.S. FDA approval of conducting Phase IIa clinical trial for ASC10 to treat respiratory syncytial virus (RSV) infection and completion of Phase IIa clinical trial for RSV in the U.S. or China is expected in the fourth quarter of 2023; and

(viii) included in MSCI China Small Cap Index and Hang Seng Hong Kong-Listed Biotech Index.

Corporate Profile

Viral Disease Pipeline

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	Phase II	Phase III	NDA	Marketed
Ritonavir (Oral small molecule)	Cytochrome P450	Booster for COVID-19 etc	Global							
Ravidasvir (Oral small molecule)	NS5A	HCV	Greater China							
Danoprevir (Oral small molecule)	NS3/4A	HCV	Greater China							
ASC22 (Subcutaneous mAb)	PD-L1	CHB functional cure	Global[1]							
ASC42 (Oral small molecule)	FXR	CHB functional cure	Global							
ASC22 (Subcutaneous mAb)	PD-L1	HIV functional cure	Global[1]							
ASC22 (Subcutaneous mAb) +Chidamide	PD-L1	HIV functional cure	Global[1]							
ASC10 (Oral small molecule)	RdRp	COVID-19	Global							
ASC10 (Oral small molecule)	Viral polymerase	Monkeypox	Global							
ASC10 (Oral small molecule)	Viral polymerase	Respiratory syncytial virus	Global							
ASC11 (Oral small molecule)	3CLpro	COVID-19	Global							

Note:

1. ASC22 is licensed from Suzhou Alphamab Co., Ltd. ("**Suzhou Alphamab**") for the worldwide exclusive rights.

Abbreviations:

NS5A: Non-structure protein 5A; NS3/4A: Non-structure protein 3/4A; PD-L1: Programmed death ligand 1; FXR: Farnesoid X receptor; RdRp: RNA-dependent RNA polymerase; 3CLPro: 3-chymotrypsin like protease; COVID-19: Coronavirus Disease 2019; HCV: Hepatitis C virus; CHB: Chronic hepatitis B; HIV: Human immunodeficiency virus.

NASH/PBC Pipeline[1]

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	Phase II	Phase III
ASC40 (Oral small molecule)	FASN	NASH	Greater China[2]		U.S. FDA Fast Track			
ASC41 (Oral small molecule)	THRβ	NASH	Global					
ASC42 (Oral small molecule)	FXR	NASH	Global		U.S. FDA Fast Track			
ASC43F FDC (Oral small molecule)	THRβ+FXR	NASH	Global					
ASC44F FDC (Oral small molecule)	FASN+FXR	NASH	Global					
ASC45F FDC (Oral small molecule)	FASN+THRβ	NASH	Global					
ASC42 (Oral small molecule)	FXR	PBC	Global					

Notes:

1. NASH/PBC pipeline is owned by Gannex Pharma.
2. ASC40 is licensed from Sagimet Biosciences Inc. ("**Sagimet Biosciences**") (formerly known as 3-V Biosciences, Inc.) for the exclusive rights in the Greater China.

Abbreviations:

FASN: Fatty acid synthase; THRβ: Thyroid hormone receptor beta; FXR: Farnesoid X receptor; NASH: Non-alcoholic steatohepatitis; PBC: Primary biliary cholangitis.

Corporate Profile

Oncology Pipeline (Lipid Metabolism and Oral Checkpoint Inhibitors)

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	POC	Pivotal
ASC40 (Oral small molecule) +Bevacizumab	FASN + VEGF	Recurrent glioblastoma	Greater China[1]					
ASC40 (Oral small molecule)	FASN	Drug resistant Breast Cancer	Greater China[1]					
ASC40 (Oral small molecule)	FASN	KRAS mutant NSCLC	Greater China[1]					
ASC61 (Oral small molecule)	PD-L1	Advanced solid tumors	Global					
ASC60 (Oral small molecule)	FASN	Advanced solid tumors	Greater China[1]					
ASC60 (Oral small molecule)	FASN	Solid tumor 2	Greater China[1]					
ASC63 (Oral small molecule)	PD-L1	Advanced solid tumors	Global					

Note:

1. ASC40 and ASC60 are licensed from Sagimet Biosciences for the exclusive rights in the Greater China.

Abbreviations:

FASN: Fatty acid synthase; VEGF: Vascular endothelial growth factor; PD-L1: Programmed death ligand 1; NSCLC: Non-small cell lung cancer.

Exploratory Indication Pipeline

Product (Modality)	Target	Indication	Commercial Rights	Pre-IND	IND	Phase I	Phase II	Phase III
ASC40 (Oral small molecule)	FASN	ACNE	Greater China[1]					

Note:

1. ASC40 is licensed from Sagimet Biosciences for the exclusive rights in the Greater China.

Abbreviation:

FASN: Fatty acid synthase.

Management Discussion and Analysis

BUSINESS REVIEW

During the Reporting Period and up to the date of this report, the Group has made the following progresses with respect to its business.

Viral Diseases

Ritonavir for COVID-19

During the Reporting Period and up to the date of this report, the Group has successfully entered into commercial supply agreements of ritonavir with both domestic and multi-national pharmaceutical companies including Pfizer China, Simcere and an undisclosed pharmaceutical company in China. The Group believes these supply agreements will contribute significantly to the total revenue in 2023. However, the Group remains cautious for the sustainability of revenue generating from ritonavir due to the uncertainties of COVID-19 pandemic and demand for COVID-19 pills in Mainland China.

Ritonavir oral tablet is a pharmacokinetic booster of multiple oral antiviral drugs targeting viral proteases and a component of the approved oral antiviral drug PAXLOVID™ (Nirmatrelvir 300 mg tablet + ritonavir 100 mg tablet co-administration package).

During the Reporting Period, the Group has expanded its ritonavir oral tablet production capacity to approximately 530 million tablets per year.

ASC22 for CHB Functional Cure

During the Reporting Period, the Group dosed the first patient in the Phase IIb expansion cohort (the "**Expansion Cohort**") of subcutaneously administered PD-L1 antibody ASC22 (Envafolimab) for functional cure of CHB.

In June 2022, the Group announced oral presentation on updates from Phase IIb clinical trial of ASC22, a subcutaneous PD-L1 antibody for functional cure of CHB at the International Liver Congress™ 2022 (ILC 2022) held by EASL. The interim report for Phase IIb clinical trial results is based on a randomized, single-blind, multicenter Phase IIb clinical trial to assess the efficacy and safety of ASC22 in treatment of CHB patients (ClinicalTrials.gov Identifier: NCT04465890). In 1.0 mg/kg ASC22 cohort, 75 CHB patients were randomized to be treated with 1.0 mg/kg ASC22 (n=60) or placebo (PBO, n=15) once every 2 weeks (Q2W) plus Nucleot(s)ide analogues (NAs) for 24-week and then followed for another 24 weeks.

CHB remains to be a significantly unmet medical need globally, with approximately 86 million people in China and 1.59 million people in the U.S. infected with hepatitis B virus (HBV)[1]. NAs inhibit only reverse transcription of HBV RNA into HBV DNA and do not inhibit the transcription of HBV cccDNA into HBV RNA, thus have no inhibitory effect on HBsAg. ASC22 is the most advanced clinical stage immunotherapy in the world for CHB functional cure, i.e. HBsAg loss, through blocking PD-1/PD-L1 pathway.

1. Lim J K, Nguyen M H, Kim W R, et al. Prevalence of Chronic Hepatitis B Virus Infection in the United States [J]. The American journal of gastroenterology 2020, 115(9): 1429-38.

Management Discussion and Analysis

Pre-Phase III meeting of ASC22 was held in June 2022 with the CDE of China NMPA. The pathway moving forward to the registration was agreed by China NMPA. The dose of 1.0 mg/kg ASC22+NAs and the patient population with the baseline HBsAg≤ 100 IU/mL were agreed and the current Phase IIb study will be expanded to further confirm the rate of functional cure in such patient population and at such dose.

Anticipated 2023 Milestone: Topline interim results from Phase IIb Expansion Cohort of subcutaneously administered PD-L1 antibody ASC22 (Envafolimab) for functional cure of CHB in patients with the baseline HBsAg≤ 100 IU/mL are expected to be published in the third quarter of 2023.

ASC10 for Respiratory Syncytial Virus (RSV)

The Group has obtained U.S. FDA approval of conducting Phase IIa clinical trial for ASC10 to treat RSV infection and has submitted an application of the Phase IIa clinical trial for RSV indication in China.

RSV is the most common cause of bronchiolitis (inflammation of the small airways in the lung) and pneumonia (infection of the lungs) in children younger than 1 year of age in the U.S.[1] and causes approximately 58,000 hospitalizations among children under five annually[2]. RSV infection is estimated to cause about 14,000 annual deaths in U.S. adults over age 65. Globally, RSV affects an estimated 64 million people and causes 160,000 deaths each year[2]. RSV infection treatment remains huge unmet medical needs and there is no effective drug for treatment so far. According to the report from Astute Analytica, the global market of RSV therapies is expected to grow at CAGR of 14.9% from 2022-2027 and reach revenue of US$4.2 billion by 2027[3].

Preclinical research[4] showed that ASC10-A (NHC) is a potent inhibitor with EC_{50} of 0.51 to 0.6 uM against two RSV clinical isolates using *in vitro* infection assay in HEp-2 cells. Furthermore, preclinical research[4] also demonstrated that ASC10-A (NHC) is efficacious in a mouse RSV infection model.

Anticipated 2023 Milestone: Completion of Phase IIa clinical trial of ASC10 for RSV in the U.S. or China is expected in the fourth quarter of 2023.

1 https://www.cdc.gov/rsv/index.html

2 https://www.niaid.nih.gov/diseases-conditions/respiratory-syncytial-virus-rsv

3 https://www.astuteanalytica.com/industry-report/respiratory-syncytial-virus-market

4 Jeong-Joong Yoon, Mart Toots, Sujin Lee, et al. Orally Efficacious Broad-Spectrum Ribonucleoside Analog Inhibitor of Influenza and Respiratory Syncytial Viruses. Antimicrob Agents Chemother. 2018;62(8):e00766-18.

Management Discussion and Analysis

NASH/PBC

ASC40 for NASH

During the Reporting Period, the Group's strategic partner Sagimet Biosciences has announced positive interim Phase IIb clinical trial data with ASC40 (denifanstat), a first-in-class fatty acid synthase inhibitor, in moderate-to-severe biopsy-confirmed NASH patients. ASC40 (denifanstat) showed statistically significant improvements across key disease markers in after 26 weeks of treatment.

The Phase IIb study is a randomized, double-blind, placebo-controlled trial of 168 NASH patients with moderate-to-severe fibrosis (Stage F2 or F3), as confirmed by liver biopsy. In the planned interim analysis, 52 patients were evaluated after 26 weeks of treatment with either 50 mg ASC40 (denifanstat) or placebo. There were no treatment-related serious adverse events, with the majority of adverse events mild to moderate in nature (Grade 1 and 2).

During the period from November 4 to November 8, 2022, the Group's strategic partner Sagimet Biosciences presented three abstracts at The Liver Meeting of the American Association for the Study of Liver Diseases (AASLD). The presentation focused on identifying non-invasive tests correlated with AI-based digital pathology to ultimately minimize unnecessary biopsies and serum profiling that reveals metabolic benefits of ASC40 (denifanstat).

Anticipated 2023 Milestone: Phase IIb topline clinical results from 168 biospy-confirmed NASH patients after 52 weeks of treatment are expected to be published in the fourth quarter of 2023.

ASC41 for NASH

During the Reporting Period, the Group initiated Phase II clinical trial of ASC41 for biopsy-confirmed NASH patients. The Phase II clinical trial will enroll approximately 180 liver biopsy-confirmed NASH patients to be randomized into two treatment arms and one placebo control arm at the ratio of 1:1:1 with oral administration of ASC41 (2 mg or 4 mg) or placebo once daily for 52 weeks. The primary endpoint of the Phase II clinical trial is non-alcoholic fatty liver disease (NAFLD) activity score (NAS) improvement ≥2 points (improvement in inflammation or ballooning) and no worsening of fibrosis.

ASC41 Phase II clinical trial is currently the most advanced 52-week Phase II clinical trial which is initiated by a China biotech company with enrollment of liver biopsy-confirmed NASH patients. ASC41 is ranking first in China and third in the world in terms of clinical progress as a thyroid hormone receptor β (THRβ) agonist drug candidate for NASH.

Management Discussion and Analysis

ASC41 is a small molecule liver-targeted prodrug which will be converted into an active metabolite ASC41-A, a selective THRβ agonist. In September 2021, the Group's wholly-owned subsidiary, Gannex Pharma announced positive topline results from the U.S. Phase I trial of drug-drug interactions (DDI) in healthy subjects and pharmacokinetics (PK) in patients with NAFLD for ASC41. ASC41 is mainly metabolized by CYP3A4 to form an active metabolite ASC41-A, a selective THRβ agonist. Subsequently, the Group dosed the first patient in the 52-week Phase II clinical trial of THRβ agonist ASC41 for treatment of liver biopsy-confirmed NASH patients.

Anticipated 2023 Milestone: Topline interim results of liver fat reduction, LDL-C reduction, liver enzymes and biomarkers of approximately 40 NASH patients after 12-week treatment are expected to be published in the third quarter of 2023.

Oncology Pipeline (Lipid Metabolism and Oral Checkpoint Inhibitors)

ASC40 for rGBM

The Group announced the dosing of the first patient in the Phase III clinical trial of ASC40 combined with bevacizumab for treatment of rGBM in 2022. ASC40 is an oral, selective inhibitor of FASN, a key enzyme which regulates de novo lipogenesis (DNL). ASC40 inhibits energy supply and disturbs membrane phospholipid composition of tumor cells by blocking DNL.

The Phase III registration study (ClinicalTrials.gov Identifier: NCT05118776) is a randomized, double-blind, placebo-controlled, multi-center clinical trial in China to evaluate progression-free survival (PFS), overall survival (OS) and safety of patients with rGBM. Approximately 180 patients are expected to be 1:1 randomized to Cohort 1 (oral ASC40 tablet once daily + Bevacizumab) and Cohort 2 (matching placebo tablet once daily + Bevacizumab). Of 180 planned patients, the Group has enrolled 77 patients with rGBM as of the date of this report in the Phase III clinical trial of FASN inhibitor ASC40.

The Phase II study, completed in the U.S., in patients with rGBM has shown that the objective response rate (ORR) for ASC40 plus Bevacizumab treatment was 65% including a complete response (CR) of 20% and a partial response (PR) of 45%.

Based on published data, in China, glioblastoma (GBM) represents 57% of gliomas and has an incidence rate of approximately 2.85 to 4.56 per 100,000 population per year, suggesting approximately 40,000 to 64,000 new cases of GBM per year. More than 90% GBM patients will relapse after surgery, radiation and chemotherapies. In the U.S., GBM represents 56.6% of gliomas and has an incidence rate of approximately 3.21 per 100,000 population per year.

Anticipated 2023 Milestone: Completion of enrollment of approximately 120 rGBM patients, which is needed for the planned interim analysis, is expected in the third quarter of 2023.

Management Discussion and Analysis

Exploratory Indications Pipeline

ASC40 for moderate to severe acne

During the Reporting Period, the Group has completed the enrollment of all 180 patients for the Phase II clinical trial of ASC40 (denifanstat) for treatment of moderate to severe acne. Clinical efficacy observed in patients who have completed 12-week treatment of ASC40 or placebo was comparable to that from two U.S. FDA approved acne drugs – WINLEVI® and TWYNEO®.

ASC40 is an oral, selective inhibitor of FASN, a key enzyme which regulates DNL. Human sebum production requires DNL, which is increased in acne and suppressed by the FASN inhibitor ASC40. Human sebum production requires DNL, which is increased in acne and can be suppressed by the FASN inhibitor ASC40. Previous Phase I study showed that ASC40 can significantly reduce palmitic acid fatty acid methyl ester (FAME) in sebum.

Acne is the eighth most prevalent disease in the world and affects more than 640 million people globally[1]. The onset of acne often coincides with pubertal hormonal changes, and the condition affects approximately 85% of adolescents and young adults aged 12 to 25 years[2]. However, acne can also persist into or develop during adulthood.

Current first-line treatments for acne include topical creams such as topical retinoids and androgen receptor inhibitor, oral isotretinoin, and antibiotics. A report published by Allied Market Research indicated that the global acne medication market size was US$11.86 billion in 2019, and is projected to reach US$13.35 billion by 2027.

1. Tan J K, Bhate K. A global perspective on the epidemiology of acne [J]. Br J Dermatol 2015, 172 Suppl 1(3-12. DOI: 10.1111/bjd.13462.

2. Krowchuk D P. Managing acne in adolescents [J]. Pediatric clinics of North America 2000, 47(4): 841-57. DOI: 10.1016/s0031-3955(05)70243-1.

Anticipated 2023 Milestone: Topline Phase II clinical results are expected to be published in the second quarter of 2023 and initiation of Phase III clinical trial is expected to be commenced in the fourth quarter of 2023.

Cautionary statement required by Rule 18A.05 of the Listing Rules: We cannot guarantee that we will be able to ultimately develop, market and/or commercialize the drug candidates in our pipeline successfully.

Management Discussion and Analysis

THE GROUP'S FACILITIES

The Group has manufacturing facilities located in Shaoxing, Zhejiang Province with a total gross floor area of 17,000 square meters. In 2022, the Group announced that it has further expanded its ritonavir oral tablet production capacity to approximately 530 million tablets per year, to meet the potential escalation in the domestic and global demands. The Group has taken multiple measures for expansion of the annual ritonavir production capacity, including adding additional key equipment. For our manufacturing facility, the Group has obtained the commercial drug production licenses of Ritonavir, ASCLEVIR® and GANOVO®. Our manufacturing facility is equipped with state-of-the-art production equipment with cutting-edge technology capabilities such as hot-melt extrusion and high-speed press to ensure the high quality of our products.

As at December 31, 2022, the Group had 11 wholly-owned subsidiaries. The Group's business was mainly conducted through three operating subsidiaries in China, namely Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司), Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司) and Gannex Pharma.

OTHER UPDATES

Based on market forecasts, the Group will no longer proactively promote HCV products from 2023.

IMPACT OF COVID-19 PANDEMIC

During the Reporting Period, COVID-19 pandemic had limited impacts on the Group's operation, such as R&D and sales activities. The Group took various measures to minimize negative impacts of COVID-19 pandemic on the operations and business activities.

BUSINESS DEVELOPMENT

During the Reporting Period, the Group is dedicated to further enhancing its business development capabilities. The Group appointed Mr. John P. Gargiulo, the former North America President and Chief Executive Officer of Daiichi Sankyo Company, Limited, as Chief Business Officer. Together with the global collaborations, the appointment will further accelerate the Group's growth as it expects to launch multiple commercial products in the next three years. During the Reporting Period and up to the date of this report, the Group has successfully entered into commercial supply agreements of ritonavir with both domestic and multi-national pharmaceutical companies including Pfizer China, Simcere and an undisclosed pharmaceutical company in China.

Management Discussion and Analysis

FUTURE AND OUTLOOK

The Group has established a comprehensive pipeline with a focus on viral diseases, NASH/PBC and oncology. The following are strategies and outlook for 2023:

1. Accelerate Phase II or III clinical trials of ASC22 (PD-L1) for CHB functional cure, ASC40 (FASN) for acne, ASC40 (FASN) for NASH, ASC41 (THR-β) for NASH, ASC40 (FASN) for rGBM, ASC10 for RSV; and

2. Explore license-out opportunities of ASC10 (RdRp) and ASC11 (3CL) for COVID-19, ASC22 (PD-L1) for CHB functional cure, ASC40 (FASN) for acne, and ASC41 (THR-β) for NASH.

FINANCIAL REVIEW

Revenue

The total revenue of the Group decreased by 29.6% from approximately RMB76.9 million for the year ended December 31, 2021 to approximately RMB54.1 million for the year ended December 31, 2022 due to the termination of promotion service for Pegasys® in China with Roche Pharma China.

Cost of Sales

The cost of sales of the Group increased from approximately RMB37.7 million for the year ended December 31, 2021 to approximately RMB78.8 million for the year ended December 31, 2022, primarily due to the impairment of HCV product related inventories. Excluding negative impact of the impairment of HCV product related inventories, the cost of sales was approximately RMB30.2 million. Therefore, the gross profit would be approximately RMB23.9 million, representing a gross profit margin of 44.1% in 2022, which would be comparable to the gross profit margin of 61.0% in 2021.

The cost of sales of the Group consisted of direct labor costs, cost of raw materials, overheads, royalty fees to F. Hoffmann-La Roche AG ("**Roche**") and Presidio Pharmaceuticals, Inc. ("**Presidio**"), costs of rendering promotion services and the impairment of inventories.

Direct labor costs primarily consisted of salaries, bonus and social security costs for our employees.

Costs of raw materials represented the costs in relation to the purchase of raw materials for our drug candidates. We own technologies and intellectual properties to manufacture APIs for GANOVO® (Danoprevir) and ASCLEVIR® (Ravidasvir).

Management Discussion and Analysis

Overheads primarily consisted of depreciation charges of the facility and equipment and other manufacturing expenses.

The Company has agreed to pay Roche and Presidio tiered royalties in the mid-single digits based on net sales of GANOVO® (Danoprevir) and ASCLEVIR® (Ravidasvir) in any and all regimens in Greater China.

The cost of sales rendering promotion services primarily consisted of costs incurred for the direct promotion.

Gross Loss/Profit

The gross profit of the Group decreased from approximately RMB39.2 million for the year ended December 31, 2021 to gross loss of approximately RMB24.7 million for the year ended December 31, 2022. The decreased gross profit was primarily due to the impairment of inventories in relation to HCV product. If the impairment of HCV product related inventories was excluded, the gross profit would be approximately RMB23.9 million for the year ended December 31, 2022, representing a gross profit margin of 44.1% in 2022, which would be comparable of gross profit margin of 61.0% in 2021.

Other Income and Gains

Other income and gains of the Group increased by 70.0% from approximately RMB65.9 million for the year ended December 31, 2021 to approximately RMB112.0 million for the year ended December 31, 2022, primarily because (i) the Group recorded foreign exchange gain of approximately RMB60.2 million for the year ended December 31, 2022; and (ii) bank interest income increased by 96.2% from approximately RMB22.5 million for the year ended December 31, 2021 to approximately RMB44.2 million for the year ended December 31, 2022.

Government grants mainly represented the subsidies we received from the local governments for compensating our expenses from research activities and clinical trials, awarding our new drug development and capital expenditure incurred on certain projects.

The following table sets forth the components of our other income and gains for the years indicated:

	Year ended December 31,			
	2022		2021	
	RMB'000	***%***	*RMB'000*	*%*
Foreign exchange gain, net	**60,182**	**53.7**	–	–
Bank interest income	**44,162**	**39.4**	22,506	34.2
Government grants	**4,349**	**3.9**	40,883	62.0
Investment income from financial assets at fair value through profit or loss	**3,322**	**3.0**	2,484	3.8
Others	**1**	**0.0**	18	0.0
Total	**112,016**	**100.0**	65,891	100.0

Management Discussion and Analysis

Selling and Distribution Expenses

The selling and distribution expenses of the Group mainly consisted of staff cost for our sales personnel and the expenses for marketing promotion activities. It decreased by 18.6% from approximately RMB20.9 million for the year ended December 31, 2021 to approximately RMB17.0 million for the year ended December 31, 2022.

Administrative Expenses

The administrative expenses of the Group increased by 17.5% from approximately RMB29.9 million for the year ended December 31, 2021 to approximately RMB35.2 million for the year ended December 31, 2022.

Our administrative expenses primarily consisted of (i) staff salary and welfare costs for non-research and development personnel; (ii) utilities, rent and general office expenses; and (iii) agency and consulting fee.

The following table sets forth the components of our administrative expenses for the years indicated:

	Year ended December 31,			
	2022		2021	
	RMB'000	***%***	*RMB'000*	*%*
Staff salary and welfare	**19,770**	**56.2**	13,456	44.9
Utilities, rent and general office expenses	**11,227**	**31.9**	12,048	40.2
Agency and consulting fee	**4,114**	**11.7**	3,948	13.2
Others	**88**	**0.2**	495	1.7
Total	**35,199**	**100.0**	29,947	100.0

Management Discussion and Analysis

Research and Development Expenses

Our Group's research and development expenses primarily consisted of preclinical and clinical expenses, staff costs and depreciation and amortization costs.

The research and development expenses of the Group for developing our drug candidates increased by 25.2% from approximately RMB213.3 million for the year ended December 31, 2021 to approximately RMB267.1 million for the year ended December 31, 2022. This was primarily due to the Group's continuous investment on the research and development of antiviral drug candidates for COVID-19 and CHB functional cure.

The following table sets forth the components of our research and development costs for the years indicated:

	Year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
Preclinical and clinical expenses	**139,567**	106,219
Staff costs	**84,081**	68,557
Depreciation and amortization	**25,475**	25,650
Others	**17,979**	12,894
Total	**267,102**	213,320

The following table sets forth the components of our research and development costs by product pipeline for the years indicated:

	Year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
Viral diseases	**144,791**	67,261
NASH/PBC	**45,683**	80,212
Oncology	**36,311**	50,109
Exploratory indications	**23,286**	6,676
Others[1]	**17,031**	9,062
Total	**267,102**	213,320

1 "Others" includes costs of pre-clinical programs other than viral diseases, NASH/PBC, oncology and exploratory indications.

Management Discussion and Analysis

Finance Costs

The Group recorded finance costs of approximately RMB0.2 million for the year ended December 31, 2022 due to the interest on the lease liabilities (December 31, 2021: RMB0.1 million).

The following table sets forth the components of our finance costs for the years indicated:

	Year ended December 31,			
	2022		2021	
	RMB'000	**%**	*RMB'000*	*%*
Interest on the lease liabilities	**157**	**100**	125	100
Total	**157**	**100**	125	100

Other Expenses

Other expenses of the Group increased significantly by 172.7% from approximately RMB21.9 million for the year ended December 31, 2021 to approximately RMB59.8 million for the year ended December 31, 2022, mainly due to the increased impairment of other intangible assets.

The following table sets forth the components of other expenses for the years indicated:

	Year ended December 31,	
	2022	2021
	RMB'000	*RMB'000*
Impairment of other intangible assets	**54,748**	–
Donation	**4,627**	5,480
Impairment of property, plant and equipment	**443**	–
Others	**12**	23
Foreign exchange loss, net	**–**	16,439
Total	**59,830**	21,942

Management Discussion and Analysis

Income Tax

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated. The Group calculates the income tax expense by using the tax rate that would be applicable to the expected total annual earnings.

The Group did not incur any income tax expense as the Group did not generate taxable income for the year ended December 31, 2021 and 2022.

Inventories

The inventories of the Group consisted of raw materials used in the commercial manufacturing and research and development, work in progress and finished goods. Our inventories decreased from RMB56.2 million at year ended December 31, 2021 to RMB20.5 million at year ended December 31, 2022, mainly attributable to the increased impairment of inventories.

The following table sets forth the inventory balances as of the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Raw materials	**9,116**	44,348
Work in progress	**9,766**	3,345
Finished goods	**1,637**	8,540
Total	**20,519**	56,233

Trade Receivables

The Group had approximately RMB53.6 million trade receivables as at December 31, 2021 and RMB23.9 million trade receivables as at December 31, 2022. The following table sets forth the trade receivables balances as of the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Trade receivables	**23,878**	53,622
Less: Impairment of trade receivables	**5**	16
Total	**23,873**	53,606

Management Discussion and Analysis

The Group's trading terms with its customers are mainly on credit. The credit period is generally from 30 days to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the dates indicated, based on the invoice date and net of loss allowance, is as follows:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**13,537**	38,676
3 to 6 months	**10,336**	14,930
	23,873	53,606

Prepayments, Other Receivables and Other Assets

The following table sets forth the components of prepayment, other receivables and other assets as at the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Prepayments	**8,125**	2,340
Value-added tax recoverable	**5,399**	13,785
Deposits and other receivables	**2,648**	2,593
Prepaid expenses	**2,128**	2,298
Total	**18,300**	21,016

Our prepayments mainly included our purchase of services. Our prepayments increased by 247.2% from RMB2.3 million as at December 31, 2021 to RMB8.1 million as at December 31, 2022. Prepayments to suppliers as at December 31, 2022 are due within one year. None of the above assets is past due or impaired.

Our value-added tax recoverable represented the value-added taxes paid with respect to our procurement that can be credited against future value-added tax payables. Our value-added tax recoverable decreased by 60.8% from approximately RMB13.8 million as at December 31, 2021 to approximately RMB5.4 million as at December 31, 2022, primarily because we received value-added tax rebates and credited against our value-added tax payables.

Other receivables and prepaid expenses are miscellaneous expenses including other administrative related expenses.

Management Discussion and Analysis

Fair Value and Fair Value Hierarchy of Financial Instruments

The financial assets at fair value through profit or loss of the Group increased from approximately RMB5.2 million as at December 31, 2021 to approximately RMB11.2 million as at December 31, 2022, which was primarily because the Group purchased certain financial products to improve the utilization of its cash on hand.

Cash and Cash Equivalents

The following table sets forth the components of the Group's cash and cash equivalents and time deposits as at the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Time deposits	**2,067,066**	768,085
Cash and bank balances	**403,768**	1,727,411
Total	**2,470,834**	2,495,496

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods depending on our immediate cash requirements, and earn interest at the respective time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Trade Payables

Trade Payables of the Group primarily consisted of payments to raw materials suppliers. The following table sets forth the component of trade payables as at the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Trade payables	**3,135**	1,054
Total	**3,135**	1,054

Management Discussion and Analysis

An aging analysis of the trade payables as at the end of the Reporting Period, based on the invoice date, is as follows:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**2,365**	648
3 to 12 months	**745**	406
1 to 2 years	**25**	–
	3,135	1,054

Other Payables and Accruals

The following table sets forth the components of other payables and accruals outstanding as at the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Other payables	**42,688**	34,344
Accrued expenses	**30,472**	25,240
Payroll payable	**24,126**	23,095
Taxes other than income tax	**1,553**	3,959
Refund liabilities	**1,834**	123
Contract liabilities	**377**	–
Total	**101,050**	86,761

Our other payables increased by 24.3% from approximately RMB34.3 million as at December 31, 2021 to approximately RMB42.7 million as at December 31, 2022.

The accrued expenses as at December 31, 2022 mainly represented the accrued research and development expenses actually incurred but not yet invoiced, which are non-interest-bearing and due within one year.

The payroll payable represented the bonus of 2022 accrued and salary accrued from December 2022, which are due within one year.

Management Discussion and Analysis

Deferred Income

The deferred income of the Group represented government grants which have been awarded, but we have yet to meet the conditions of the grants as of the relevant dates. The following table sets forth the deferred income as of the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Government grants		
Current	**1,588**	1,588
Non-current	**7,146**	8,734
Total	**8,734**	10,322

Liquidity and Capital Resources

The primary uses of cash of the Group are to fund research and development, purchase of equipment and raw materials and other recurring expenses. During the Reporting Period, the Group funded our working capital and other capital expenditure requirements through capital injections from Shareholders at the Listing.

The following table sets forth a condensed summary of our Group's consolidated statement of cash flows for the periods indicated and analysis of balances of cash and cash equivalents for the years indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Net cash used in operating activities	**(142,453)**	(146,930)
Net cash used in investing activities	**(1,297,387)**	(274,492)
Net cash used in financing activities	**(1,419)**	(31,098)
Net decrease in cash and cash equivalents	**(1,441,259)**	(452,520)
Cash and cash equivalents at the beginning of year	**1,727,411**	2,210,504
Effect of foreign exchange rate changes, net	**117,616**	(30,573)
Cash and cash equivalents at the end of year	**403,768**	1,727,411

As at December 31, 2022, our cash and cash equivalents were mainly denominated in Renminbi, USD and HKD.

Management Discussion and Analysis

Operating Activities

Our cash inflows from operating activities mainly consisted of trade receivables from customers, government grants and bank interests. Our cash outflows from operating activities mainly consisted of selling and distribution expenses, research and development costs, and administrative expenses.

For the year ended December 31, 2022, we had net cash flows used in operating activities of approximately RMB142.5 million, primarily as a result of operating loss before changes in working capital of approximately RMB201.8 million. The changes in working capital are mainly due to an decrease in trade receivables of approximately RMB29.7 million in relation to our promotion services.

Investing Activities

Our cash used in investing activities mainly consisted of cash in time deposits with original maturity of over three months, purchase of property, plant and equipment, purchase of intangible assets, and purchase of financial assets at fair value through profit or loss.

For the year ended December 31, 2022, our net cash used in investing activities was approximately RMB1,297.4 million, primarily attributable to an increase in time deposits with original maturity of over three months of approximately RMB1,280.4 million.

Financing Activities

Our cash used in financing activities primarily related to our corporate financings during the Reporting Period.

For the year ended December 31, 2022, our net cash flows used in financing activities was approximately RMB1.4 million, primarily attributable to principal portion of lease payments.

Management Discussion and Analysis

Capital Expenditures

The principal capital expenditures of the Group primarily consisted of plant and machinery, the purchase of office equipment and expenditures for construction in progress. The following table sets forth our net capital expenditures as at the dates indicated:

	December 31,	
	2022	2021
	RMB'000	*RMB'000*
Plant and machinery	**3,985**	2,764
Office equipment	**2,268**	1,758
Construction in progress	**14**	34
Total	**6,267**	4,556

Significant Investments, Material Acquisitions and Disposals

During the year ended December 31, 2022, the Group did not have any significant investments, other material acquisitions and disposals of subsidiaries and associate companies.

Save as disclosed in this annual report, as at December 31, 2022, the Group did not have any definite future plan for material investments or acquisition of material capital assets.

Indebtedness

Borrowings

As at December 31, 2022, the Group did not have any indebtedness.

As at December 31, 2022, the Group did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, any guarantees or other material contingent liabilities.

Management Discussion and Analysis

Contingent Liabilities, Charges of Assets and Guarantees

On December 29, 2022, Viking Therapeutics, Inc. ("**Viking**"), a pharmaceutical company in the United States, filed certain complaints against the Company, its founder Jinzi Jason WU and certain subsidiaries of the Company in connection with the Group's drug candidates ASC41 and ASC43F. The Company believes that the allegations brought by Viking have no merit and will vigorously defend against the complaints. Accordingly, the Group has not made any provision for the allegations arising from the complaints filed by Viking as at December 31, 2022.

Contractual Commitments

The Group leased certain of its properties and warehouse under operating lease arrangements. Leases for properties and warehouse are negotiated for terms ranging mainly from one to three years.

The Group had nil operating lease commitments as at December 31, 2022 and 2021, respectively.

The Group had RMB1.9 million of capital commitment as at December 31, 2022 and RMB2.1 million of capital commitment as at December 31, 2021.

Key Financial Ratios

The following table sets forth our key financial ratios as of the dates indicated:

	December 31,	
	2022	2021
Current ratio[1]	**23.5**	28.9
Quick ratio[2]	**23.3**	28.3
Gearing ratio[3]	**4.4%**	3.6%

(1) Current ratio represents current assets divided by current liabilities as of the same date.

(2) Quick ratio represents current assets less inventories and divided by current liabilities as of the same date.

(3) Gearing ratio represents total liabilities divided by total assets as of the same date and multiplying by 100%.

Management Discussion and Analysis

Our current ratio decreased from 28.9 as at December 31, 2021 to 23.5 as at December 31, 2022, and our quick ratio decreased from 28.3 as at December 31, 2021 to 23.3 as at December 31, 2022, primarily due to a decrease in current asset. Our gearing ratio increased from 3.6% as at December 31, 2021 to 4.4% as at December 31, 2022.

Foreign Exchange

Foreign currency risk refers to the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between Renminbi and other currencies in which the Group conducts business may affect our financial condition and results of operation.

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD. Foreign exchange risk arises from recognized assets and liabilities in foreign operations. The conversion of Renminbi from foreign currencies, including the USD, has been based on rates set by the People's Bank of China. The Group seeks to limit our exposure to foreign currency risk by closely monitoring and minimizing its net foreign currency position. During the Reporting Period, the Group did not enter into any currency hedging transactions.

Employees and Remuneration Policies

The emoluments of the Directors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration Committee, having regard to the Group's operating results, salaries paid by comparable companies, time commitment and responsibilities and employment conditions of the Directors and senior management.

As at December 31, 2022, the Group had a total of 278 employees, 274 of which were located in the PRC. Over 76% of our employees obtained a bachelor's degree or higher. The table below sets forth our Group's employees by function as disclosed:

	As at December 31, 2022	
	Number of employees	**% of total**
Management	**5**	**2**
Research and development	**166**	**60**
Commercialization	**29**	**10**
Manufacturing	**25**	**9**
Operations	**53**	**19**
Total	**278**	**100**

Management Discussion and Analysis

Our Group's total staff costs for the year ended December 31, 2022 was approximately RMB127.0 million, compared to approximately RMB110.6 million for the year ended December 31, 2021.

The Group recruits employees through recruitment websites, recruiters, internal referral and job fairs. The Group conducts new employee training, as well as professional and compliance training programs for employees of the commercialization team.

The Group enters into employment contracts with employees to cover matters such as wages, benefits and grounds for termination. The remuneration package of our employees includes salary and bonus, which are generally determined by the qualifications, industry experience, position and performance. The Group makes contributions to social insurance and housing provident funds for our employees as required by the PRC laws and regulations.

The Group also has adopted a restricted stock unit scheme, a restricted stock unit option incentive scheme and a share option scheme.

Employee Benefits

A majority of the Group's employees are located in the PRC. These employees are required to participate in a central pension scheme (the "**PRC Pension Scheme**") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC Pension Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the PRC Pension Scheme. For the year ended December 31, 2022, approximately RMB17.1 million was charged in the consolidated income statement of the Group (for the year ended December 31, 2021: approximately RMB14.6 million), which represented contributions paid to the PRC Pension Scheme at rates specified in the rules of the scheme. Under the PRC Pension Scheme, no forfeited contributions will be used by the employers to reduce the existing level of contributions.

Directors and Senior Management

DIRECTORS

Executive Directors

Jinzi Jason WU

Chairman of the Board, executive Director and chief executive officer

Dr. Jinzi Jason WU (吳勁梓), aged 60, is the Founder of our Group. Dr. Wu was appointed as a Director on February 25, 2014 and was appointed as the chairman of the Board on March 30, 2018. Dr. Wu was re-designated as an executive Director on April 27, 2018. Dr. Wu has served as the chief executive officer of our Group since April 2013. Dr. Wu is primarily responsible for overall management of the business strategy and corporate development of our Group. Dr. Wu is also involved in research and development of all of the candidates in the Group's pipeline. Dr. Wu also holds the following positions with other members of our Group:

- a director of PowerTree since January 2011;
- a director and chief executive officer of Ascletis BioScience since April 2013;
- a director and chief executive officer of Ascletis Pharmaceuticals since September 2014;
- a director of Ascletis Pharma (China) since March 2018;
- a director and chief executive officer of Ascletis Biopharma since April 2018;
- a director and chief executive officer of Ascletis Xinnuo Medicine since July 2018;
- a director of AP11 Limited since November 2018;
- a director of Sagimet since February 2019;
- a director of SoundRidge Pharmaceuticals (Hong Kong) Co., Limited since April 2019;
- a director and chief executive officer of Gannex Pharma Co., Ltd. Since September 2019; and
- a manager of Gannex, LLC since October 2020.

Dr. Wu has more than 25 years of experience in pharmaceutical research and development. From June 2008 to February 2011, he served as a vice president of HIV Drug Discover Performance Unit at GSK in the U.S., a global pharmaceutical company whose shares are listed on the New York Stock Exchange (ticker symbol: GSK), where he was mainly responsible for discovery and development of multiple pre-clinical and clinical stage drug candidates. From June 2004 to June 2008, Dr. Wu served as a vice president of Pre-clinical and Basic Research at Ambrilia (formerly known as Procyon), a global biotech company headquartered in Montreal Canada, whose shares were listed on the Canada Stock Exchange (ticker symbol: AMB) and were later delisted on March 4, 2011, where he was mainly responsible for overseeing research and development in areas of anti-viral and anti-cancer drugs. From 2002 to 2004, Dr. Wu also served at PhageTech Inc., an antibiotic discovery company, as a vice president of research and development. Dr. Wu also worked at Immunex Corporation as a group leader of small molecule drug discovery in 2002 prior to joining PhageTech Inc. From 1997 to 2000, Dr. Wu served as a senior scientist at Novartis Pharmaceuticals Corporation, a global pharmaceutical company whose shares are listed on New York Stock Exchange (ticker symbol: NVS), where he was mainly responsible for drug screening.

Directors and Senior Management

Dr. Wu received his bachelor's degree in physiology from Nanjing University (南京大學) in the PRC in July 1985, his master's degree in physiology from Nanjing University in the PRC in June 1988 and his doctorate degree in cancer biology from University of Arizona in the U.S. in August 1996.

Mrs. Judy Hejingdao WU (何淨島), aged 49, was appointed as a Director on March 30, 2018 and was re-designated as an executive Director on April 27, 2018. Mrs. Wu also served as a Director of our Company from September 9, 2015 to September 26, 2016. Mrs. Wu is the spouse of Dr. Jinzi Jason WU. Mrs. Wu has served as a vice president of our Group since January 2014 and was re-designated as a senior vice president of operations since March 1, 2021. Since joining our Group, Mrs. Wu has actively participated in the daily operations of our Group and she is primarily responsible for overseeing operations of our Group, including management of our human resource and general affairs of our Group, among others. Mrs. Wu also holds the following positions with other members of our Group:

- a director and a vice president of Ascletis BioScience, where she is mainly responsible for operations of the company since January 2014;

- a vice president of Ascletis Pharmaceuticals where she is mainly responsible for operations of the company from September 2014 to December 2021; and

- a manager of Gannex, LLC since January 2021.

Mrs. Wu received her bachelor's degree in industrial design from Zhejiang University (浙江大學) in the PRC in July 1996.

Note: Dr. Wu and Mrs. Wu are spouses.

Independent Non-executive Directors

Dr. Yizhen WEI (魏以楨), aged 48, was appointed as an independent non-executive Director on April 27, 2018. Dr. Wei is primarily responsible for supervising and providing independent judgement to our Board.

Dr. Wei has over 20 years of experience in clinical medicine industry. Since December 1999, Dr. Wei has served several positions at Fuwai Hospital – China Academy of Medical Science (中國醫學科學院阜外醫院), including resident physician from December 1999 to September 2003, attending physician from September 2003 to July 2009 and consultant physician thereafter and obtained the professional title as a chief physician in July 2022. Dr. Wei was appointed as a medical appraisal expert of Beijing Medical Association (北京市醫學會) in December 2013. Dr. Wei has served as a member of the Cardiovascular Committee of the National Cardiovascular Disease Center since August 2016.

Dr. Wei received his bachelor's degree in clinical medicine in English (英文醫學) from China Medical University (中國醫科大學) in the PRC in July 1998 and his doctorate degree in Surgery from Chinese Academy of Medical Science & Peking Union Medical College (中國醫學科學院北京協和醫學院) in the PRC in January 2008.

Mr. Jiong GU (顧炯), aged 50, was appointed as an independent non-executive Director on April 27, 2018. Mr. Gu is primarily responsible for supervising and providing independent judgement to our Board. Mr. Gu is also the chairman of the audit committee of our Board.

Directors and Senior Management

Mr. Gu was the chief financial officer of CMC Capital Partners (華人文化產業投資基金), an investment fund specializing in media and entertainment investment in the PRC and globally from September 2013 to August 2016. Mr. Gu has served as the chief financial officer and vice president of CMC Holdings Limited (華人文化有限責任公司), an investment platform focusing on media and entertainment investments since September 2016. From January 2010 to August 2013, Mr. Gu served as the chief financial officer in BesTV New Media Co., Ltd.(百視通新媒體股份有限公司), a PRC company principally engaged in the provision of technical services, content services and marketing services for television terminals, computer terminals and mobile terminals through a media source platforms, whose shares are listed on Shanghai Stock Exchange (stock code: 600637). From April 2004 to December 2009, Mr. Gu successively worked at UTStarcom Telecom Co., Ltd. (UT 斯達康通訊有限公司) and its holding company, UTStarcom Inc. a global telecom infrastructure provider specialized in the provision of packet optical transport and broadband access products to network operators, whose shares are listed on Nasdaq (ticker symbol: UTSI), where he was responsible for accounting and financial matters. From July 1995 to April 2004, Mr. Gu had worked for Ernst & Young's Shanghai office and was the senior manager of the audit department when he left the firm. From June 2015 to June 2021, Mr. GU was the independent non-executive director of Xinming China Holdings Limited (新明中國控股有限公司) (HK2699). From June 2015 to November 2020, Mr. Gu was the independent non-executive director of Chen Xing Development Holdings Ltd (辰興發展控股有限公司) (HK2286). From March 2017, he has been appointed as the independent non-executive director of Amlogic (Shanghai) Co., Ltd (晶晨半導體(上海)股份有限公司) (Stock code: 688099). From September 2018 to January 2023, he was the independent non-executive director of Dafa Properties Group Limited (大發地產集團有限公司) (HK6111). From May 2019, Mr. Gu has been appointed as the independent non-executive director of Mulsanne Holding Limited (慕尚集團控股有限公司) (HK1817). From June 2019 to November 2020, he was the independent non-executive director of Tu Yi Holding Company Limited (途屹控股有限公司) (HK1701). From December 2020, he has been appointed as the independent non-executive director of Vesync Co., Ltd (HK2148). From December 2022, he has been appointed as the independent non-executive director of Howkingtech International Holding Limited (濠暻科技國際控股有限公司) (HK2440).

Mr. Gu has been a non-practicing member of the Chinese Institute of Certified Public Accountants since April 2004. Mr. Gu received his bachelor's degree in finance management from Fudan University (復旦大學) in the PRC in July 1995.

Ms. Lin HUA (華林), aged 49, was appointed as an independent non-executive Director on April 27, 2018. Ms. Hua is primarily responsible for supervising and providing independent judgement to our Board.

Since May 2016, Ms. Hua has served as the managing director of Beijing Highgrove Cultural Communication Co., Ltd. (北京海格羅府文化傳播有限公司), a company primarily conducted cultural communication activities including organizing exhibitions and introducing and marketing foreign brands into PRC, where she was mainly responsible for overall management of its Greater China operations. From April 2010 to April 2016, Ms. Hua had worked for Yang Guang Xin Ye Real Property Co., Ltd. (陽光新業地產股份有限公司), a real estate development and management company whose shares are listed on the Shenzhen Stock Exchange (stock code: 000608) and served as a vice president of commercial management department when she left. From May 2003 to March 2010, Ms. Hua worked at Verakin Group Company Ltd. (同景集團有限公司), a company primarily conducted real estate development, education, healthcare and tourism and served as board secretary and head of Beijing headquarter when she left. From October 2002 to April 2003, Ms. Hua served as an assistant to producer and program director at China Central Television. From September 1996 to June 2000, Ms. Hua worked at Daiko Pacific International Advertising Inc. (大廣太平洋國際廣告有限公司), an international advertising company, and she served as a creative director when she left.

Ms. Hua received her bachelor's degree in industrial design from Zhejiang University (浙江大學) in July 1996 and her master's degree in distributed computing system from the University of Greenwich in the U.K. in June 2002.

Directors and Senior Management

SENIOR MANAGEMENT

For the biographies of Dr. Jinzi Jason WU and Mrs. Judy Hejingdao WU, please refer to "Directors – Executive Directors".

Dr. Handan HE (何菡菡), aged 61, was appointed as the Chief Scientific Officer of the Group on October 8, 2019. Prior to joining our Group, Dr. He was a former Global Head of Computational, Biopharmaceutics and Translational PK/PD at Novartis Pharmaceutical Corporation, New Jersey, USA. Dr. He joined Novartis, New Jersey in 1997. She managed scientific teams across Novartis global sites in USA and Switzerland. Her main responsibilities included in silico ADME predictions, human PK/PD projections, translational PK/PD, in vitro and in vivo correlations, and clinical Physiologically Based Pharmacokinetic modeling for drug absorption, drug interaction, organ impairment and pediatrics.

Dr. He was a recipient of the 2009 Outstanding 50 Asian Americans in Business Award. Dr. He served as the 20th President of Sino-American Pharmaceutical Professionals Association (SAPA), an organization of over 4000 pharmaceutical scientists. She obtained Ph.D. in Drug Metabolism and Pharmacokinetics from University of Saskatchewan, Canada in May, 1995.

Mr. John P. GARGIULO, aged 63, was appointed as the Chief Scientific Officer of the Group on May 15, 2022. Mr. John P. Gargiulo has over 30 years of successful experience in marketing strategies, business integration and commercial operations in global pharma/biotech industry. He has held various senior positions with increasing responsibility for 18 years at Daiichi Sankyo, where he made a transformative contribution in driving Daiichi Sankyo's U.S. business from the very beginning to an established pharma when he served as North America President and CEO of Daiichi Sankyo.

Mr. Gargiulo earned a master's degree in business administration and graduated as Fuqua Scholar from Fuqua School of Business, Duke University. He graduated magna cum laude from Boston University with a bachelor degree of economics.

Ms. (Helen) Yuemei YAN (言月梅), aged 53, was appointed as the Sales Director of the Group on November 8, 2016, she was appointed as Vice President of the Company in April 2018 and was appointed as Senior Vice President of Clinical Development and Operations of the Company in March 2021. Ms. Yan has over 18 years of experience in sales management. Prior to joining our Group, Ms. Yan served several roles at Sino-American Shanghai Squibb Pharmaceuticals Ltd. (中美上海施貴寶製藥有限公司) including sales managers and national sales director from November 2005 to October 2016, where she mainly in charge of sales for products of cardiovascular and virology therapeutic area. From June 2001 to October 2005, Ms. Yan served as Medicine Representative in Hangzhou Merck Sharp & Dohme Pharmaceuticals Limited (杭州默沙東製藥有限公司). From August 1988 to June 2001, Ms. Yan served as a nurse at Ningbo No. 1 Hospital (寧波市第一醫院). Ms. Yan obtained her master degree in business administration from Asia Metropolitan University in Malaysia in June 2018 and obtained her college degree in nursing from Zhejiang University (浙江大學) in the PRC in December 1999 through part-time study.

COMPANY SECRETARY

Mr. Ming Fai CHUNG (鍾明輝), was appointed as our company secretary on August 22, 2022. Mr. Chung currently served as a vice president of SWCS Corporate Service Group (Hong Kong) Limited (方圓企業服務集團(香港)有限公司), a professional services provider specializing in corporate services. He has over 18 years of experience in corporate secretary, merges and acquisitions, financial reporting and auditing. Mr. Chung is currently a fellow of the Hong Kong Institute of certified Public Accountants and a member of CPA Australia. He obtained his bachelor's degree in commerce from the Australian National University in December 2003.

Report of Directors

The Directors are pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2022.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in research and development, production, marketing and sale of pharmaceutical products.

A list of the Company's subsidiaries, together with their places of incorporation, principal activities and particulars of their issued shares/paid up capital, is set out in note 1 to the consolidated financial statements in this annual report.

BUSINESS REVIEW

Overview and Performance of the Year

A review of the business of the Group during the year, a discussion and analysis on the Group's future business development and the financial and operational key performance indicators employed by the Directors in measuring the performance of the Group's business are set out in the sections headed "Financial Summary" on page 6 of this annual report, "Corporate Profile" on pages 7 to 10 and "Management Discussion and Analysis" on pages 11 to 31 of this annual report.

Environmental Policies and Performance

The Group is subject to national and local environmental, health and safety laws and regulations, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes in China. The Group has established detailed internal rules regarding environmental protection. The Group tests effluent water to ensure compliance with national emission standards. Solid waste is sorted for proper disposal. Hazardous waste is sent to qualified third parties for treatment. When a new construction project is proposed, the Group conducts comprehensive analysis and testing on the environmental issues involved in the manufacturing processes. The Group's production team and environment, health and safety department are primarily responsible for ensuring compliance with applicable environmental rules and regulations. All of the Group's properties, plants and equipment meet the standards required for compliance with applicable environmental rules and regulations, and the Group believes it has maintained a good relationship with the communities surrounding the Group's production facilities.

To the best knowledge of the Group, during the year ended December 31, 2022, the Group has complied with the relevant environmental and occupational health and safety laws and regulations in China and we did not have any incidents or complaints which had a material and adverse effect on our business, financial condition or results of operations during the Reporting Period.

Report of Directors

BUSINESS REVIEW (Continued)

Compliance with Relevant Laws and Regulations

For the year ended December 31, 2022, compliance procedures were in place to ensure adherence to applicable laws, rules and regulations which have significant impact on the Group. The Board and senior management within their respective duties in conjunction with internal and external professional advisors monitored the Group's policies and practices on compliance with legal and regulatory requirements. Changes in the applicable laws, rules and regulations which have significant impact on the Group (if any) were brought to the attention of relevant employees and relevant operation units from time to time. During the Reporting Period, various works of the Board and senior management were in compliance with the relevant applicable laws and regulations, the Articles of Association, written terms of reference of the board committees, internal policies and the relevant provisions of various internal control systems. Decision-making process was legitimate and effective. Directors and senior management performed in a diligent and responsible manner and the resolutions of the board meetings were implemented faithfully. Meanwhile, the Company has timely performed its disclosure obligations which were in strict compliance with the requirements of the Listing Rules or manuals of the Stock Exchange.

In accordance with the requirements of the laws, regulations and related policies in China and relevant other jurisdictions in which the Group operates, the Group provides and maintains statutory benefits for its staff, including but not limited to pension schemes, mandatory provident fund, basic medical insurance, work injury insurance, etc. Further, the Group has been committed in complying relevant laws and regulations on work and occupational safety of employees of the Group. The Group has implemented work safety guidelines setting out safety practices, accident prevention and accident reporting. Our employees responsible for manufacturing and quality control and assurance are required to hold relevant qualifications, as well as wear proper safety gear when working. We conduct safety inspections for our manufacturing facility twice a month.

To the best knowledge of the Group, during the year ended December 31, 2022, there were no material breaches of the Group's internal rules or applicable laws and regulations relating to the promotion and distribution of the Group's pharmaceutical products by its employees or distributors and the Group has complied with all relevant rules and regulations that have significant impact on it.

Report of Directors

BUSINESS REVIEW (Continued)

Key Relationship with Stakeholders

The Group recognizes that various stakeholders including employees, medical experts, distributors, and other business associates are key to the Group's success. The Group strives to achieve corporate sustainability through engaging, collaborating, and cultivating strong relationship with them.

The Group believes that it is vital to attract, recruit and retain quality employees. To maintain the quality, knowledge and skill levels of Group's workforce, the Group provide the employees with periodic training, including introductory training for new employees, technical training, professional and management training and health and safety training. The Group believes that it maintains a good relationship with its employees and the Group did not experience any significant labor disputes or any difficulty in recruiting staff for its operations.

The Group conducts academic marketing activities to establish and maintain relationships with key opinion leaders in the national medical system. The Group provides these experts with detailed information on its products and helps them make independent comparisons among competing products in the market. The Group also maintains long-term cooperative relationships with several national academic associations. The Group believes that its relationships with medical experts help to raise the Group's profile, enhance awareness of the Group's products in the medical community and among patients, and provide it with valuable clinical data to improve the Group's products, all of which help the Group market and sell its products more effectively.

A significant amount of the Group's sales is attributable to a limited number of distributors. The Group selects the distributors based on their qualifications, reputation, market coverage and sales experience. The Group generally seeks to have long time business relationship with its large distributors.

Report of Directors

BUSINESS REVIEW (Continued)

Key Risks and Uncertainties and Risk Management

The Group is a biotechnology company listed on the Main Board of the Stock Exchange under Chapter 18A of the Listing Rules. There are unique challenges, risks and uncertainties associated with companies such as our Company, including:

- we may face intense competition in the market for anti-viral drugs;
- we may be unable to obtain regulatory approval for our drug candidates;
- our financial prospects depend on the successful development and approval of our clinical-stage and pre-clinical stage product pipeline;
- our drug candidates may fail to achieve the degree of market acceptance by physicians, patients, third-party payers and others in the medical community necessary for commercial success;
- we have in-licensed, and may continue to seek strategic alliances or enter into additional licensing arrangements in the future, a number of drug candidates for development and commercialization, which is subject to risks;
- we could be unsuccessful in obtaining or maintaining adequate patent protection for one or more of our drug candidates; and
- we may be unable to attract and retain senior management and key scientific employees.

The Company believes that risk management is essential to the Group's efficient and effective operation. The Company's management assists the Board in evaluating material risk exposure arising internally and externally from the Group's business, including operational risks, financial risks, regulatory risks, etc, and proactively setting up appropriate risk management and internal control mechanism which is embedded in daily operation management. The Group's financial risk management objectives and policies are set out in note 35 to the consolidated financial statements of this annual report.

Report of Directors

DIRECTORS

The Directors during the Reporting Period and up to the date of this Directors' Report were:

Executive Directors

Dr. Jinzi Jason WU *(Chairman and Chief Executive Officer)*
Mrs. Judy Hejingdao WU *(Senior Vice President)*

Independent Non-executive Directors

Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

Biographies of the Directors and Senior Management

The biographical details of the Directors and the senior management of the Company are set out in the section headed "Directors and Senior Management" on pages 32 to 35 of this annual report.

Service Contracts of the Directors

Each of the executive Directors has entered into a renewed service contract with the Company with effective dated commencing from May 24, 2021 for a term of three years since the effective date. Each of the independent non-executive Directors has entered into a renewed agreement of appointment with the Company with effective date of April 1, 2021 for a term of three years since the effective date.

None of the Directors proposed for re-election at the forthcoming AGM has a service contract with the Company or any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Remuneration of the Directors and Five Highest Paid Individuals

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in notes 8 and 9 to the consolidated financial statements of this annual report.

Employees and Remuneration Policies

A review of the employees and remuneration policies of the Group during the year are set out in the section headed "Management Discussion and Analysis" on pages 30 to 31 of this annual report.

Independence of Independent Non-Executive Directors

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

Report of Directors

NON-COMPETE UNDERTAKING

Our Controlling Shareholders, provided a non-compete undertaking in favour of the Group (the "**Non-compete Undertaking**"), pursuant to which our Controlling Shareholders undertook not to, and to procure their respective close associate(s) (other than our Group) not to, either directly or indirectly, compete with our principal business, which includes development and commercialization of innovative drugs against HCV, HIV, HBV, liver cancer and fatty liver ("**Restricted Activities**") unless with prior approval from non-related Directors and granted our Group the option for new business opportunities.

Our Controlling Shareholders have confirmed in writing to the Company of their compliance with the Non-compete Undertaking during the Reporting Period. No new business opportunity was informed by the Controlling Shareholders during the Reporting Period.

The independent non-executive Directors have reviewed the implementation of the Non-compete Undertaking based on the information and confirmation provided by or obtained from the Controlling Shareholders, and are of the view that the Non-compete Undertaking has been complied with by our Controlling Shareholders during the Reporting Period.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Save as disclosed in this annual report, as at December 31, 2022, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance subsisted in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, during or at the end of the Reporting Period.

Report of Directors

CONNECTED TRANSACTIONS

Details on related party transactions for the year ended December 31, 2022 are set out in note 32 to the consolidated financial statements. There was no connected transaction nor continuing connected transaction of the Group which has to be disclosed in accordance with the Chapter 14A of the Listing Rules during the Reporting Period.

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

As at December 31, 2022, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Interests in shares or underlying shares of the Company

Name of Director	Capacity/Nature of interest	Number of Shares/ underlying Shares[1]	Approximate percentage of shareholding interest
Dr. Wu	Interest in controlled corporation[2]	514,393,664 (L)	47.32%
	Interest of spouse[2]	82,827,414 (L)	7.62%
	Interest held jointly with another person[3]	2,311,000 (L)	0.21%
Mrs. Wu	Interest in controlled corporation[2]	82,827,414 (L)	7.62%
	Interest of spouse[2]	514,393,664 (L)	47.32%
	Interest held jointly with another person[3]	2,311,000 (L)	0.21%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) 514,393,664 Shares were held by Dr. Wu through JJW12 Limited, a company incorporated in the BVI and wholly owned by Dr. Wu; and 82,827,414 Shares were held by Lakemont Holding LLC.

As at December 31, 2022, Lakemont Holding LLC was controlled by Lakemont Remainder Trust as to 45.95% and Northridge Trust as to 53.52%. Lakemont Remainder Trust and Northridge Trust (the "**Family Trusts**") are discretionary trusts that Mrs. Wu (a spouse of Dr. Wu) was the trustee of the Family Trusts who can exercise the voting rights in the Shares held by the Family Trusts and hence Mrs. Wu was a beneficiary of the Family Trusts. Mrs. Wu was the sole manager of Lakemont Holding LLC and investment advisor of the Family Trusts.

(3) 2,311,000 Shares were held by Dr. Wu and Mrs. Wu jointly.

Save as disclosed above, as at December 31, 2022, so far as it was known to the Directors or chief executive of the Company, none of the Directors or chief executive of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations as recorded in the register required to be kept, pursuant to Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Report of Directors

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

As at December 31, 2022, so far as it was known to the Directors or chief executive of the Company, the following persons (other than the Directors and chief executive of the Company) had interests and/or short positions in the Shares or underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Interests in shares or underlying shares of the Company

Name of Shareholder	Capacity/Nature of Interest	Number of Shares(1)	Approximate percentage of Shareholding interest
JJW11 Limited(2)	Beneficial owner	63,509,821 (L)	5.84%
JJW12 Limited(3)	Beneficial owner	514,393,664 (L)	47.32%
Lakemont Holding LLC (4)	Beneficial owner	82,827,414 (L)	7.62%
C-Bridge Capital GP, Ltd.(5)	Interest of controlled corporation	64,154,727 (L)	5.90%
Fu Wei(5)	Interest of controlled corporation	64,154,727 (L)	5.90%
TF Capital II, Ltd.(5)	Interest of controlled corporation	64,154,727 (L)	5.90%
TF Capital, Ltd.(5)	Interest of controlled corporation	64,154,727 (L)	5.90%
Kang Hua Investment Company Limited(6)	Interest of controlled corporation	105,463,060 (L)	9.70%
Yang Dan(6)	Interest of controlled corporation	105,463,060 (L)	9.70%

Notes:

(1) The letter "L" denotes the person's long position in the Shares.

(2) The only one issued share of JJW11 Limited was held by Dr. Wu on behalf of the participants under the RSU Scheme adopted by JJW11 Limited. Dr. Wu has irrevocably appointed Ms. Heying YANG (楊荷英) (being a supervisor of Ascletis BioScience and the sole director of JJW11 Limited) as proxy to exercise all voting rights on such shares in her absolute discretion. Dr. Wu does not enjoy and disclaim any beneficial interest in JJW11 Limited.

(3) The 514,393,664 Shares were held by Dr. Wu through JJW12 Limited, a company incorporated in the BVI and wholly owned by Dr. Wu.

(4) As at December 31, 2022, Lakemont Holding LLC was controlled by Lakemont Remainder Trust as to 45.95% and Northridge Trust as to 53.52%. The Family Trusts are discretionary trusts that Mrs. Wu (a spouse of Dr. Wu) was the trustee of the Family Trusts who can exercise the voting rights in the Shares held by the Family Trusts and hence Mrs. Wu was a beneficiary of the Family Trusts. Mrs. Wu was the sole manager of Lakemont Holding LLC and investment advisor of the Family Trusts.

(5) The 64,154,727 Shares were indirectly held by C-Bridge Capital GP, Ltd. which is owned as to approximately 38.34% and approximately 45% by TF Capital II, Ltd. and TF Capital, Ltd. respectively. Fu Wei indirectly owns approximately 47.83% of TF Capital II, Ltd.

(6) The 105,463,060 Shares were indirectly held by Kang Hua Investment Company Limited which is wholly owned by Yang Dan.

Save as disclosed above, as at December 31, 2022, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Report of Directors

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Save as disclosed in this annual report, no Controlling Shareholders or their subsidiaries had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

MAJOR CUSTOMERS AND SUPPLIERS

Major Customers

For the year ended December 31, 2022, the Group's sales to its five largest customers accounted for 90.1%, as compared to 100% of the Group's total revenue for the year ended December 31, 2021. The Group's sales to the largest customer accounted for 74.8% of the Group's total revenue for the year ended December 31, 2022, as compared to 92.2% for the year ended December 31, 2021.

Major Suppliers

For the year ended December 31, 2022, the Group's five largest suppliers accounted for 29.2%, as compared to 43.2% of the Group's total purchase amounts for the year ended December 31, 2021. The Group's single largest supplier accounted for 7.2% of the Group's total purchases for the year ended December 31, 2022, as compared to 14.1% for the year ended December 31, 2021.

During the year ended December 31, 2022, none of the Directors or any of their close associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any interest in the Group's five largest customers and suppliers.

MANAGEMENT CONTRACTS

During the Reporting Period, the Company has not entered into any contract with any individuals, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Each Director or other officer of the Company shall be entitled to be indemnified out of the assets of Company from and against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or trusts or otherwise in relation thereto in accordance with the Articles of Association. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group during the year ended December 31, 2022.

Report of Directors

RESULTS AND DIVIDENDS

The Group's loss for the year ended December 31, 2022 and the Group's financial position at that date are set out in the consolidated financial statements on pages 114 to 116. The Board does not recommend any payment of final dividend for the year ended December 31, 2022. For further details, please see note 11 to the consolidated financial statements of this annual report.

SHARE CAPITAL

Details of movements in share capital of the Company during the Reporting Period are set out in note 26 to the consolidated financial statements of this annual report.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and note 27 to the consolidated financial statements of this annual report.

The distributable reserves of the Company as at December 31, 2022 were RMB2,960.3 million (2021: RMB2,975.2 million).

CHARITABLE DONATIONS

During the Reporting Period, charitable and other donations made by the Group amounted to RMB4,627,000 (2021: RMB5,480,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Reporting Period are set out in note 13 to the consolidated financial statements of this annual report.

USE OF PROCEEDS FROM LISTING

In connection with the Company's initial public offering, 224,137,000 ordinary shares of US$0.0001 each were issued at a price of HK$14.00 per share for a total cash consideration, before expenses, of approximately HK$3,137,918,000 (equivalent to RMB2,730,284,000).

Report of Directors

USE OF PROCEEDS FROM LISTING (Continued)

The net proceeds from the Listing (adjusted on a pro rata basis based on the actual net proceeds) have been utilized in that same manner, proportion and the expected timeframe as set out in the announcement on November 18, 2020 in relation to the change in use of proceeds from the global offering and the interim report published by the Company on September 24, 2021 (the "**Re-allocation**"). The table below sets out the planned applications of the remaining net proceed of HK$1,848.2 million after the Re-allocation as at December 31, 2021 and actual usage during the year ended December 31, 2022:

Use of proceeds	The unutilized net proceeds after the Re-allocation as at December 31, 2021 *(HK$ million)*	Percentage of total net proceeds after the Re-allocation as at December 31, 2021 *(%)*	Actual usage during the year ended December 31, 2022 *(HK$ million)*	Unutilized net proceeds as at December 31, 2022 *(HK$ million)*	Expected timeframe for use of proceeds
For the Core Products					
For continued research and development of the Core Product pipeline in Viral hepatitis, NASH/PBC, HIV/AIDS	1,030.1	55.7	105.7	924.4	The remaining amount is expected to be utilized in around three years from December 31, 2022
For the other assets and other purposes					
For upfront and milestone payments of in-licensing new drug candidates	403.1	21.8	7.8	395.3	The remaining amount is expected to be utilized in around three years from December 31, 2022
For supporting the research and development of new pipeline drug candidates	168.6	9.1	165.7	2.9	The remaining amount is expected to be utilized in around half year from December 31, 2022
For continued enhancement of current commercialization capability of marketed core products and future products	189.7	10.3	36.6	153.1	The remaining amount is expected to be utilized in around three years from December 31, 2022
For the working capital and other general corporate purposes	56.7	3.1	17.1	39.6	The remaining amount is expected to be utilized in around three years from December 31, 2022
Total	1,848.2	100.0	332.9	1,515.3	

Note: The expected timeframe for utilizing the net proceeds from the Listing is based on the best estimation made by the Company of future market conditions and progress on the research and development of our core products and new pipeline drug candidates and is subject to changes in accordance with our actual business operation and actual market conditions.

Report of Directors

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Company did not repurchase any Shares on the Stock Exchange during the year ended December 31, 2022. During the Reporting Period, the Company cancelled the remaining amount of 7,714,000 Shares repurchased in 2021 and the total number of Shares in issue has been reduced accordingly as at the date of this report.

Save for the above, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed Shares for the year ended December 31, 2022.

EQUITY-LINKED AGREEMENTS

The Company has adopted the Share Option Scheme on June 6, 2019 and is subject to the requirements under Chapter 17 of the Listing Rules.

1. PURPOSE

The purpose of the Share Option Scheme is to provide incentive or reward to eligible person(s) ("**Eligible Person(s)**") for their contribution to, and continuing efforts to promote the interests of, the Group and for such other purposes as the Board may approve from time to time.

2. WHO MAY JOIN

Eligible Persons include:

(a) any employee (whether full-time or part-time) of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest ("**Invested Entity**");

(b) any director (including executive, non-executive and independent non-executive directors) of the Group or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of any member of the Group or any Invested Entity;

(e) any advisory (professional or otherwise), consultant or agent that provides design, research, development or other technological support to any member of the Group or any Invested Entity; and

(f) any shareholder or any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The basis of eligibility of any of the above classes of Eligible Persons to the grant of any share options of the Company ("**Option(s)**") shall be determined by the Board from time to time on the basis of their contribution to the development and growth of the Group.

3. DURATION OF THE SHARE OPTION SCHEME

The Share Option Scheme shall be valid and effective for a period of 10 years and until June 5, 2029, after which period no further Options shall be granted. Subject to the above, in all other respects, in particular, in respect of Options remaining outstanding on the expiry of the 10-year period referred to in this paragraph, the provisions of the Share Option Scheme shall remain in full force and effect.

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

4. MAXIMUM NUMBER OF SHARES

At the time of adoption of the Share Option Scheme or any new share option scheme (the "**New Scheme**"), the aggregate number of Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme, the New Scheme and all schemes existing at such time (the "**Existing Scheme(s)**") of the Company must not in aggregate exceed 10% of the total number of Shares in issue as at the date of adoption of the Share Option Scheme or the New Scheme (as the case may be) (the "**Scheme Mandate Limit**"). For the purposes of calculating the Scheme Mandate Limit, Shares which are the subject matter of any Options that have already lapsed in accordance with the terms of the relevant Existing Scheme(s) shall not be counted. The Scheme Mandate Limit may be refreshed by ordinary resolution of the Shareholders in general meeting, provided that:

(a) the Scheme Mandate Limit so refreshed shall not exceed 10% of the total number of Shares in issue as at the date of Shareholders' approval of the refreshing of the Scheme Mandate Limit;

(b) Options previously granted under any Existing Scheme(s) (including options outstanding, cancelled, or lapsed in accordance with the relevant scheme rules or exercised options) shall not be counted for the purpose of calculating the limit as refreshed; and

(c) a circular regarding the proposed refreshing of the Scheme Mandate Limit has been despatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must contain the information required under Rule 17.02(2)(d).

The Company may seek separate approval from the Shareholders in the general meeting for granting Options which will result in the Scheme Mandate Limit being exceeded, provided that:

(a) the grant is to Eligible Persons specifically identified by the Company before the approval is sought; and

(b) a circular regarding the grant has been despatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must contain a generic description of the specified participants who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting Options to the specified participants with an explanation as to how the terms of the Options serve such purpose, the information required under Rule 17.02(2)(d).

Notwithstanding the foregoing, the maximum aggregate number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

5. MAXIMUM ENTITLEMENT OF EACH ELIGIBLE PERSON

No Option shall be granted to any Eligible Person (the "**Relevant Eligible Person**") if, at the relevant time of grant, the number of Shares issued and to be issued upon exercise of all Options (granted and proposed to be granted, whether exercised, cancelled or outstanding) to the Relevant Eligible Person in the 12-month period up to and including the date of such grant would exceed 1% of the total number of Shares in issue at such time, unless:

(a) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules in force from time to time, by ordinary resolution of the Shareholders in general meeting, at which the Relevant Eligible Person and his close associates (or his associates if the Relevant Eligible Person is a Connected Person) abstained from voting;

(b) a circular regarding the grant has been despatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules in force from time to time. In accordance with the current Listing Rules, the circular must disclose the identity of the participant, the number and terms of the Options to be granted (and Options previously granted to such participant), the information required under Rule 17.02(2)(d); and

(c) the number and terms (including the Subscription Price) of such Options are fixed before the general meeting of the Company at which the same are approved.

6. PERFORMANCE TARGETS AND EXERCISE OF OPTION

The Share Option Scheme does not stipulate either a minimum period for which an Option must be held or any performance targets a grantee is required to achieve before an Option may be exercised. The Board may specify in the offer letter any conditions which must be satisfied before the Option may be exercised, including without limitation such performance targets (if any) and minimum periods for which an Option must be held before it can be exercised and any other terms in relation to the exercise of the Option, including without limitation such percentages of the Options that can be exercised during a certain period of time, as the Board may determine from time to time.

7. SUBSCRIPTION PRICE AND CONSIDERATION FOR THE OPTION

The price at which each Share subject to an Option may be subscribed for on the exercise of that Option (the "**Subscription Price**") shall be a price solely determined by the Board and notified to an Eligible Person and shall be at least the highest of:

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

(b) the average of the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and

(c) the nominal value of the Shares.

No consideration is required upon acceptance of the grant of Options.

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

7. SUBSCRIPTION PRICE AND CONSIDERATION FOR THE OPTION (Continued)

During the year ended December 31, 2022, a total of 2,400,000 share options were approved by the board under the Share Option Scheme and a total of 2,400,000 share options were granted.

Details of options granted, exercised, cancelled/lapsed and outstanding under the Share Option Scheme during the year are as follows:

						Changes during the year					
Category of participants	Date of grant	Exercise price per share *(HK$)*	Closing price immediately before the date of grant *(HK$)*	Exercise period	Balance as at January 1, 2022	Granted	Exercised	Canceled/ Lapsed	Balance as at December 31, 2022	Unvested share options as at January 1, 2022	Unvested share options as at December 31, 2022
Eligible employees (five highest paid individuals excluded)	March 31, 2020	2.90	2.90	March 31, 2021 – March 30, 2030 *(Note a)*	2,591,753	–	–	(918,596)	1,673,157	2,073,403	1,003,891
	December 31, 2020	2.87	2.88	December 1, 2021 – November 30, 2030 *(Note b)*	2,000,000	–	(400,000)	(1,600,000)	–	1,600,000	–
	June 30, 2021	3.53	3.51	June 30, 2022 – June 29, 2031 *(Note a)*	100,000	–	–	–	100,000	100,000	80,000
	September 30, 2021	2.696	2.66	September 30, 2022 – September 29, 2031 *(Note a)*	2,400,000	–	–	(1,460,000)	940,000	2,400,000	720,000
	March 31, 2022	5.514	5.58	March 31, 2023 – March 30, 2032 *(Note a)*	–	100,000	–	–	100,000	–	100,000
	June 30, 2022	3.932	3.94	June 30, 2023 – June 29, 2032 *(Note a)*	–	200,000	–	–	200,000	–	200,000
	December 30, 2022	4.74	4.65	December 30, 2023 – December 29, 2032 *(Note a)*	–	100,000	–	–	100,000	–	100,000
Five Highest Paid Individuals *(Note c)*	March 31, 2020	2.90	2.90	March 31, 2021 – March 30, 2030 *(Note a)*	984,210	–	–	–	984,210	787,368	590,526
	April 7, 2021	2.89	2.90	April 7, 2022 – April 6, 2031 *(Note a)*	1,000,000	–	–	–	1,000,000	1,000,000	800,000
	June 30, 2022	3.932	3.94	June 30, 2023 – June 29, 2032 *(Note a)*	–	2,000,000	–	–	2,000,000	–	2,000,000
					9,075,963	2,400,000	(400,000)	(3,978,596)	7,097,367	7,960,771	5,594,417

Notes:

(a) All options granted have a vesting period of five years in equal proportions starting from the 1st anniversary and become fully vested on the 5th anniversary of the grant. In this table, "exercise period" begins with the 1st anniversary of the grant date.

(b) Subject to the satisfaction of certain conditions, the first 20% of the total options can be exercised from the date as specified in the relevant offer letter, and each 20% of the total options will become exercisable in each subsequent year.

(c) During the Reporting Period, the Company did not grant share options to any Directors.

Report of Directors

EQUITY-LINKED AGREEMENTS (Continued)

7. SUBSCRIPTION PRICE AND CONSIDERATION FOR THE OPTION (Continued)

The number of options available for grant under the scheme mandate was 98,355,345 as at December 31, 2022 (as at December 31, 2021: 100,755,345).

The number of shares that may be issued in respect of options granted under all schemes of the Company during the Reporting Period divided by the weighted average number of shares of the relevant class in issue for the same period is 0.0022.

For the fair value of the options granted during the Reporting Period at the grant date and the accounting standard and policy adopted, please refer to note 28 to the consolidated financial statements of this annual report.

Save as disclosed above and in our Prospectus, there was no other equity-linked agreement entered into by the Company during the year ended December 31, 2022.

AGM AND CLOSURE OF REGISTER OF MEMBERS

The Company will announce the date of the AGM and the period of closure of register of members in due course.

CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 53 to 65 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available and within the knowledge of the Directors, the Company maintained the prescribed public float as required under the Listing Rules as at the date of this annual report.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the Shareholders by reason of their holding of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association or the relevant laws of the Cayman Islands where the Company is incorporated which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

AUDITORS

The Company has appointed Ernst & Young as the auditor of the Company for the year ended December 31, 2022. The financial statements of the Company for the year ended December 31, 2022 have been audited by Ernst & Young. The auditor has not changed in the past three financial years.

Report of Directors

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

By order of the Board
Ascletis Pharma Inc.
歌禮製藥有限公司
Jinzi Jason WU
Chairman

Hangzhou, the People's Republic of China,
March 20, 2023

Corporate Governance Report

CORPORATE MISSION, VALUE AND CULTURE

Innovative Cures Liberate Life to the Fullest

Ascletis' vision is to become the most innovative world-class biomedical company. The Group is committed to developing and commercializing innovative drugs in the areas of NASH, cancer lipid metabolism and oral checkpoint inhibitors, and viral diseases, to address unmet medical needs both in China and globally. Led by a management team with deep expertise and a proven track record, the Group targets those therapeutic areas with unmet medical needs from a global perspective, and efficiently advances the developments of pipelines with an aim of leading in global competition. Our highly talented team of researchers and professionals who passionately share in this common vision.

Integrity, Courage, Excellence, Collaboration

Our values guide us on how we do business and how we work together internally, and externally with our domestic and global partners to achieve our goals on integrity, courage, excellence, collaboration. Our greatest assets are our employees. Ascletis is an equal opportunity employer and focused on providing a positive work environment where courageous innovation is encouraged and expected. We offer competitive salaries and benefits that reward employees for their contribution to the Group. We emphasize and promote values of acting lawfully, ethically and responsibly within our Group.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance.

The Board is of the view that the Company has complied with all applicable code provisions of the CG Code during the Reporting Period, except for a deviation from the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company are not separate and are both performed by Dr. Wu. The Company is an investment holding company with a professional management team to monitor the operations of the subsidiaries. The Board considers that vesting the roles of chairman and chief executive officer in the same person is more efficient in the direction and management of the Company and does not impair the balance of power and authority of the Board and the management of the business of the Company. The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Written Guidelines on no less exacting terms than the Model Code as its own code of conduct regarding securities transactions by the Directors.

Having made specific enquiry of all Directors, all of them have confirmed that they have complied with the Model Code and the Written Guidelines throughout the Reporting Period and to the date of this report. No incident of non-compliance of the Written Guidelines by the employees who are likely to be in possession of inside information of the Company was noted by the Company.

BOARD OF DIRECTORS

The Board oversees the Group's businesses, strategic decisions and performance and should take decisions objectively in the best interests of the Company.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

The Board should regularly review the contribution required of a Director to perform his responsibilities to the Company, and whether the Director is spending sufficient time in performing them.

The Board of the Company currently comprises the following Directors:

Executive Directors

Dr. Jinzi Jason WU *(Chairman and Chief Executive Officer)*[(Note)]
Mrs. Judy Hejingdao WU *(Senior Vice President)*[(Note)]

Independent Non-executive Directors

Dr. Yizhen WEI
Mr. Jiong GU
Ms. Lin HUA

Note: Dr. Wu and Mrs. Wu are spouses.

The biographical information of the Directors is set out in the section headed "Directors and Senior Management" on pages 32 to 34 of this annual report.

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

Save as disclosed above, the Directors do not have any other financial, business, family or other material/relevant relationships with one another.

Board Meetings and Directors' Attendance Records

Code provision C.5.1 of the CG Code prescribes that at least four regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through electronic means of communication.

During the Reporting Period the Company convened one general meeting and the Board convened four Board meetings and the attendances of Board meetings and general meetings are listed below:

Name of Directors	Attendance/ Number of Board Meeting(s)	Attendance/ Number of General Meeting(s)
Dr. Jinzi Jason WU	4/4	1/1
Mrs. Judy Hejingdao WU	4/4	1/1
Dr. Yizhen WEI	4/4	1/1
Mr. Jiong GU	4/4	1/1
Ms. Lin HUA	4/4	1/1

Apart from regular Board meetings, the Chairman also held a meeting with the independent non-executive Directors without the presence of executive Director during the year.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Chairman and Chief Executive Officer

Code provision C.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In view of Dr. Wu's experience, personal profile and his roles in our Group as mentioned above and that Dr. Wu has assumed the role of chief executive officer of our Group since our commencement of business, the Board considers it beneficial to the business prospect and operational efficiency of our Group that, Dr. Wu acts as the chairman of the Board and continues to act as the chief executive officer of our Company. While this deviates from code provision C.2.1 of the CG Code as set out in Appendix 14 to the Listing Rules, the Board believes that this structure will not impair the balance of power and authority between the Board and the management of the Company, given that: (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three independent non-executive Directors out of five Directors, which is more than half of the Board composition and the Listing Rules requirement of one-third, and we believe that there is sufficient check and balance in the Board; (ii) Dr. Wu and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and the Shareholders as a whole and will make decisions for our Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial, and operational policies of our Group are made collectively after thorough discussion at both Board and senior management levels. The Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman of the Board and chief executive officer is necessary.

Independent Non-executive Directors

During the Reporting Period, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors representing not less than one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive Directors in respect of his/her independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors are independent in accordance with the independence requirement set out in the Listing Rules.

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Appointment and Re-election of Directors

Each of the Directors is engaged on a service contract (in the case of the executive Directors) or a letter of appointment (in the case of the non-executive Directors and independent non-executive Directors) for a specific term of three years, which is renewable by mutual consent and subject to the Articles of Association of the Company.

The Articles of Association provides that all Directors appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by Shareholders at the next first annual general meeting of the Company after their appointments.

Every Director (including those appointed for a specific term) shall also be subject to retirement and re-election by rotation at least once every three years at the annual general meetings of the Company under the Articles of Association.

Responsibilities of the Directors

The Board should assume responsibility for leadership and control of the Company; and is collectively responsible for directing and supervising the Company's affairs.

The Board directly, and indirectly through its committees, leads and provides direction to management by laying down strategies and overseeing their implementation, monitors the Group's operational and financial performance, and ensures that sound internal control and risk management systems are in place.

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

The independent non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgment on corporate actions and operations.

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

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

Corporate Governance Report

BOARD OF DIRECTORS (Continued)

Continuous Professional Development of Directors

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that they remain informed and relevant for their contribution to the Board.

Every newly appointed Director has received formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Besides, meetings with senior management of the Company were also arranged.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the Reporting Period, the Company organized three training sessions on anti-corruption, Director's continuing obligations and updates on the proposed amendments to Chapter 17 of the Listing Rules conducted by Business Ethics Development Centre of Hong Kong Independent Commission Against Corruption, the Company's Hong Kong legal adviser and SWCS Corporate Services Group (Hong Kong) Limited, respectively, for all the Directors. In addition, relevant reading materials including directors' manual, legal and regulatory updates and seminar handouts have been provided to the directors for their reference and studying. They also received from the Company from time-to-time updates on laws, rules and regulations which may be relevant to their roles, duties and functions as director of a listed company. The table below summarises the participation of each of the Directors in continuous professional development during the Reporting Period:

Name of Directors	Attending training session	Reading Legal and Regulatory Updates and other Reference Materials
Executive Directors		
Dr. Jinzi Jason Wu	√	√
Mrs. Judy Hejingdao WU	√	√
Independent Non-executive Directors		
Dr. Yizhen WEI	√	√
Mr. Jiong GU	√	√
Ms. Lin HUA	√	√

Corporate Governance Report

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with specific written terms of reference which deal clearly with their authority and duties. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of the Remuneration Committee, Audit Committee and Nomination Committee are independent non-executive Directors.

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

Audit Committee

The Audit Committee consists of three independent non-executive Directors, namely Mr. Jiong GU, Dr. Yizhen WEI and Ms. Lin HUA. Mr. Jiong GU, being the chairman of the committee, is appropriately qualified as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee are to review and supervise the financial reporting process, risk management and internal controls system of the Group, assist the Board to fulfill its responsibility over the audit, and review and approve connected transactions and to advise the Board.

The Audit Committee is also responsible for performing the functions set out in code provision A.2.1 of the CG Code. These include developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board; reviewing and monitoring the training and continuous professional development of directors and senior management of the Company; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and directors of the Company; and reviewing the Company's compliance with the CG Code from time to time adopted by the Company and the disclosure in the corporate governance report to be contained in the Company's annual report.

The Audit Committee held six meetings during the Reporting Period to review and consider the interim financial results and reports for the six months ended June 30, 2022, the annual financial results and reports for the year ended December 31, 2021 and review the appropriateness and effectiveness of the risk management and internal control systems, as well as the audit plan for annual financial results and report for the years ended December 31, 2022.

The Audit Committee also met the external auditors five times during the Reporting Period without the presence of the executive Directors.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

The attendance records of the members of the Audit Committee are as follows:

Name of Directors	Attendance/ Number of Meeting(s)
Mr. Jiong GU *(Chairman)*	6/6
Dr. Yizhen WEI	6/6
Ms. Lin HUA	6/6

The Company's annual results for the year ended December 31, 2022 have been reviewed by the Audit Committee.

Remuneration Committee

The Remuneration Committee consists of three Directors, namely Ms. Lin HUA, Dr. Yizhen WEI and Mrs. Judy Hejingdao WU. Ms. Lin HUA is the chairman of the committee.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Remuneration Committee are to review and make recommendations to the Board regarding the terms of remuneration packages, bonuses and other compensation payable to our Directors and senior management.

The Remuneration Committee held two meetings during the Reporting Period to review and make recommendation to the Board on the remuneration policy and structure of the Company and the remuneration packages of the executive Directors and senior management, amendments to the terms of reference and other related matters. The discretionary year-end performance bonus of executive directors were based on their performance appraisal results in accordance with the Company's remuneration policy.

The Company granted share options to one of the five highest paid individuals on June 30, 2022. No material matters relating to share schemes under Chapter 17 of the Listing Rules were required to be reviewed or approved by the Remuneration Committee during the Reporting Period.

Pursuant to code provision E.1.5 of the CG Code, details of the remuneration of the senior management (other than Directors) by bands for the year ended December 31, 2022 is as follows:

	Number of employee(s)
HK$2,000,001 to HK$2,500,000	1
HK$4,000,001 to HK$4,500,000	1
HK$6,500,001 to HK$7,000,000	1

Details of the Directors' remuneration are set out in note 8 to the consolidated financial statements of this annual report.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Remuneration Committee (Continued)

The attendance records of the members of the Remuneration Committee are as follows:

Name of Members of the Remuneration Committee	Attendance/ Number of Meeting(s)
Ms. Lin HUA *(Chairman)*	2/2
Dr. Yizhen WEI	2/2
Mrs. Judy Hejingdao WU	2/2

Nomination Committee

The Nomination Committee consists of three Directors, namely Dr. Jinzi Jason WU, Dr. Yizhen WEI and Ms. Lin HUA. Dr. Jinzi Jason WU is the chairman of the committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Nomination Committee are to make recommendations to our Board regarding the appointment of Directors and Board succession.

The Board has adopted a board diversity policy (the "**Board Diversity Policy**") on December 27, 2018. A summary of the Board Diversity Policy is set out below:

Purpose: The Board Diversity Policy aims to set out the approach to achieve diversity of the Board.

Board Diversity Policy statement: With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Measurable Objectives: Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As of December 31, 2022, two out of five members of our Board were female Directors. The Nomination Committee has reviewed the Board Diversity Policy during the year and believed that the Board Diversity Policy was still appropriate and effective. The Nomination Committee was satisfied with the current gender diversity of our Board.

As of December 31, 2022, the ratio of male and female employees (including senior management) of the Company was 46.4% and 53.6% respectively. The Board was satisfied with the current gender diversity across the workforce (including senior management) of the Group.

Corporate Governance Report

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

The Nomination Committee has adopted a nomination policy which set out a set of nomination procedures and selection criteria for directors. The Nomination Committee shall evaluate and select candidates based on the criteria by reference to character and integrity, business experience relevant and beneficial to the Company, qualifications including professional qualifications, skills and knowledge that are relevant to the Company's business and corporate strategy, willingness to devote adequate time to discharge duties as a member of the Board and other significant commitments, present needs of the Board for particular expertise, skills or experience and whether the candidates would satisfy those needs, requirement for the Board to have independent directors in accordance with the Listing Rules and whether the candidates for independent directors would be considered independent with reference to the independence guidelines set out in the Listing Rules and the board diversity policy and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board.

The Nomination Committee held one meeting during the Reporting Period to review, among others, the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of our Company, to assess the independence of the independent non-executive Directors, and to discuss the Directors who retired by rotation in accordance with the Articles of Association, being eligible, had offered themselves for re-election at the 2022 AGM of the Company.

The attendance records of the members of the Committee are as follows:

Name of Members of the Nomination Committee	Attendance/ Number of Meeting(s)
Dr. Jinzi Jason WU *(Chairman)*	1/1
Dr. Yizhen WEI	1/1
Dr. Lin HUA	1/1

MECHANISMS FOR THE BOARD TO OBTAIN INDEPENDENT VIEWS AND OPINIONS

The Company has established a mechanism for the Board to obtain independent views and opinions (including but not limited to the Articles of Association, terms of reference of Board committees) to ensure the Board has an independent element as a key measure to improve the efficiency of the Board. The mechanism covers the channels for the Directors to seek advice from external professional advisors; the right for Directors to obtain further information and documents from the management in connection with the matters to be discussed at the Board meetings; the procedures and criteria for election of Directors (including independent non-executive Directors); and the number of independent non-executive Directors and their time commitments and contributions to the Board. The Board has reviewed the implementation and effectiveness of the mechanism and believed that the mechanism can ensure the Board to obtain the independent views and opinions.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

The Board has delegated the Audit Committee with the responsibility to oversee the risk management and internal control systems of the Group on an on-going basis and to review the effectiveness of the systems annually. The review covers all material controls, including financial, operational and compliance controls. The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

Under the Company's risk management and internal control structure, the management is responsible for the design, implementation and maintenance of risk management and internal control systems to ensure, amongst others, (i) appropriate policies and control procedures have been designed and established to safeguard the Group's assets against improper use or disposal; (ii) relevant laws, rules and regulations are adhered to and complied with; and (iii) that reliable financial and accounting records are maintained in accordance with relevant accounting standards and regulatory reporting requirements. The Group's risk management and internal control systems provide a comprehensive and organized structure with clearly defined scopes of responsibilities, authorities and procedures. Each department of the Group is also required to adhere strictly to the Group's internal control procedures and report to the risk management and internal control team of any risks or internal control issues. The Group would conduct self-assessment each year to confirm that all departments and the Group have properly complied with the risk management and internal control policy.

The Group has established an internal audit department, which carries out analysis and independent appraisal of relevant internal policies, including risk management and internal control policies to access operating risks and identify measures to minimize those risks; monitors and assesses the adequacy and effectiveness of the risk management system and internal control system of the Group regularly including the financial, operational and compliance controls; and reports to the Audit Committee and the Board on the internal audit results regularly and makes recommendations to the Board and the management to address the significant deficiencies of the internal control system or problems that identified during the monitoring process.

Any internal control defects identified by the internal audit department will be communicated to the department in question with advice for correction and remediation. Before the end of the year, the status will be reviewed. The compliance department will also assist in the correction and remediation. Any unresolved internal control defects at the end of the year will be informed to the management. For the year ended December 31, 2022, no material internal control defect was detected.

Arrangements are in place to facilitate employees of the Group to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Group. The Board is entrusted with the responsibility for monitoring and implementing the procedural requirements in the information disclosure policy. Release of inside information shall be led by the Board. Unless duly authorized, all staff members of the Company shall not disseminate inside information relating to the Group to any external parties and shall not respond to media report or market speculation which may materially affect the trading price or volume of the Shares.

During the year ended December 31, 2022, the Board, as supported by the Audit Committee as well as the management and internal audit department of the Group, reviewed the risk management and internal control systems of the Group and considered that such systems are effective and adequate. The Audit Committee has reviewed and considered that the internal audit department of the Group had adequate resources to carry out the assessment and the effectiveness of the risk management and internal control systems for the Reporting Period. The annual review also covered the financial reporting and staff qualifications, experience and relevant resources.

Corporate Governance Report

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended December 31, 2022.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 109 to 113 of this annual report.

DIVIDEND POLICY

The Company has adopted a dividend policy on December 27, 2018 which is in accordance with the relevant provisions of the Articles of Association. Pursuant to the dividend policy, the Company may from time to time in general meeting declare dividends in any currency to be paid to the Shareholders but no dividend shall be declared in excess of the amount recommended by the Board. No dividend shall be declared or payable except out of the profits and reserves of the Company lawfully available for distribution, including share premium. No dividend shall carry interest against the Company.

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks fit as a reserve or reserves which shall, at the discretion of the Board, be applicable for meeting claims on or liabilities of the Company or contingencies or for paying off any loan capital or for equalising dividends or for any other purpose to which the profits of the Company may be properly applied, and pending such application may, at the like discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit, and so that it shall not be necessary to keep any reserves separate or distinct from any other investments of the Company. The Board may also without placing the same to reserve carry forward any profits which it may think prudent not to distribute by way of dividend.

The Board may also, without convening a general meeting, from time to time declare interim dividends as appear to the Board to be justified by the financial conditions and the profits of the Company. The Board may also pay half-yearly or at other suitable intervals to be selected by it any dividend which may be payable at a fixed rate if the Board is of the opinion that the financial conditions and the profits available for distribution justify the payment. The Board may in addition from time to time declare and pay special dividends of such amounts and on such dates and out of such distributable funds of the Company as it thinks fit. Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the Board may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In case of the Board elects to pay the dividend in shares, the Company shall abide by the provisions of the Articles of Association on scrip dividends.

Corporate Governance Report

AUDITORS' REMUNERATION

An analysis of the remuneration paid/payable to the external auditors of the Company, Ernst & Young, in respect of audit services and non-audit services for the year ended December 31, 2022 is set out below:

Service Category	Fees Paid/ Payable *RMB' 000*
Audit Services	2,390
Non-audit Services	–
TOTAL	2,390

COMPANY SECRETARY

The Company has engaged SWCS Corporate Services Group (Hong Kong) Limited, an external service provider, and Mr. Ming Fai CHUNG has been appointed as the company secretary of the Company. Its primary contact person at the Company is Lingjie JIANG, president office manager of the Company.

During the Reporting Period, Mr. Ming Fai CHUNG attended sufficient professional training as required under the Listing Rules for the year ended December 31, 2022 to update his skills and knowledge.

SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening an Extraordinary General Meeting

Pursuant to article 64 of the Articles of Association, extraordinary general meetings shall also be convened, and/or the proposed resolution(s) shall be added to a meeting agenda on the written requisition of one or more Shareholders holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per Share basis in the share capital of the Company. Such requisition (and resolutions to a meeting agenda, as applicable) shall be made in writing to the Board or the company secretary for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Corporate Governance Report

SHAREHOLDERS' RIGHTS (Continued)

Putting Forward Proposals at General Meetings

There are no provisions in the Articles of Association or the Cayman Islands Companies Act for Shareholders to move new resolutions at general meetings. Shareholders who wish to move a resolution may request the Company to convene a general meeting in accordance with the procedures set out in the preceding paragraph. As regards proposing a person for election as a director of the Company, please refer to the "Procedures for Shareholders to Propose a Person other than a Retiring Director for Election as a Director" of the Company which is posted on the Company's website.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

CONTACT DETAILS

Shareholders may send their enquiries or requests as mentioned above to the following:

Address:	12/F, Building D, 198 Qidi Road, HIPARK, Xiaoshan District, Hangzhou, Zhejiang Province, PRC
Fax:	+86 571-85389730
Email:	ir@ascletis.com

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with Shareholders and in particular, through annual general meetings and other general meetings. At the annual general meeting, Shareholders have the right to speak and the Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

The Company maintains a website at www.ascletis.com as a communication platform with shareholders of the Company and investors, where the financial information and other relevant information of the Company are available for public access. During the Reporting Period, the Board has reviewed the shareholders communication policy and confirmed its effectiveness.

CONSTITUTIONAL DOCUMENTS

In order to conform to the requirements as set out under Appendix 3 "Core Shareholder Protection Standards" of the Listing Rules, as amended under the new listing regime for overseas issuers with effect from January 1, 2022, Shareholders has passed a special resolution for the adoption of the second amended and restated memorandum and articles of association of the Company (the "**Amended and Restated Memorandum and Articles**") at the annual general meeting of the Company held on June 16, 2022. A copy of the Amended and Restated Memorandum and Articles of Association was published on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

1. ABOUT THE REPORT

This Environmental, Social and Governance Report (the "**ESG Report**" or the "**Report**") aims to present the environmental, social and governance performance of Ascletis Pharma Inc. (hereinafter the "**Ascletis**" or the "**Company**") and its subsidiaries (collectively the "**Group**" or "**we**") during the year of 2022. This is the fifth ESG report published by Ascletis.

Basis for Preparation

The Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "**Guide**") as set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with scope and contents that comply with the mandatory disclosure requirements and "comply or explain" provisions of the Guide. The Report has followed the four Reporting Principles of Materiality, Quantitative, Balance and Consistency stated in the Guide.

Materiality: The Report has evaluated and presented all the material environmental, social and governance items. We also presented the process of materiality assessment and the results of stakeholders' engagement.

Quantitative: The statistical standards, methodologies, calculation tools as well as the sources of conversion factors for calculating the key performance indicators ("**KPIs**") in the Report, are described in the report definition.

Balance: The Group has presented all the unbiased data and information, preventing all the omission, selection or presentation formation that may inappropriately influence a decision or judgment.

Consistency: All the methods and calculations used in the Report are consistent. Explanations will be given if there is any change.

Reporting Period and Scope

The content of the Report mainly focuses on the core businesses of the Group, embodies the Group's fulfillment of ESG principles from 1 January 2022 to 31 December 2022 (the "**Year**" or the "**Reporting Period**") and fulfills the overall performance of corporate social responsibility (CSR). Unless otherwise specified, the Report covers the directly controlled businesses.

Languages for the Report

The Report is available in both Chinese and English. If there are inconsistencies between the English and Chinese versions, the English version shall prevail.

Report Approval

After confirmed by the Management, the Board of Directors (the "**Board**") has approved the Report on 20 March 2023.

Environmental, Social and Governance Report

Report Publications

The report is available online. The online edition of the Report is available for review and downloading at the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the official website of the Group (www.ascletis.com).

Contact Details

Shareholders may send their enquiries to the following:

Address of the Corporate Headquarter: 12/F, Building D, 198 Qidi Road, HIPARK,
Xiaoshan District, Hangzhou, Zhejiang Province, PRC

Fax: +86 571-85389730
Email: ir@ascletis.com

2. GOVERNANCE SYSTEM

2.1 About the Group

Ascletis is an innovative R&D driven biotech listed on the Hong Kong Stock Exchange (1672. HK), covering the entire value chain from discovery and development to manufacturing and commercialization. Led by a management team with deep expertise and a proven track record, Ascletis focuses on three therapeutic areas with unmet medical needs from a global perspective: viral disease, non-alcoholic steatohepatitis (NASH) and oncology. Through excellent execution, Ascletis rapidly advances its drug pipelines with an aim of leading in global competition. To date, Ascletis has three marketed products, i.e. ritonavir tablets, GANOVO® and ASCLEVIR®, and over 20 drug candidates in its R&D pipeline. The most advanced drug candidates include ASC22 (CHB functional cure), ASC10 and ASC11(oral small molecules for COVID-19 treatment), ASC40 (recurrent glioblastoma), ASC42 (PBC, primary biliary cholangitis), and ASC40 (acne).

1. **Viral Diseases:** (1) Hepatitis B Virus (functional cure): focus on breakthrough therapies for CHB functional cure with a subcutaneously-injected PD-L1 antibody – ASC22. (2) COVID-19 pipeline: currently includes (i) ritonavir oral tablet (100 mg), an authorized product, (ii) ASC10, an oral RNA dependent RNA polymerase (RdRp) inhibitor and (iii) ASC11, an oral 3-chymotrypsin like protease (3CLpro) inhibitor. (3) HIV/AIDS: ASC22, an immune therapy to restore HIV-specific immune responses and eventually lead to a functional cure of HIV-infected patients. (4) Hepatitis C: successfully launched an all-oral regimen of combining ASCLEVIR® and GANOVO® (RDV/DNV regimen).

2. **Non-alcoholic Steatohepatitis/Primary Biliary Cholangitis:** Gannex, a wholly-owned company of Ascletis, is dedicated to the R&D and commercialization of new drugs in the field of NASH. Gannex has three clinical stage drug candidates against three different targets – FASN, THRβ and FXR, three fixed-dose combinations for NASH and one PBC program targeting FXR.

Environmental, Social and Governance Report

3. **Cancer (oral cancer metabolic checkpoint and immune checkpoint inhibitors):** a pipeline of oral inhibitors targeting FASN, which plays a key role in cancer lipid metabolism, and a pipeline of oral PD-L1 small molecule next generation immune checkpoint inhibitors.

4. **Exploratory Indications:** Acne: Following NASH and recurrent GBM, the third indication for ASC40 has been approved to enter Phase 2 clinical trial.

2.2 Corporate Culture

The Group establishes our own corporate culture to show our devotion in fulfilling corporate social responsibility and to drive the success of our business development in a sustainable way. In 2019, we developed our new version of mission, vision and core values to guide us in driving the sustainable growth of our business and how we work together with our domestic and global partners in adhering to the concept of corporate social responsibility.

Mission

- Innovative cures liberate life to the fullest

Vision

- To become the most innovative world-class biomedical company

Core values

- Integrity, Courage, Excellence, Collaboration

Environmental, Social and Governance Report

Awards and Honors of the Year

The innovative and outstanding performance of the Group in developing and commercializing new drugs are highly recognized by various organizations and media. In 2022, we won several awards and honors in view of our contribution and influence in the industry. Our awards and honors received in 2022 are listed below.

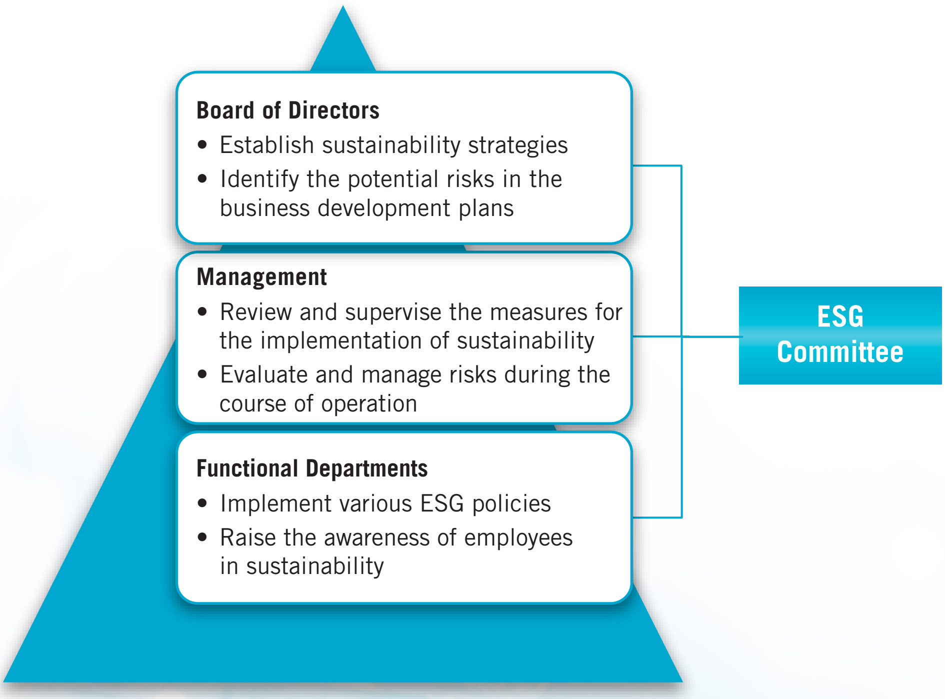
Awards and Honors	Awarded Entity	Awarded by	Awarding Time
2021 Drug Innovation award "Top 10 Pharmaceutical Innovation Leader of the Year"	Dr. Jinzi J. Wu, Founder, Chairman and CEO of Ascletis	Securities Times (證券時報)	April 2022
Included in the MSCI China Small Cap Index	Ascletis Pharma Inc. (歌禮製藥有限公司)	Morgan Stanley (摩根士丹利)	May 2022
First Prize of Zhejiang Province Technology Progress Award	Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司); Ascletis Pharmaceuticals Co., Ltd. (歌禮藥業(浙江)有限公司); Dr. Jinzi J. Wu, Founder, Chairman and CEO of Ascletis	Science Technology Department of Zhejiang Province (浙江省科學技術廳)	July 2022
Top 100 Chinese Innovative Biopharmaceutical Enterprises List – Top 30 Chinese Innovative Small Molecule Drug Enterprises (No. 12)	Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司)	MENET (米內網)	September 2022
ASC42 research project included in Zhejiang Province "Pioneer" Research Plan	Ascletis BioScience Co., Ltd. (歌禮生物科技(杭州)有限公司)	Science Technology Department of Zhejiang Province (浙江省科學技術廳)	November 2022
Best Small and Mid-Cap Company Award	Ascletis Pharma Inc. (歌禮製藥有限公司)	Zhitong Caijing (智通財經)	December 2022

Environmental, Social and Governance Report

2.3 ESG Structure

While developing and commercializing our innovative and best-in-class drugs, we devote ourselves to driving our success in CSR. We have established the ESG committee since 2018 to better identify and manage relevant risks in ESG and drive the efficient implementation of various ESG policies across the various departments. Ascletis makes effort to incorporate the ideas of sustainable development into the overall strategy, policy and business plans of the Group.

The Board of Directors of the Group takes full responsibility for ESG strategies and reporting and leads the ESG Committee comprised of the executive directors, the person-in-charge of ESG and representatives from all major departments of the Group. The ESG Committee is responsible for coordinating and determining the ESG risk management and internal monitoring systems within the Group.



ESG Structure

Environmental, Social and Governance Report

The major responsibilities of the ESG Committee are clearly stated in the rules governing the ESG Committee which include:

- Identifying the ESG issues which have a significant impact on our operations, shareholders and other major stakeholders of the Group, including but not limited to the quality of working environment, environmental protection, operating practices, community activities and welfare, as well as developing corresponding control initiatives;
- Identifying stakeholders' major ESG concerns in appropriate ways and responding in a timely manner;
- Preparing annual working report of the Committee and submitting to Chairman for Group's ESG performance improvements;
- Responsible for formulating and refining the Group's ESG policies and promoting implementation across all departments;
- Ensuring that the Group is in compliance with the relevant legal and regulatory requirements so that it can monitor and respond to latest ESG policies and issues;
- Maintaining the operation of the Group's management system for social responsibility and raising the social awareness of employees.

Board's review on ESG Targets and Related Progress

The Board cares about and has responsibility for the ESG progress of the Group. The ESG committee of the Group executes ESG works to meet the targets set by the Board. The Board oversees and assesses the performances of the ESG works of the Group through the ESG Committee.

The Board is responsible for regularly reviewing the material issues, performances, and ESG risks and opportunities of the Group. With the Board's approval, the ESG committee reviews and evaluates the concerns and interests of stakeholders through a materiality analysis to determine the Group's approach, strategy, goals, and targets for ESG management. The Group has developed ESG related targets. We evaluate our progress toward the targets and set up further sustainable development measures based on the Group's operating conditions to meet the targets.

Environmental, Social and Governance Report

Sustainable Development Policy

To enhance our performance and measures in environmental and social aspects and exhibit our devotion in providing sustainable development services, the Group develops the Sustainable Development Policy. This policy integrates the concept of sustainable development into our business decision making and daily operations. It covers our sustainable development management approach towards five aspects, including environmental management, operational practices, employee rights, community investment and stakeholder engagement. To ensure the implementation of this policy in a proper way, our ESG Committee continues to monitor and review the actual execution status of this policy and the implementation progress of each sustainable development measure. Our ESG Committee is responsible for assessing the environmental and social impact of the Group's business operations and setting sustainable development goals to continuously improve our sustainability performance and minimize potential negative impacts on the environment and society. Through various internal communication channels and the ESG report published each year, we disseminate the information related to this policy to our employees and the external stakeholders and report our environmental and social performance.

Environmental, Social and Governance Report

2.4 Managing Corruption Risks and Promoting Integrity

The Group is highly concerned about operation compliance, managing corruption risks and promoting integrity. We are committed to complying with the relevant laws and regulations of the places where we operate, including the Criminal Law of the People's Republic of China (《中華人民共和國刑法》) and the Anti-unfair Competition Law (《反不正當競爭法》). We have established Anti-Corruption Policy (《反腐敗政策》), Expense Reimbursement Management System (《費用報銷管理制度》) and Employee Code of Conduct (《員工行為準則》) to ensure strict compliance with the relevant laws and regulations by all of our employees and agents. We prohibit any payment to government officials by our employees and agents for obtaining or retaining business or products. To further ensure our agents, business partners and suppliers to adhere to ethical practices in our business and not attempt to improperly influence others by paying or accepting bribes or kickbacks in any form, we require them to sign the anti-bribery commitments (《反賄賂承諾》) and annual compliance letter (《年度合規函》) when they are doing business with us.

We implement a zero-tolerance policy towards any illegal act such as bribery, blackmail, fraud and money laundering to prevent business corruption. The Board and the key employees have attended the anti-corruption training in the Year. The Board and the key employees were asked to study the materials provided by Independent Commission Against Corruption of Hong Kong Special Administration Region (ICAC, HKSAR) about the corruption issues, fraud, conflict of interest, cross-boundary bribery, backdoor listing, insider dealing that could happen during the prelisting, daily operation, takeover and merger stages. We have stipulated the Anti-fraud Whistleblowing Management Regulation (《反舞弊舉報管理制度》). Employees or any third-parties can report through e-mail address or phone on any illegal acts such as money laundering, discrimination, harassment, environmental damage, fraud and corruption. We also keep the whistleblower's identity confidential so that whistleblowers will not be retaliated against for reporting. During the Year, there was no record of illegal acts such as corruption, bribery, fraud and money laundering involving the Group or our employees.

2.5 Stakeholder Engagement

The Group acknowledges the importance of understanding the expectations and needs of various stakeholders, including shareholders and investors, government and regulatory bodies, customers, employees, suppliers, the community, media, business partners and the public, in achieving our success. The Group considers that effective communication with stakeholders is essential and endeavors to maintain on-going and proactive dialogues with stakeholders. The main communication channels of our key stakeholders are as follows.

Key Stakeholders	Expectations and Needs	Main Communication Channels
Shareholders and Investors	• Compliant and sound operation • Good return on investment • Effective risk management • Protection of intellectual property right	• General meetings • Interim and annual report • Investor meetings • Corporate communications • Results announcement • ESG meetings
Government and Regulatory Bodies	• Facilitating economic development • Supporting communities and livelihood • Efficient corporate governance • Resources utilization • Waste management	• Forums • Pharmaceutical development policy consultation • Communications with medical department

Environmental, Social and Governance Report

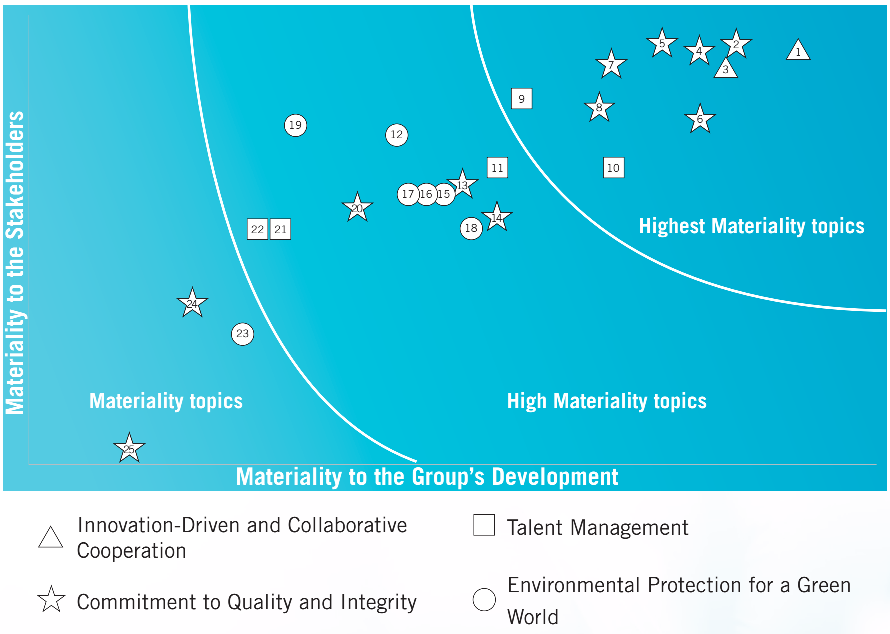
Key Stakeholders	Expectations and Needs	Main Communication Channels
Customers	• Quality control • Protection of customers' safety • Protection of customers' privacy	• Customer satisfaction survey and feedback forms • Daily operation/ communications • Company website • Email and hotline of the Company
Employees	• Job stability • Benefits and remuneration • Safe working environment • Career progression	• Staff opinion survey • Channels for staff to express opinions • Performance assessment • Group discussions • Publications for staff communication • Staff communication meetings • Staff intranet • Charity activities • Seminars/workshops/ meetings
Suppliers	• Fair procurement	• Regular meetings • On-site visits • Supplier management procedure • Supplier assessment system
Community and the Public	• Promoting social harmony • Supporting charitable activities • Promoting energy conservation and emission reduction	• Charity activities • Community activities • Seminars/workshops/ meetings • Donations
Pharmaceutical Industry Peers and Business Partners	• Enhancing business co-operations • Facilitating economic development • Supporting pharmaceutical development	• Seminars and exchange meetings • Corporate notices
Media	• Promoting information transfer	• Press conferences • Press releases • Media meetings

Environmental, Social and Governance Report

Materiality Assessment

Ascletis performed and disclosed a materiality assessment last year. As there is no major change in the business boundary, stakeholder composition, influence of the Group's business activities on stakeholders and vice versa. In the Year, we decided to use last year's materiality assessment results after reviewing and evaluating by the Board.

We identified 25 ESG material topics and classified them into three materiality levels: highest materiality, high materiality and materiality. Topics and their materiality are listed in graph and tables below.



Environmental, Social and Governance Report

Highest materiality topics:

	ESG Related Topic	Category
1	Innovative R&D	Innovation-Driven and Collaborative Cooperation
2	Production safety assurance	Commitment to Quality and Integrity
3	Protection of intellectual property	Innovation-Driven and Collaborative Cooperation
4	Product quality management	Commitment to Quality and Integrity
5	Compliance operation	Commitment to Quality and Integrity
6	Protection of patients' interests	Commitment to Quality and Integrity
7	Production safety management	Commitment to Quality and Integrity
8	Risk management	Commitment to Quality and Integrity
9	Employees' health and safety	Talent Management
10	Training and development of employees	Talent Management

High materiality topics:

	ESG Related Topic	Category
11	Employees' rights	Talent Management
12	Reduction in pollutant emissions	Environmental Protection for a Green World
13	Anti-corruption	Commitment to Quality and Integrity
14	Supply chain management	Commitment to Quality and Integrity
15	Waste management	Environmental Protection for a Green World
16	Water resources management	Environmental Protection for a Green World
17	Energy saving	Environmental Protection for a Green World
18	Protection of environment and natural resources	Environmental Protection for a Green World
19	Greenhouse gas emissions	Environmental Protection for a Green World
20	Customer service and communication	Commitment to Quality and Integrity
21	Employment equality	Talent Management
22	Prevention of child and forced labour	Talent Management

Materiality topics:

	ESG Related Topic	Category
23	Climate change mitigation	Environmental Protection for a Green World
24	Monitoring on product information and advertising	Commitment to Quality and Integrity
25	Participating in charity	Commitment to Quality and Integrity

From the above results of the materiality matrix, Ascletis works out our direction in ESG key concerns, consisting of "Innovation-Driven and Collaborative Cooperation", "Commitment to Quality and Integrity", "Talent Management" and "Environmental Protection for a Green World". This report will focus on these four aspects to reflect our focuses and contributions to ESG.

Environmental, Social and Governance Report

Environmental, Social and Governance Report

3. INNOVATION-DRIVEN AND COLLABORATIVE COOPERATION

3.1 Innovative R&D Activities

Ascletis' R&D pipeline consists of first/best-in-class drug candidates of antibody-based immunotherapy and small molecules at various preclinical and clinical development stages, addressing unmet medical needs in the following therapeutic areas: NASH/PBC, viral diseases, oncology and exploratory indicators. To date, Ascletis has 3 marketed products and 23 robust R&D pipelines of drug candidates with global competitiveness. Ascletis will continuously explore new therapeutic areas.

3.2 Collaborative Cooperation

While Ascletis is conducting in-house drug discovery and development, our entrepreneurial spirit and commitment to bring breakthrough therapeutics to patients drive us to explore business opportunities beyond our own internal effort. At Ascletis, we search globally for innovative product candidates at various stages of development, with a clear goal to accelerate the delivery of novel and effective products to the China marketplace as well as markets worldwide.

Ascletis understands that the path from scientific breakthrough to successful therapeutic products depends on successfully utilizing the best global resources, expertise and experience. Ascletis is dedicated to bringing considerable resources and expertise to its alliances, and open to different collaboration structures. Our platform has enabled us to become a partner-of-choice in China for global leading pharmaceutical companies, as demonstrated by the R&D and commercial collaborations with many global pharmaceutical companies such as Roche.

During the Year, we have collaborated with different companies to promote the commercialization of our drugs. Ascletis Pharmaceuticals Co. Ltd., a wholly owned subsidiary of Ascletis, has signed an agreement with China Meheco International Co., Ltd. and Phokam Pharmaceutical Import-Export Co., Ltd for distribution in Chinese mainland and purchasing of ritonavir tablet respectively. Ritonavir tablet is a pharmacokinetic booster of multiple oral antiviral drugs targeting viral proteases, which has passed bioequivalence study. To promote the scientific R&D and talent cultivation, we signed an agreement with Nanjing University to strengthen the cooperation in student internship, R&D and innovative education.

Initiated by Shanghai Public Health Clinical Center, the clinical study of PD-L1 antibody ASC22 in combination with Chidamide for functional cure of human immunodeficiency virus (HIV) infection, has completed the first patient dosing recently. This investigator-initiated trial will further explore the potential of ASC22 in combination with Chidamide. Clinical trials on ASC22 as both monotherapy and combination are all conducive to enhancing Ascletis' pipeline on HIV functional cure. ASC22 is a subcutaneously administered single domain antibody against PD-L1 and has the potential to restore virus-specific immune responses in patients with chronic viral infection such as hepatitis B virus (HBV) and HIV.

Ascletis actively promotes the Group's research results and process through various of channels, we participated in many academic conferences to present our latest research findings and results.

Environmental, Social and Governance Report

The American Association for Cancer Research (AACR) Annual Meeting is one of the oldest and largest cancer research academic conferences in the world. In the Year, Ascletis presented the latest preclinical research results of two new anti-cancer drugs under development, oral PD-L1 small molecule inhibitor ASC61 and fatty acid synthase (FASN) inhibitor ASC60 in the Meeting.

The European Association for the Study of the Liver (EASL), world's leading medical association for liver disease research, held the International Liver Congress in the Year. In the event, latest scientific breakthrough, best practices and advances were shared with the global community. In the oral presentation section, nine Chinese studies were selected among the 1,993 abstracts accepted in the Year and Ascletis is the only Chinese biotech-initiated that have been selected. The oral presentation topics is about the ASC22 Progress Toward a Functional Cure for Chronic Hepatitis B.

3.3 Intellectual Property Protection

As an innovative-driven company, Ascletis values the protection of intellectual property and is zero-tolerant of any infringement on intellectual property rights. The Group strictly complies with laws and regulations in relation to intellectual property such as the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), the Patent Law of the People's Republic of China (《中華人民共和國專利法》), the Trademark Law of the People's Republic of China (《中華人民共和國商標法》). We have formulated the Administrative Measurements for Intellectual Property (《知識產權管理辦法》) and the Rules for Research and Development Management (《研發管理制度》) with reference to the relevant laws and regulations to standardize and strengthen our internal management on intellectual properties with our rules and systems.

We rely on employees and various regulations, confidentiality agreements and applications for patents in protecting our intellectual property rights such as confidential data, professional know-how and other proprietary information. In R&D activities and business activities, we protect proprietary information with our confidentiality agreements and patents. We filed 18 applications for patents in 2022, and also maintained 26 patents and newly added 4 patents in 2022. In order to prevent confidential information leakage, every employee is required to enter into a "Confidentiality Agreement", in particular, R&D staff are also required to sign a "Intellectual Property Management Confirmation Letter". Once employees resign, employees need to sign a "Termination of Employment Relationship Agreement" to ensure no leakage of confidential information.

In addition, we require that all publicly available products and business information shall be examined strictly. We also ensure that all advertisements used for brand promotion shall deliver complete, true and accurate information to the public without any false or misleading product descriptions and acts such as infringement upon others' rights such as intellectual property rights, patent rights, and copyrights.

In addition to requirements for intellectual property rights, we also strictly standardize the code of operation for external suppliers. In our cooperation with external suppliers, we will enter into confidentiality agreements. In addition, suppliers shall guarantee that all the technological and development achievements obtained during the cooperation will not infringe upon legitimate rights of any third party such as the legal patent rights, trademarks and copyrights.

Environmental, Social and Governance Report

4. COMMITMENT TO QUALITY AND INTEGRITY

4.1 Product Quality Management

4.1.1 Product Quality

The Group strictly complies with the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), Good Manufacturing Practices for Pharmaceutical Products (《藥品生產質量管理規範》) and Good Supply Practice for Pharmaceutical Products (《藥品經營質量管理規範》), which provide the legal framework for compliant operations of enterprises engaged in manufacturing, sales and quality management of drugs.

Our Wide Dimensions in Quality Assurance

Industry Norms

- Our production base strictly complies with the most stringent cGMP* regulations in all stages from design, construction and operation

Quality Assurance

- We have adopted a wide range of state-of-the-art equipment with cutting-edge technology capabilities at global level to ensure that all of our pharmaceutical products are of high quality.

International Standards

- We have experienced manufacturing employees from multinational corporations to ensure our production quality and management system to maintain the international standards

Ensure Production Capacity

- We have sufficient production capacity to ensure consistent supply of our drugs for clinical treatments

* cGMP: Current Good Manufacturing Practice

Environmental, Social and Governance Report

The Group considers product quality and safety as key elements of our business. To ensure our product quality, we establish various quality management procedures and systems for suppliers, manufacturing process, laboratory tests and finished goods to manage the quality throughout the whole product life cycle. Starting from the sources, we have established the Supplier Quality Audit Procedure (《供應商質量審計程序》) for better quality assurance management on pharmaceutical raw materials. Besides, we have established the GMP Self-Management Procedure (《GMP 自檢管理程序》) and the Auditing Management System (《審計准略管理程序》) to set guideline for quality checking on our production system, pipelines and production. These guidelines help us ensure the quality of each step to meet its standards and requirements. We strictly follow the regulations and rules for pharmaceutical product manufacturing. For every new production pipeline, Pharmaceutical Production License (《藥品生產許可證》) or New Pharmaceutical Production Enterprise License (《新開辦藥品生產企業許可》) is applied or updated with authorities for any possible updated or correction. We continuously make improvements in our product quality and optimize the quality control management system. We have formulated the Finished Products Release/Reject Management Procedure (《成品批放行／拒絕的管理程序》) to regulate the quality control and assurance processes for ingredient, intermediates, and products, either entrusted produced or self-produced. This guideline listed out the procedures for different departments such as logistics, quality assurance, production when they are handling the products. In case of rejection, we also included the procedures to follow when the products have failed to meet the standards. This guideline could give us a convenient and clear way for our employees to manage the products quality. In order to ensure the quality of production during transportation, we conduct researches to find out the best transportation method to enhance the stability of product during transportation.

Efficiency is the key to our drug production, a good quality control not only helps us ensure sound quality, but also reduces the application time and the associated cost. In the Reporting Period, we used the least amount of time to finish the replacement of old production licenses without causing any delay on the production and zero mistake was found during the audition process. In addition, government authorities and third-party auditing companies acknowledged our abilities in quality control and assurance, we are now an authorized independent drug manufacturer, entrusted drug manufacturer and active pharmaceutical ingredient (API) drug manufacturer in the province. The Group is thrilled with the results, we will keep on perfecting our quality control practice to meet any future needs.

Our manufacturing facilities have been awarded the Certificate of Good Manufacturing Practices (GMP) for Pharmaceutical Products of the People's Republic of China (《中華人民共和國藥品 GMP 證書》) and our pharmaceutical production complies with the GMP requirements in China.

Environmental, Social and Governance Report

Gas chromatography mass spectrometry

Granulometer

中华人民共和国
药品GMP证书
CERTIFICATE OF GOOD MANUFACTURING PRACTICES FOR PHARMACEUTICAL PRODUCTS
PEOPLE'S REPUBLIC OF CHINA

证书编号：ZJ20180068
Certificate No .

企业名称：歌礼药业（浙江）有限公司
Manufacturer : Ascletis Pharmaceuticals Co., Ltd.

地　址：绍兴滨海新城沥海镇云海路1号
Address : No. 1, Yunhai Road, Lihai District, Binhai New Town, Shaoxing City

认证范围：片剂
Scope of Inspection : Tablets

经审查，符合中华人民共和国《药品生产质量管理规范》要求。特发此证。
This is to certify that the above-mentioned manufacturer complies with the requirements of Chinese Good Manufacturing Practices for Pharmaceutical Products.

有效期至 2023 年 06 月 13 日
This certificate remains valid until 06/13/2023

发证机关：
Issued By

Date for Issuing 06/14/2018 2018 年 06 月 14 日

国家食品药品监督管理总局制
CHINA FOOD AND DRUG ADMINISTRATION

Certificate of GMP for Pharmaceutical Products of the People's Republic of China

Environmental, Social and Governance Report

4.1.2 Monitoring on Product Information and Advertising

As integrity is one of our core values, the Group prohibits any fraud, false or hidden of information. For packaging, labelling and advertising of drugs, we strictly comply with relevant laws and regulations to ensure the safety of patients.

Pharmaceutical Packaging

The Group complies with the Measures for The Administration of Pharmaceutical Packaging (《直接接觸藥品的包裝材料和容器管理辦法》) to ensure that the packaging for all of our drugs is in compliance with national and professional standards. When national or professional standards are not available for reference, we will develop our corporate standards which will be implemented upon approval by the food and drug authorities at the national level and the relevant regulatory authorities. We will file the application with the relevant authorities for approval when changes to the standards for packaging are required.

The Group complies with the Provisions on the Administration of Pharmaceutical Directions and Labels (《藥品說明書和標籤管理規定》), which stipulates that the pharmaceutical directions and labels of drugs should be reviewed and approved by the National Medical Products Administration. Our pharmaceutical directions include the scientific data, conclusions and information concerning drug safety and effectiveness according to relevant provisions, in order to ensure the safe and rational use of drugs. We strictly follow the relevant provisions to make sure the inner labels of drugs include information such as the drug's name, indication or function, specification, dose and usage, production date, batch number, expiry date and drug manufacturer, and the outer labels of drugs indicate information such as the drug's name, ingredients, indication or function, specification, dose and usage, adverse reaction, batch number, expiry date and drug manufacturer.

We formulate the Design and Approval Management Procedure for Printed Packaging Materials (《印字包材的設計和審批管理程序》) to stipulate the approval responsibility of each relevant department and approval procedure on the contents of the printed packaging materials of our pharmaceutical products. We also formulate the Management Procedure for Solid Dosage Workshop of Packaging Materials (《固體車間包裝材料管理規程》). When using the packaging materials, the printed contents will be checked carefully to ensure the information on the packaging materials of our pharmaceutical products are correct and true.

Drug Advertisements

The Group complies with the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法》), Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and the Measures for the Examination of Drug Advertisements (《藥品廣告審查辦法》). We obtain approval document numbers for all advertisements relating to our drugs upon approval by competent authorities to ensure all the contents shown in the drug advertisement are true and legal. We will file new applications for approval to obtain approval document numbers for advertisements for our drugs relating to approval when an alteration to the content of such advertisements is required.

Environmental, Social and Governance Report

4.2 Product Safety Assurance

As the Group highly values the health and safety of our patients, product safety assurance is one of our utmost concerns in our business. In accordance with the Measures for the Administration on Reporting and Monitoring of Side Effect of Pharmaceuticals (《藥品不良反應報告和監測管理辦法》), the Inspection Guidelines for the Administration on Reporting and Monitoring of Side Effect of Pharmaceuticals (Trial) (《藥品不良反應報告和監測管理指南(試行)》), the Announcement on the Direct Reporting of Adverse Reactions by the Licensee of Marketed Drugs issued by China Drug Administration (2018 no. 66) (《國家藥品監督管理局關於藥品上市許可持有人直接報告不良反應事宜的公告(2018 年第 66 號)》), Announcement on the Issuance of the Guidelines for the Collection and Reporting of Adverse Drug Reaction in Individual Cases (2018 no. 131) (《個例藥品不良反應收集和報告指導原則(2018 年第 131 號)》), The Specification for Pharmacovigilance Quality Management (2021 no. 65) (《藥物警戒質量管理規範(2018 年第 65 號)》)and International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use Topic E2 series(人用藥品技術要求國際協調理事會國際藥物警戒 E2 系列), we formulate the Management System of Pharmaceuticals' Safety Information Report (《藥品安全性信息報告管理制度》) and the Periodic Safety Update Reports and Periodic Benefit-Risk Evaluation Report Writing and Submission SOPs (《定期安全性更新報告和定期獲益－風評估報告撰寫及遞交 SOP》), international to stipulate the report of safety information and regular safety update of our pharmaceuticals to strengthen the safety management of products at various clinical stages and in the market.

We have formulated the Standard Operating Procedure for Security Signal Management (《安全性信號管理 SOP》) to stipulate security signals receiving, analysis, evaluating and follow up work. Security signals can come from spontaneous reports, interventional clinical or non-interventional studies, scientific literature, pre-clinical studies etc. We will summarize, classify, analyze and evaluate the information, rate the information, prioritize the impact on public health, and take corresponding actions after risk analysis.

We have formulated the Standard Operating Procedure for Clinical trial protocol writing, review and revision (《臨床試驗方案的撰寫、審核及修訂 SOP》) to regulate the procedure in preparing clinical trial proposals. A clinical trial proposal should include information of trial background, trial objectives, trial design, methods and procedures etc. Any information regarding the regulations, guidelines, principles, related research on drugs and experiments should be clarified before drafting the proposal. The proposal should be checked for its consistency and the trial template requirements, and the proposal should be approved by the head of the clinical department or CEO. We also have stipulated Standard Operating Procedure for Packaging Drugs Used in Clinical Trials (《臨床試驗用藥品的包裝 SOP》), Standard Operating Procedure for Packaging and Labeling Management of Drugs in Clinical Trials (《臨床試用藥品外包裝和標籤的管理 SOP》), Standard Operating Procedure for Transportation, Storage, Distribution, Recall, Recall and Destruction of Drugs Used in Clinical Trials (《臨床試驗用藥品的運輸、貯存、發放、回收、召回和銷毀 SOP》) and, Standard Operating Procedure for Over-temperature/Ultra-humidity Handling of Drugs Used in Clinical Trials (《臨床試驗用藥品超溫／超濕的處理 SOP》) regulated the format of labelling, delivery and destruction of the trial medicine, handling of over-temperature or ultra-humidity drugs.

Environmental, Social and Governance Report

Clinical trial subjects should sign the consent form before clinical trial. In accordance with Standard and Procedure for Rapid Reporting of Safety Data during Drug Clinical Trials (藥物臨床試驗期間安全性數據快速報告標準和程序), The Specification for Pharmacovigilance Quality Management (2021 no. 65) (《藥物警戒質量管理規範(2018 年第 65 號)》)and International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use Topic E2 series(人用藥品技術要求國際協調理事會國際藥物警戒 E2 系列), we stipulated the Quality Management Specification on Drug Clinical Trial (《藥物臨床試驗質量管理規範》) to state the requirements for selecting trial subjects. We have established a Standard Operating Procedure for the Management of Pharmacovigilance Activities in Research Projects (《研究項目中藥物警戒活動管理 SOP》), Standard Operating Procedure for Safety Report of Individual Cases in the Study (《研究中個例安全性報告 SOP》), Standard Operating Procedure for Safety Update Report during R&D (《研發期間安全性更新報告 SOP》) to manage the adverse events happen during clinical trial. Every trial should assign a responsible pharmacovigilance project manager and set up a safety management plan. A Safety Management Plan should consist of reporting procedure, handling of suspected unexpected serious adverse reaction, contact list etc. Employees of our Group are required to report such case of adverse event to the pharmacovigilance department in a timely manner within one business day when they become aware of any adverse reactions as a result of the use of the Group's products (and any case of death and group adverse reactions to a drug must be reported to the pharmacovigilance department immediately). Any adverse event happened during the trial should be reported, recorded, analysis.

To ensure the quality and safety of our products and to safeguard the rights and interests of our patients, we develop the management procedures for rejected materials, returned goods and emergency recall. We carry out quality assessments of the returned goods and determine the handling methods in order to improve our product quality and safety continuously. In this Year, 5.41% of the delivered bottles of products have been recalled (because these products were close to their expiry date).

4.3 Supply Chain Management

As a group focusing on developing and commercializing innovative and best-in-class drugs, it is our top priority to have an excellent supply chain management to guarantee the quality of our suppliers and products. To standardize and manage effectively our selection procedure of suppliers, the Group formulates Procurement Management System (《採購管理制度》), Tender Management Standard Operating Procedure (《招標管理標準操作流程》), Supplier Quality Management Procedure (《供應商質量管理程序》),and Distributor and Pharmacy Management Standard Operating Procedure (《經銷商及藥店管理標準操作流程》).In addition to factors such as product and service quality, technology standard, reputation and cost, there are important considerations for the suppliers and distributors to have commitment to environmental and social responsibilities, such as environmental, health and safety status. To continue monitoring the performance of our supply chain in an all-round manner, we also established a Supplier Quality Audit Procedure (《供應商質量審計程序》). Furthermore, to ensure the ethical standard of our supply chain, all of our vendors, suppliers, subcontractors and distributors that have significant business relations with any company of the Group are required to make the Anti-bribery Commitments and issue us the Annual Compliance Letter. We also enter into confidentiality agreements with suppliers for technical cooperation.

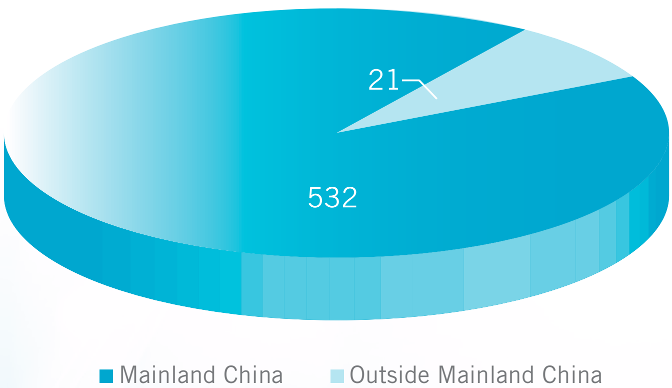
Environmental, Social and Governance Report

Consideration in Environmental and Social Aspects

In order to achieve the goal of being a responsible pharmaceutical manufacturer, we guarantee the value chain of our product to be environmental and social sustainable. We have implemented certain policies on suppliers' ESG performance and make sure that suppliers are in line with our policies. Major suppliers are needed to sign the supplier's commitment letter (《供應商承諾函》) issued by the Group. Signed companies are promised that there is no child labor, no forced labor, zero-discrimination, anti-corruption and protect the rights and health of their employees, and they will consider the environmental risks in their value chain and eliminate any possible risk by reducing waste, unnecessary package and toxic material to achieve the goal of zero wastes and energy efficient.

The distribution of suppliers is listed below, the figure reflects the cooperation of the Group with oversea suppliers.

Number of Suppliers*



**Note:* The number of suppliers includes those of producers, distributors, purchasing agents, traders and suppliers for indirect procurement.

Environmental, Social and Governance Report

4.4 Protection of Patients' Interests

4.4.1 Protection of Patients' Privacy

The Group places high importance to information security and privacy protection of the patients and trial subjects. To enhance information security, we establish Computer Active Directory (AD) Network User Management Regulation (《計算機 AD 網絡用戶管理規範》) to manage the user access authority of specific data and information, data security and intranet security. Only the relevant departments may have the authority of access to the information of the patients and our employees are required to obtain approval from their supervisors for accessing to the information of the patients. We also establish the Computer and Information Management Regulation (《計算機及信息管理規範》) to stipulate the management and safety usage of hardware, software, and internet within the Group. We have utilized professional firewall and anti-virus software to prevent any malicious intrusion activities. We established ERP-SAP System Data Backup Operation Procedure (《ERP-SAP 系統數據備份操作程序》) and ERP-SAP System Problem Management Control Procedure (《ERP-SAP 系統問題管理控制程序》) to stipulate a routine system backup schedule, inspection process and problem-solving procedure. Once there is any system-related problem, we will handle the problem according to the regulations.

We specify with the collection, use and disclosure of information of patients and trial subjects and the ways of maintaining such information are carefully monitored and controlled. Every trial subject needs to sign the informed consent form before trial to make sure that they recognize the purpose, details and risks of the trials. Each of our employees is required to enter into a confidentiality agreement at the time of joining the Group to protect the privacy of the patients.

4.4.2 Emphasis on Patients' Interests

The Group treasures patients' opinions and interests. We have established various channels for patients or their families to express opinions or complaints, such as email, hotline and letter. To standardize our customer service procedure, we have formulated the Product Complaints and Consultation Management Measurements (《產品投訴和諮詢的管理制度》), Standard Operating Procedure for Pharmacovigilance Department Hotline Management (《藥物警戒部熱線電話管理 SOP》) and we follow the established procedures of handling complaints, enquiries and opinions. Upon receipt of complaints or issues on drug adverse reaction, the relevant departments will contact the patients in time to follow through on the situation, claims, key facts and reasons of the complaint, and ensure that the opinions and complaints received are responded and followed up properly and in a timely manner. Questions about usage and dosage of medicine must be answered based on the instruction manual of the medicine. If the relevant questions cannot be answered, the clinical department must be notified and make a reply. To manage and standardize the handling procedure in case of any product quality complaints, returns and recalls of our products, we formulate the Management Procedure of Product Complaints, Returns and Recalls (《產品投訴與退貨召回管理規程》). We review and optimize the product complaints and consultation management system on a regular basis in order to protect patients' interests and maintain the reputation of the Group. During the Year, the Group received one product and service related complaint and it has properly been handled.

Environmental, Social and Governance Report

4.5 Repaying Community

The Group spares no effort to promote community services and perform its corporate social responsibilities. We organize, promote and support our employees in engaging voluntary services, and provide drug donations to patients. During the Year, the Group made total donations of RMB4,922,047.08 through different charitable foundations including China Health Promotion Foundation, Beijing Health Alliance Charitable Foundation, Beijing Chen Jumei Foundation, Hangzhou Aiyeqiao medical-aid foundation, Red Cross Society of China Zhejiang Branch. Ascletis helped in several Health Promotion Events, such as China Acne Week, International Glioblastoma Awareness Day and International NASH Day. We also helped provide assistant services to hepatitis C patients. In this Year, we organized a hepatitis C supporting event with Beijing Health Alliance Charitable Foundation. Ascletis provided Ribavirin tablets and ritonavir tablets to hepatitis C patients to cure the disease.

Ascletis encourages employees to take part in charitable activities. We established Ascletis Volunteer Team in this Year. Till the end of the Year, we have 14 members in the team. Apart from the team, nearly 19% employees joined volunteer activities such as sharing disease-related information and community services with accumulated volunteer time of over 5,000.00 hours in 2022.

5. TALENT MANAGEMENT

Employee is an important pillar to support the success and growth of the Group. We adhere to the "Human-Based" management philosophy to allow for career advancement considerations with our employees. The Group strictly complies with the relevant laws and regulations in the places where we operate, including but not limited to the Employment Ordinance (《僱傭條例》) in Hong Kong and the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) in Mainland China.

5.1 Talent Employment

We have adopted policies to provide and ensure a harmonious, tolerant, fair and non-discriminatory working environment. We strictly comply with the Labor Law of the People's Republic of China (《中華人民共和國勞動法》) and Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other relevant laws and regulations, and formulate our human resources policies in accordance with the relevant laws and regulations.

As of December 31, 2022, the Group had a total of 278 employees. The details of our employees are set out in Appendix I: Sustainability Data Statement.

Environmental, Social and Governance Report

Recruitment Management System

To recruit suitable talents effectively for our business development strategy, we formulate the Recruitment Management System (《招聘管理制度》). Our human resources department implements the recruitment process based on the recruitment plan for the year. The Group recruits employees through various channels such as recruitment websites, newspapers advertisement, recruiters, internal referrals and job fairs. No matter it is external or internal recruitment, we follow the basic principles of "openness, justice and fairness" regardless of ethnicity, race, religious, age, gender, family origin, marital status, sexual orientation, disability, nationality and region etc. to select appropriate candidates by considering their education background, experience and skills of the applicant. For every successful candidate, our human resources department carries out background checks and examines carefully their age, identity and qualifications of candidates before signing employment contracts to prevent employment of child labor. We will immediately terminate the employment contract if we find employees are under legal employment age. The Group enters into employment contracts with the employees which cover remuneration, benefits, basis of termination and other matters to ensure no forced labor. The Group will deal with non-compliance incidents in accordance with the laws. The Group has stated the attendance schedule and employees should strictly follow attendance time. Overtime work is required to get approval in advance, we will offer overtime payment or day off in lieu of overtime work compensation. During the Year, no child and forced labor was found in the Group.

Ascletis is striving to enhance the board diversity. The Group established the "Board Diversity Policy", when the nomination committee selects the board candidate, a range of selective perspectives such as gender, ethnicity, language, cultural background, educational background, industry experience and professional experience should be considered. The nomination committee is also responsible for reviewing and setting up policies and measurable objectives. In the Year, 40% of the Board and 60% of senior management are female.

Stability of Employees

We formulate an Employee Handbook to stipulate the human resources management such as recruitment, promotion, dismissal, compensation, working hours and rest periods. As we treasure, respect and take care of every employee, any discrimination or harassment is strictly prohibited in the Group. In order to reduce the employee turnover rate, we proactively conduct face-to-face interviews with departing employees to understand relevant reasons to enable corporate management improvements. If any employee decides to resign, both the Group and employees will follow the terms stated in the employment contract for arrangement. Employees are required to hand over their job properly and we will arrange an interview to understand the reason of resignation and the needs of employees.

Environmental, Social and Governance Report

5.2 Employee's Health and Safety

We adhere to providing a safe and healthy working environment to our employees. We strictly comply with the relevant laws and regulations related to occupational health and safety, including but not limited to the Fire Control Law of the People's Republic of China (《中華人民共和國消防法》) and the Work Safety Law of the People's Republic of China (《中華人民共和國安全生產法》).

Clean and Safe Working Environment

We dedicate to protecting the health and safety of our employees and formulate the Environmental, Health and Safety (EHS) Handbook and Employee Handbook to manage the health and safety aspects of the Group. All-round health and safety aspects, including fire safety, occupational disease prevention, handling measures of dangerous goods and chemicals, hidden danger checking and emergency measures, are well controlled and monitored.

Employees should follow the four EHS principles: safety, environmental protection, occupational health, fire safety. Smoking is forbidden, ignition tools and non-explosion-proof equipment are not allowed to be brought in the explosion-proof area. For some special machineries, employees are required to obtain the operation license before use. Whenever an incident happens, operations should be stopped and notify EHS department immediately. Operations only resume when the threat is eliminated.

To ensure a safe working environment for our employees and to regulate the safety use and management of fire, electricity, dangerous goods and gas and electrical appliances, we have established various safety management regulations, such as Fire Safety Management Regulation(《消防安全管理規定》), Fire Inspection Management Regulation (《防火巡查、檢查管理規定》), Fire Rectification Management Regulation (《火災隱患整改管理規定》), Flammable and Explosive and Fire and explosion-proof Area Management Regulation (《易燃易爆危險物品和場所防火防爆管理規定》), Volunteer Fire Brigade and Micro-Fire Station Management Regulation (《志願消防隊及微型消防站管理規定》), Fire Inspection and Inspection Management Regulation (《防火巡查、檢查管理規定》), Regulation on the Safety Management of the Use of Fire and Electricity (《用火、用電安全管理規定》), Regulation on the Management of Maintenance of Fire Protection Facilities (《消防設施設備維護管理規定》) and Equipment and Regulation on the Management of Safe Evacuation Facilities (《安全疏散設施管理規定》).

For fire safety, we follow the approach of "prevention first with the combination of elimination" and management principle of "who is in charge has to take the responsibility" and have formulated the Fire Safety Responsibility System (《消防安全責任制》) to stipulate the responsibilities of each responsible departments and employees. We have set up routine fire inspection items for daily, weekly and monthly inspection events, ensuring all the fire protection regulations are well-implemented. Any employee who needs to work in flammable and explosive material sites should be trained and passed before taking the role. Any switch, lamp, wiring inside the site must meet the explosion-proof requirements and be regularly inspected and maintained. We have stipulated regulations on the implementation of emergency lights, safety exits, evacuation doors, walkway, staircases, labels. All these facilities should be checked on a regular basis to ensure they are fully intact and functioning well. To monitor the implementation of fire safety measures, we have formulated the Regulation on the Management of Fire Safety Work Assessment, Rewards and Punishments (《消防安全工作評估、獎懲管理規定》) to assess the fire safety implementation and knowledge of our employees. We have formulated our own volunteer fire brigade, which helps with fire extinguishment, employees' evacuation and fire scene protection.

Environmental, Social and Governance Report

For hazardous chemical handling, we have formulated the Hazardous Chemicals Management Regulations (《危險化學品管理規定》) and EHS Label Management Regulation (《EHS 標識管理規定》), providing guidelines for colleagues especially from the logistics, engineering, EHS preparation workshop, API workshop departments to handle hazardous chemicals safely. For clear indication and easy reference, we have set up safety signs, fire safety signs, occupational health warning slogans, hazardous chemical signs, environmental signs etc. These signs or slogans are placed at different sites such as licensed workplaces, factory roads, waste discharges outlets etc., improving the awareness of EHS on employees. We ask for the Material Safety Data Sheet ("**MSDS**") from suppliers for every hazardous chemical we bought, then we follow the requirement on MSDS to store, use, transfer and dispose. Employees are required to wear safety equipment and work at the designated place listed in the guidelines. Besides toxic chemical handling, all the procedures should be carried out by at least two or more people together to ensure safety. Employees that need to handle hazardous chemicals are required to be trained before practice.

In addition, to ensure the health of our employees, all employees are entitled to free physical health examination on a regular basis. In accordance with the requirements of the Law on Prevention and Control of Occupational Diseases of People's Republic of China (《中華人民共和國職業病防治法》), the Group regularly conducts occupational disease health check for every employee exposed to occupational disease hazards. During the Year, the Group did not have any accident involving work-related fatalities or injury of employees to indicate our achievement in protecting the health and safety of our employees.

Health and Safety Trainings

To enhance the health and safety knowledge of employees, we offer various health and safety trainings to our employees. We have formulated the Regulations on the Management of Fire Safety Education and Training (《消防安全教育、培訓管理規定》) to strengthen and regulate the fire safety training work of the Group. This regulation regulates the content and frequency of fire safety trainings received by management staff, on-the-job staff, new staff and other staff. Good fire safety training files should be established by responsible departments and units. We have also formulated the Regulations on the Management of Firefighting and Emergency Evacuation Drills (《滅火和應急疏散預案演練管理規定》) and Firefighting and Emergency Evacuation Drills Plan (《火災事故應急救援演練方案》) to ensure organized firefighting and evacuation in case of fire. During the Year, we carried out regular fire drills in accordance with the requirement of the fire-control authorities to enhance the fire prevention awareness of all employees. We established a plan for each drill to get well preparation of division of labour, emergency equipment and procedure. In this Year, we provided the training about the Near Misses Management Regulations (《未遂事故管理規定》), Management of Change (《變更管理規範》), the Safety Code For Equipment Repair (《設備檢修作業安全規範》).

Environmental, Social and Governance Report

We also set June of the Year as our safety month and organized several trainings and drills for all employees to raise the awareness, and familiarize the safety precaution policies, emergency procedures and escape routes. During the Year, we have organized activities such as heat illness prevention training, safety month training, safety drills for workplace safety. We coordinated with different authorities, departments and units to guarantee that the activities went well and gathered information and advices for further review and improvement.

Fire drill

Protecting Employees from COVID-19

We value the health and safety of our employees. We monitored closely the pandemic situation, implemented various measures to protect our employees from COVID-19 and achieved zero infection. We formulated the Emergency Plan for COVID-19 (《新型冠狀病毒肺炎應急預案》) and required all employees that resumed work to strictly follow these measures. The protective measures are as follows:

- We assembled a COVID-19 quick response emergency task force for monitoring, analysis, response and reporting the risk of COVID-19 to the Group;
- All employees, as well as all visitors, are required to report their body temperature and health code;
- Perform body temperature check at and after work. If the body temperature exceeds 38.5 degrees is accompanied by physical discomfort, provide medicine and quarantine;
- Clean the canteen and toilets frequently;
- Encourage all employees to practice good hygiene habits;
- We have prepared an adequate amount of emergency protective facilities, such as masks, infrared thermometers, 75% alcohol etc.

Environmental, Social and Governance Report

5.3 Benefits of Employees

To attract and retain talents of high caliber, the Group is committed to providing fair and competitive remuneration and benefits to employees. We formulate the Employee Handbook and update the policy of benefits and remuneration on a regular basis to keep the benefits and remuneration at an appropriate and market competitive level. The Group makes contributions to social insurance and housing provident fund for its employees as required by the laws of the People's Republic of China, including pension insurance, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance and housing provident fund.

We pay great attention to benefits for employees and strictly comply with the Labor Law of the People's Republic of China in making arrangements such as working hours and overtime pay for employees. We provide employees with benefits that are better than the minimum standard provided under the laws. We provide all employees with paid annual leave, sick leave, casual leave, maternity leave, wedding leave, bereavement leave and work-related injury leave. For general benefits, we provide employees with, summer hot weather allowance, birthday and festival benefits, etc.

5.4 Cultural Events for Employees

The Group has held different activities at regular basis for our employees to alleviate work pressure, relieve mental stress and help to build up the teamwork spirit. During the Year, we have organized several activities such as the mid-autumn festival activity, 9th anniversary parties, New Year Team Building activities. These activities enhanced the communication between colleagues from different branches, and attachment to the company.

Culture Event in the Year

Environmental, Social and Governance Report

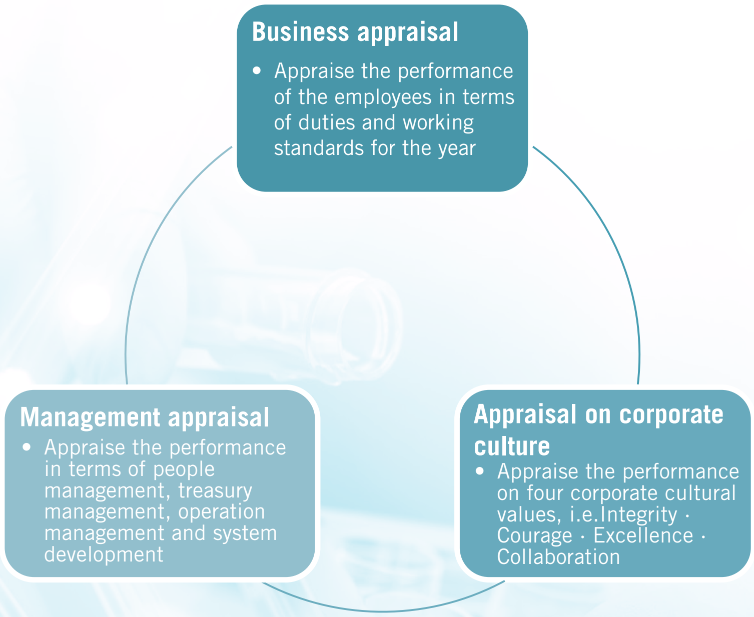
5.5 Training and Development of Employees

The Group is committed to employees' training and development for excellent team building and maintains the competitiveness of the Group. To expand the horizons and enhance the expertise, technical knowhow, quality and skills of the employees, we offer various types of training program to our employees, such as new employees orientation training, professional qualification training, law and regulation training, general and management training.

New employee's orientation training, including courses and examinations, are required to be completed by new employees within a definite period of time. We provide job-required professional qualification training to employees before they have to handle a certain type of process or material. Moreover, we also organize some on-job training for employees about management skills and practices, and updated laws and regulations training.

Annual performance assessment

To drive business results, develop employees' ability and support human resources management, we have developed an annual performance appraisal system. We appraise the performance of our employees annually on objective considerations such as business performance, management capabilities and cultural values, which is subsequently used in deciding the awarding of year-end bonus, salary adjustment and promotion. Setting of individual growth target can be selected from three dimensions including professional knowledge or capability, general capability, and corporate culture awareness and action. Adopting the principle of "suitable talent fits for suitable job", we promote the employees with outstanding performance and strong ability.



Annual Performance Appraisal System

Environmental, Social and Governance Report

6. ENVIRONMENTAL PROTECTION FOR A GREEN WORLD

6.1 Environmental Protection System Establishment

To assure a proper implementation of environmental management system can be carried out in the Group, apart from establishing the ESG Committee, the Group establishes the Sustainable Development System and related policy to continuously improve environmental measures. Our Sustainable Development Policy (《可持續發展政策》) regulates the environmental measures of the Group in controlling and reducing its air emissions, greenhouse gas ("**GHG**") emissions, effluent, use of resources and waste production. The ESG committee is responsible to monitor the implementation status of the related policy and implementation progress of the environmental measures. We establish an Environmental, Health and Safety (EHS) Handbook (《環境、健康與安全(EHS)手冊》) to regulate the handling and controlling measures of air emissions, effluent and waste produced from the Group.

The Group strictly abides by relevant laws and regulations of the regions where the Group operates, such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Law of the People's Republic of China on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》) and the Law of the People's Republic of China on Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》). In order to maintain good relationships with communities in the surroundings of the production base, the Group strives to save energy as much as possible in business operations, implements measures for water management and waste recycling, reduces GHG emissions and improves energy efficiency. During the Year, there was no material incident affecting the environmental and natural resources nor any punishment and litigation in respect to environmental regulations.

In the Year, the Group has reviewed the environmental targets set last year, GHG emissions, non-hazardous waste generation, energy and water consumption per pipeline are all lower than last year. Going forward, in order to meet the environmental target in 2025, the Group will implement more pollution mitigation and energy and water resource usage reduction measures in the future.

6.2 Emissions Management

GHG Emissions Inspection

In fulfilling China's responsibilities under the Paris Agreement and other related important policies such as National Strategies on Adaptation to Climate Change (《國家適應氣候變化戰略》), the Group is committed to minimizing the impacts arising from the risk of global warming. We carry out the inspection of GHG emissions of the Group in accordance with the Greenhouse Gas Protocol jointly developed by the World Resources Institute and the World Business Council for Sustainable Development and ISO14064-1 developed by the International Standardization Organization. We are committed to reducing the carbon footprint during the operations of the Group and implement low carbon business.

Following the inspection, the Group's GHG emissions are divided into direct GHG emissions (Scope 1) and indirect GHG emissions (Scope 2). Scope 1 refers to direct GHG emissions from sources that are owned or controlled by the Group. Scope 2 refers to indirect GHG emissions resulting from the generation of electricity, heating and cooling, or steam generated off site but purchased by the Group. GHG emissions in all scopes were originated from the fuel consumption of the Group and the fuel oil used by its vehicles (Scope 1), and electricity consumption during operation (Scope 2). A summary of GHG emissions during the Year is described in Appendix I.

Environmental, Social and Governance Report

We will actively implement the GHG reduction measures and use 2021 as the base year to maintain or decrease GHG emission intensity in 2025.

Air Emissions

Our air emissions mainly come from the emissions of volatile organic compounds (VOCs) and acidic exhaust arising from the manufacturing processes of drug and emissions of nitrogen oxides (NOx), sulphur oxides (SOx) and particulate matters (PM) arising from our group vehicles. We adopt appropriate reduction measures of air emissions to reduce the influence towards the environment.

For exhaust arising from drug manufacturing processes, we adopt suitable processes, such as spraying, adsorption and regenerative thermal oxidizer (RTO), to treat the exhaust. After treating, the amount of air emissions can attain the national and local emission standard of air pollutants.

For reducing vehicle emissions, we formulate the Vehicle and Driver Management System (《車輛及駕駛員管理制度》) for reasonable vehicle arrangement for business purpose. We encourage the use of online meetings to reduce unnecessary business travels. We encourage our employees to travel by public transport. If group vehicle is necessary, we encourage more employees to share one vehicle when travelling to reduce the use of group vehicles. We optimize the production process using clean materials and technology to reduce the generation of VOCs, also. The summary of the air emission is presented in Appendix I.

Wastewater Discharge

Wastewater generated by the Group mainly comes from drug manufacturing processes, equipment washing, pure water manufacturing processes, exhaust treatment and domestic sewage. All types of wastewater will be treated by the sewage treatment station in the factory area to meet the required standard before discharge. Water discharged from recirculating cooling systems and sewage from water purification generated in the factory area is discharged directly to the sewage treatment plant in Shaoxing for centralized treatment and is discharged when effluent has met the required standards. All discharge of wastewater generated by the Group meet with the required standards for emissions at national level and local level.

In order to meet the discharge requirement, we have developed several types of treatment methods for various types of sewage. For industrial sewage of high pollutant concentration, we have introduced the Biomimetic catalysis treatment system to do the ring-opening reaction to reduce the contamination levels. For integrated sewage, we use the deacidification and activated sludge methods to reduce the pollutants concentration. The sewage has to meet the class 3 of integrated wastewater discharge standard before discharge to sewage treatment plants for further treatment.

Environmental, Social and Governance Report

Disposal of Waste

The Group employs professional and qualified waste treatment companies for the disposal of both hazardous waste and non-hazardous waste. We have classified the hazardous waste into several categories, such as waste catalyst, waste mother liquor, waste solvent, laboratory waste, waste reagent bottle, hazardous waste etc., and assigned various recycling partner companies to handle waste. We signed contracts with recycling partner companies, to ensure that they will handle waste per requirements. To achieve waste reduction and better resource utilization, we implement the waste palladium catalyst reusing program, introduce sorting and storage of waste according to type and deliver waste to different companies for recovery, utilization and disposal based on their recycling purposes. Waste is stored in sealed containers with waste labels and transported by GPS-equipped transportation vehicles to achieve complete process supervision. We also have sufficient safety equipment, decontamination and clean-up tools and kits as well as the compilation of an Environmental Contingency Plan for Wastes(《廢棄物環境應急預案》)to deal with accidents.

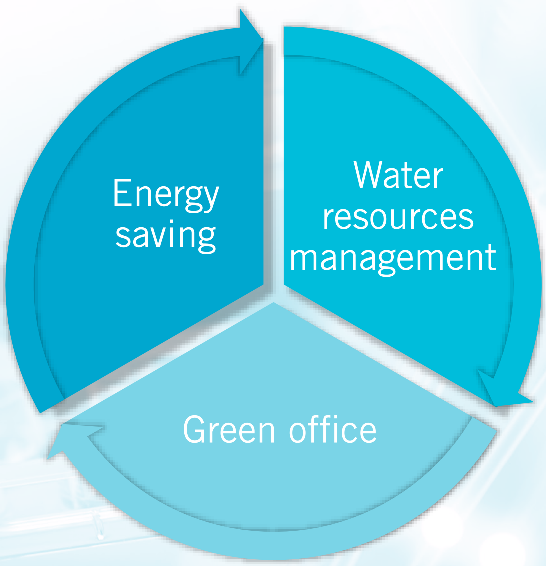
We will actively implement the waste reduction measures and use 2021 as the base year to maintain or decrease waste generation intensity in 2025.

Reduction of Business Trip

The Group is aware that business trips can result in GHG emissions. Therefore, we encourage employees to replace unnecessary overseas business trips with video conferences, and choose non-stop flights for unavoidable business trips, in order to minimize GHG emissions.

6.3 Use of Resources

The Group is committed to protecting the environment and conserving the natural resources, therefore we establish the Office Management Regulation to manage the employees' behaviors in the aspects of energy saving, water resources management and green office. We adopt the following measures to have better utilization of resources and waste reduction during the Year.



Environmental, Social and Governance Report

Energy Saving

Air conditioning system is one of the most intensive power-usage devices in the office. For effective energy saving, we use an air conditioning system with proven energy efficient label and avoid installing the air conditioner under direct sunlight in order to enhance energy efficiency. We stipulate our employees to turn off the air conditioning system in their office when not in use. The lowest temperature of air conditioning is set to be 22°C in summer and the highest temperature of air conditioning is set to be 20°C in winter. The windows in our office are attached with UV-resistant insulation film to reduce heat absorption. During hot weather, we allow our staff not to wear ties and suits and to wear smart causal on Friday to reduce the use of air conditioning system.

For energy saving in the lighting system, we promote the use of energy-efficient LED lighting. We also divide our offices and laboratories into several different lighting zones to provide independent control of the lighting system, stipulate employees to turn off unnecessary lighting when not in use as they leave the office for outdoor work, go out for lunch or at the end of the day, and use compact fluorescent lamps in street lamp. Besides, we regularly check the level of illumination in different parts of the office, and for places with light exceeding the required brightness level, so that we may reduce the number of lights to reduce energy consumption. In this Year, we optimized the use of energy by installing or upgrading various new equipment, and installed an inverter for the circulation water pump power system and linkage control with chiller and E14003 heat exchanger in synthesis workshop. This system provides the required power supply voltage based on the current operation conditions, reducing energy consumption. In the Year, as the number of research projects increased, energy usage for medicine storage also increased, however, energy usage per pipeline is lower than last year, proving that the energy usage is more efficient than last year.

In order to reduce fuel consumption, the Group regularly carries out inspection and maintenance of the vehicle fleet, inflates the tires regularly to keep proper air inflation and improves the automobile efficiency to reduce fuel consumption and emission of pollutants. We also offer training for drivers to prevent engine idling and improve fuel oil efficiency.

We will actively implement the electricity conservation measures and use 2021 as the base year to maintain or decrease electricity consumption intensity in 2025.

Water Resources Management

The Group recognizes that the world is now facing a water shortage crisis and we strive to promote water conservation. We implement a number of measures throughout our operations to enhance the effective use of water resources. We take the initiative to lower the water pressure to the lowest possible level, take meter readings regularly and check for hidden leaks, collect rainwater for irrigating and cleaning. To further reduce water consumption, we recycle wastewater from water purification system to use as cooling water, this wastewater recycling system is estimated to reduce about 1,050.00 tonnes of water per year. We also place water saving reminder stickers, use double flush toilet and use sanitary ware with water saving labels and infrared sensing in the washroom. We use the washing machine when it is full rather than washing with a small load at a time. Our water source is from local waterworks and we do not have any issue in sourcing water.

We will actively implement the water conservation measures and use 2021 as the base year to maintain or decrease water consumption intensity in 2025.

Green Office

The Group adopts green measures in our office. We use an online management platform as an important tool in streamlining and managing the business processes to reduce paper consumption. For unavoidable paper consumption, we encourage our employees to reuse or use both sides of paper to raise their environmental protection awareness. In this Year, we saved 298,454 sheets of paper, approximately equal to 3.2 trees. We also encourage our employees to use wastepaper for internal record purposes and use e-greeting cards instead of traditional greeting cards to send holiday greetings to minimize paper consumption. We regularly check and monitor the paper usage and carry out suitable improvement measures.

Before purchasing office stationery, we firstly assess the material usage to avoid excessive inventory. If there is any need for the purchase of materials, we give priority to the products that can be recycled or replenished and reduce the use of one-off and unrecyclable ones. We encourage our staff to reuse envelopes, spring binders, file cards and other stationeries. We post waste separation guidelines in our offices to encourage staff to separate recyclables such as metal cans, plastics and used paper to facilitate recycling and disposal of wastes. In the Year, we have organized a plastic reduction initiative to reduce plastic bottles usage in office. Plastic bottles generated per month greatly decreased by 60% compared with last year.

6.4 Combating Climate Change

The Group has recognized that climate change and extreme weather have foreseeable impacts to our business, employees and stakeholders. The Board decided to take the responsibilities of fighting climate change by using the adaption and mitigation measures to reduce the risks to our business. We also instill these ideas to our stakeholders, especially employees to gather our effort to work against the problems for the greater good.

Environmental, Social and Governance Report

We have evaluated the risks of climate change and have adapted several adaption measures to reduce the direct risks to our employees. We implemented the hot weather allowance, heat illness training and UV-insulation film to reduce the heat gain and protect our employees from hot weather. We will further investigate other possibilities and measures to reduce potential impacts. We believe low carbon working style can help mitigate the climate change effect. The Group has encouraged and inspired our employees to work and live green. For all the events we held, we put low-carbon options into our consideration, such as using low-carbon food and local supply food, transportation-convenient locations, and reducing the use of single-use utensil.

Potential Risk	Risk Level	Potential Consequences	Recommendations For Current Response to Mitigate Risks
		Physical Risk	
Extreme high temperature	Medium	• Increased demand for cooling, resulting in higher power requirements and operating costs	• Reduce the risk of possible future energy price increases by using more low-cost emission reduction measures
Water Scarcity	Low	• Change in plant and animal growing conditions due to climate change, affecting the supply of raw materials for pharmaceutical production	• Establish water-saving measures, such as installing efficient water-saving equipment etc.
		Transition Risk	
International climate change policy and regulatory requirement	Low	• Indirect impact on corporate goodwill	• Publicly disclose the company's greenhouse gas emission data and efforts in low-carbon operations in ESG reports
Stakeholder focus on climate-related issues	Low	• Possible penalties from regulatory bodies	• Communicate with stakeholders to explain the sustainability measures the Group has implemented

Climate-related Opportunities

Climate-related Opportunities	Potential Benefits	Measures in Realizing Opportunities
Resources efficiency improvement	More efficient production process	Reduce the use of electricity in daily operations

Environmental, Social and Governance Report

7. APPENDIX I: SUSTAINABILITY DATA STATEMENT

Environmental Subject Area[1]	Unit	2022
Air emissions[2,3]		
NOx	kilogram	6.47
SOx	kilogram	0.07
PM	kilogram	0.52
GHG emissions[2]		
Direct GHG emissions (Scope 1)	tonnes carbon dioxide equivalent	22.28
Indirect GHG emissions (Scope 2)	tonnes carbon dioxide equivalent	2,231.34
Total GHG emissions (Scope 1 & 2)	tonnes carbon dioxide equivalent	2,253.62
GHG emission intensity		
GHG emission intensity (per square metre) (Scope 1 & 2)	tonnes carbon dioxide equivalent/ square metre	0.10
GHG emission intensity (per pipeline)[4] (Scope 1 & 2)	tonnes carbon dioxide equivalent/ pipeline	86.68
Energy consumption		
Total electricity consumption	kilowatt-hours	3,840,517.00
Electricity consumption intensity (per square metre)	kilowatt-hours/square metre	165.84
Electricity consumption intensity (per pipeline)[4]	kilowatt-hours/pipeline	147,712.19
Natural gas consumption	cubic metre	4,280.00
Gasoline consumption (fleet)	litre	4,600.48
Diesel consumption (fleet)	litre	184.33
Water consumption		
Total water consumption	cubic metre	24,356.00
Water consumption intensity (per square metre)	cubic metre/square metre	1.05
Water consumption intensity (per pipeline)[4]	cubic metre/pipeline	936.77
Hazardous waste		
Total hazardous waste	tonnes	108.10
Hazardous waste intensity (per employee)	tonnes/employee	0.48
Hazardous waste intensity (per pipeline)[4]	tonnes/pipeline	4.16

1 Reporting boundary of environmental subject area includes Ascletis BioScience Co., Ltd., Ascletis Pharmaceuticals Co., Ltd., Ascletis Biopharmaceutical (Hangzhou) Co., Ltd., Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. and Gannex Pharma Co., Ltd.

2 The calculation standard is referenced to "How to Prepare an ESG Report – Appendix II: Reporting Guidance on Environmental KPIs" from the Stock Exchange.

3 Air emissions from company vehicles.

4 This year the number of pipeline is 26.

Environmental, Social and Governance Report

Environmental Subject Area[1]	Unit	2022
Non-hazardous waste		
Total non-hazardous waste	tonnes	52.54
Non-hazardous waste intensity (per employee)	tonnes/employee	0.23
Non-hazardous waste intensity (per pipeline)[4]	tonnes/pipeline	2.02
Paper consumption	tonnes	5.40
Paper consumption intensity (per employee)	tonnes/employee	0.02
Paper consumption intensity (per pipeline)[4]	tonnes/pipeline	0.21
Packing materials		
Carton	tonnes	0.40
Polyolefin bottle for oral solid drugs	tonnes	1.40
Bottle lid	tonnes	0.60
Plastic bag	tonnes	0.50

Pollutants concentration from the factory in Shaoxing

Environmental Subject Area	Unit	2022	Permitted concentration
Domestic sewage	tonnes	4,386	–
Industrial sewage	tonnes	11,635	–
Biochemical oxygen demand (BOD)	tonnes	0.05	–
Chemical oxygen demand (COD)	tonnes	0.54	≤1.159 tonnes/year

Environmental, Social and Governance Report

Social Subject Area	Unit	2022
Total employees		
Female employees	no. of people	149
Male employees	no. of people	129
Total employees	no. of people	278
Total employees by employment type		
Short-term contract/part-time employees	no. of people	2
General employees	no. of people	157
Managers	no. of people	99
Directors and above	no. of people	20
Total employees by age		
Below 30	no. of people	102
Aged 30-50	no. of people	162
Above 50	no. of people	14
Total employees by geographical region		
North China	no. of people	9
East China	no. of people	242
Central China	no. of people	4
South China	no. of people	19
Other regions (including Macau, Hong Kong and Taiwan)	no. of people	4
Employee turnover rate by gender[5]		
Female employees	%	14.29
Male employees	%	14.72
Employee turnover rate by age[5]		
Below 30	%	13.24
Aged 30-50	%	15.70
Above 50	%	6.25
Employee turnover rate by geographical region[5]		
North China	%	26.09
Eastern China	%	14.99
Central China	%	11.11
South China	%	0.00
Other regions (including Macau, Hong Kong and Taiwan)	%	37.50

5 Calculation method: no. of departed employees in the specific category / (no. of staff turnover in the specific category + no. of staff in the specific category at the end of the Year) × 100%

Environmental, Social and Governance Report

Social Subject Area	Unit	2022
Occupational health and safety		
Work-related casualties		
Lost days due to work injury	days	0
Number of work-related fatalities occurred in each of the past three years including the reporting year	no. of people	0
Rate of work-related fatalities occurred in each of the past three years including the reporting year	%	0
Percentage of employees participating in training by gender[6]		
Female employees	%	100.00
Male employees	%	100.00
Percentage of employees participating in training by employment type[6]		
Short-term contract/part-time employees	%	100.00
General employees	%	100.00
Managers	%	100.00
Directors and above	%	100.00
Average training hours per employee by gender[7]		
Female employees	hours	28.51
Male employees	hours	31.04
Average training hours per employee by employment type[7]		
Short-term contract/part-time employees	hours	1.00
General employees	hours	33.66
Managers	hours	26.85
Directors and above	hours	15.40

6 Calculation method: no. of employees in the specific category who took part in training / no. of employees in the specific category x 100%

7 Calculation method: total training hours for employees in the specific category / total no. of employees in the specific category

Environmental, Social and Governance Report

8. APPENDIX II: HONG KONG STOCK EXCHANGE ESG REPORTING GUIDE CONTENT INDEX

Index content				Relevant sections
A.	**Environmental Area**			
A1:	Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection for a Green World
		A1.1	The types of emissions and respective emissions data.	Appendix I: Sustainability Data Statement
		A1.2	Direct (Scope 1) and energy indirect (Scope 2) greenhouse gas emissions and, where appropriate, intensity	Appendix I: Sustainability Data Statement
		A1.3	Total hazardous waste produced and, where appropriate intensity.	Appendix I: Sustainability Data Statement
		A1.4	Total non-hazardous waste produced and, where appropriate, intensity.	Appendix I: Sustainability Data Statement
		A1.5	Description of emissions target(s) set and steps taken to achieve them.	Emissions Management
		A1.6	Description of how hazardous and non-hazardous wastes are handled, and a description of reduction target(s) set and steps taken to achieve them.	Emissions Management
A2:	Use of Resources	General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
		A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Appendix I: Sustainability Data Statement
		A2.2	Water consumption in total and intensity.	Appendix I: Sustainability Data Statement
		A2.3	Description of energy use efficiency target(s) set and steps taken to achieve them.	Use of Resources
		A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency target(s) set and steps taken to achieve them.	Use of Resources
		A2.5	Total packaging material used for finished products.	Appendix I: Sustainability Data Statement

Environmental, Social and Governance Report

Index content				Relevant sections
A3:	The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection for a Green World
		A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Environmental Protection for a Green World
A4:	Climate Change	General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Combating Climate Change
		A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Combating Climate Change
B.	**Social Area**			
B1:	Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Talent Employment Benefits of Employees
		B1.1	Total workforce by gender, employment type, age group and geographical region.	Appendix I: Sustainability Data Statement
		B1.2	Employee turnover rate by gender, age group and geographical region.	Appendix I: Sustainability Data Statement
B2:	Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employee's Health and Safety
		B2.1	Number and rate of work-related fatalities occurred in each of the past three years including the reporting year.	Appendix I: Sustainability Data Statement
		B2.2	Lost days due to work injury.	Appendix I: Sustainability Data Statement
		B2.3	Description of occupational health and safety measures adopted, and how they are implemented and monitored.	Employee's Health and Safety

Environmental, Social and Governance Report

Index content				Relevant sections
B3:	Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Training and Development of Employees
		B3.1	The percentage of employees trained by gender and employee category.	Appendix I: Sustainability Data Statement
		B3.2	The average training hours completed per employee by gender and employee category.	Appendix I: Sustainability Data Statement
B4:	Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Talent Employment
		B4.1	Description of measures to review employment practices to avoid child and forced labour.	Talent Employment
		B4.2	Description of steps taken to eliminate such practices when discovered.	Talent Employment
B5:	Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
		B5.1	Number of suppliers by geographical region.	Supply Chain Management
		B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, and how they are implemented and monitored.	Supply Chain Management
		B5.3	Description of practices used to identify environmental and social risks along the supply chain, and how they are implemented and monitored.	Supply Chain Management
		B5.4	Description of practices used to promote environmentally preferable products and services when selecting suppliers, and how they are implemented and monitored.	Supply Chain Management

Environmental, Social and Governance Report

Index content			Relevant sections
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Quality Management Product Safety Assurance Protection of Patients' Interests
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Safety Assurance
	B6.2	Number of products and service related complaints received and how they are dealt with.	Product Safety Assurance Protection of Patients' Interests
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Intellectual Property Protection
	B6.4	Description of quality assurance process and recall procedures.	Product Quality Management Product Safety Assurance Protection of Patients' Interests
	B6.5	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Protection of Patients' Interests
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Managing Corruption Risks and Promoting Integrity
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Managing Corruption Risks and Promoting Integrity
	B7.2	Description of preventive measures and whistle-blowing procedures, and how they are implemented and monitored.	Managing Corruption Risks and Promoting Integrity
	B7.3	Description of anti-corruption training provided to directors and staff.	Managing Corruption Risks and Promoting Integrity
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Repaying Community
	B8.1	Focus areas of contribution.	Repaying Community
	B8.2	Resources contributed to the focus area.	Repaying Community

Independent Auditor's Report

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To the shareholders of Ascletis Pharma Inc.
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ascletis Pharma Inc. (the "Company") and its subsidiaries (the "Group") set out on pages 114 to 185, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of inventories	
As at 31 December 2022, the net carrying amount of the Group's inventories was RMB20,519,000. The Group's inventories, comprising primarily raw materials and finished goods, are carried at the lower of cost and net realisable value, which requires management's significant estimation of the net realisable value of the inventories based on future usage and sales and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. The Group's disclosures about impairment of inventories are included in note 2.4 *Summary of significant accounting policies*, note 3 *Significant accounting judgements and estimates* and note 17 *Inventories*, which specifically explain the accounting policies and management's accounting estimates.	We evaluated management's assessment of the inventory provisions by reviewing the analyses of the ageing of the inventories and assessing actual and forecast usage or sale of inventories. We attended physical inventory counts on a sample basis to check the condition of the inventories and to evaluate the adequacy of provisions for slow-moving and obsolete inventories. We also evaluated the key assumptions used to determine the net realisable value of inventories and recalculated the expected provisions based on the key assumptions to check the mathematical accuracy of the calculation.
Cut-off of research and development costs	
The Group incurred significant research and development costs of RMB267,102,000 for the year ended 31 December 2022 which mainly consisted of staff costs, clinical trial expenses, service fees and materials paid to outsourced service providers. The research and development activities with these service providers are documented in detailed agreements and are typically carried out over an extended period. Allocation of these costs to the appropriate reporting period based on the progress of the research and development projects involves judgement. The Group's disclosure about research and development costs is included in note 2.4 *Summary of significant accounting policies* and note 3 *Significant accounting judgements and estimates.*	We reviewed the key terms set out in the agreements with the outsourced service providers. We evaluated the progress of the research and development projects based on inquiries with project managers, inspection of supporting documents and by obtaining confirmations from the outsourced service providers, on a sample basis, in order to check the completeness, cut-off and nature of the research and development costs.

Independent Auditor's Report

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the Management Discussion and Analysis of the Annual Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Chairman's Statement, the Report of Directors, the Corporate Governance Report and the Environmental, Social and Governance Report, which are expected to be made available to us after that date.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairman's Statement, the Report of Directors, the Corporate Governance Report and the Environmental, Social and Governance Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lai Chee Kong.

Ernst & Young
Certified Public Accountants
Hong Kong
20 March 2023

Consolidated Statement of Profit or Loss

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	5	**54,090**	76,876
Cost of sales		**(78,782)**	(37,703)
including royalties		***507***	*8*
Gross (loss)/profit		**(24,692)**	39,173
Other income and gains	5	**112,016**	65,891
Selling and distribution expenses		**(16,985)**	(20,872)
Research and development costs		**(267,102)**	(213,320)
Administrative expenses		**(35,199)**	(29,947)
Other expenses		**(59,830)**	(21,942)
Finance costs	7	**(157)**	(125)
Share of the loss of an associate		**(22,894)**	(17,875)
LOSS BEFORE TAX	6	**(314,843)**	(199,017)
Income tax	10	**–**	–
LOSS FOR THE YEAR		**(314,843)**	(199,017)
Attributable to:			
Owners of the parent		**(314,843)**	(199,017)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	**RMB(28.96) cents**	RMB(18.13) cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2022

	2022 **RMB'000**	2021 RMB'000
LOSS FOR THE YEAR	**(314,843)**	(199,017)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**2,172**	(390)
Share of other comprehensive income/(loss) of an associate	**3,054**	(1,182)
Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into the presentation currency	**116,277**	(30,430)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**121,503**	(32,002)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(193,340)**	(231,019)
Attributable to:		
Owners of the parent	**(193,340)**	(231,019)

Consolidated Statement of Financial Position

31 December 2022

	Notes	**2022** *RMB'000*	2021 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	**67,113**	74,237
Advance payments for property, plant and equipment		**1,215**	412
Right-of-use assets	*14*	**4,713**	3,272
Other intangible assets	*15*	**16,559**	78,213
Investment in an associate	*16*	**22,018**	41,858
Long-term deferred expenditure		**698**	416
Total non-current assets		**112,316**	198,408
CURRENT ASSETS			
Inventories	*17*	**20,519**	56,233
Trade receivables	*18*	**23,873**	53,606
Financial assets at fair value through profit or loss	*19*	**11,200**	5,200
Prepayments, other receivables and other assets	*20*	**18,300**	21,016
Cash and cash equivalents	*21*	**2,470,834**	2,495,496
Total current assets		**2,544,726**	2,631,551
CURRENT LIABILITIES			
Trade payables	*22*	**3,135**	1,054
Other payables and accruals	*23*	**101,050**	86,761
Lease liabilities	*14*	**2,416**	1,568
Deferred income	*24*	**1,588**	1,588
Total current liabilities		**108,189**	90,971
NET CURRENT ASSETS		**2,436,537**	2,540,580
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,548,853**	2,738,988
NON-CURRENT LIABILITIES			
Lease liabilities	*14*	**1,821**	1,182
Deferred income	*24*	**7,146**	8,734
Total non-current liabilities		**8,967**	9,916
Net assets		**2,539,886**	2,729,072
EQUITY			
Equity attributable to owners of the parent			
Share capital	*26*	**742**	746
Reserves	*27*	**2,539,144**	2,728,326
Total equity		**2,539,886**	2,729,072

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Jinzi Jason WU
Director

Judy Hejingdao WU
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2022

	Attributable to owners of the parent						
	Share capital *RMB'000*	Treasury shares* *RMB'000*	Share premium account* *RMB'000*	Capital reserve* *RMB'000*	Exchange fluctuation reserve* *RMB'000*	Accumulated losses* *RMB'000*	Total equity *RMB'000*
At 1 January 2021	750	(4,522)	2,898,056	657,540	(54,346)	(515,828)	2,981,650
Loss for the year	–	–	–	–	–	(199,017)	(199,017)
Other comprehensive loss for the year:							
Share of other comprehensive loss of an associate	–	–	–	–	(1,182)	–	(1,182)
Exchange differences	–	–	–	–	(30,820)	–	(30,820)
Total comprehensive loss for the year	–	–	–	–	(32,002)	(199,017)	(231,019)
Shares repurchased	–	(28,689)	–	–	–	–	(28,689)
Shares cancelled	(4)	14,502	(14,498)	–	–	–	–
Equity-settled share award and option arrangements	–	–	–	7,130	–	–	7,130
At 31 December 2021	746	(18,709)	2,883,558	664,670	(86,348)	(714,845)	2,729,072

	Attributable to owners of the parent						
	Share capital ***RMB'000***	**Treasury shares*** ***RMB'000***	**Share premium account*** ***RMB'000***	**Capital reserve*** ***RMB'000***	**Exchange fluctuation reserve*** ***RMB'000***	**Accumulated losses*** ***RMB'000***	**Total equity** ***RMB'000***
At 1 January 2022	**746**	**(18,709)**	**2,883,558**	**664,670**	**(86,348)**	**(714,845)**	**2,729,072**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(314,843)**	**(314,843)**
Other comprehensive income for the year:							
Share of other comprehensive income of an associate	**–**	**–**	**–**	**–**	**3,054**	**–**	**3,054**
Exchange differences	**–**	**50**	**–**	**–**	**118,399**	**–**	**118,449**
Total comprehensive loss for the year	**–**	**50**	**–**	**–**	**121,453**	**(314,843)**	**(193,340)**
Shares cancelled	**(5)**	**18,659**	**(18,654)**	**–**	**–**	**–**	**–**
Issue of shares	**1**	**–**	**960**	**–**	**–**	**–**	**961**
Transfer of capital reserve upon the exercise of share options	**–**	**–**	**967**	**(967)**	**–**	**–**	**–**
Equity-settled share award and option arrangements	**–**	**–**	**–**	**3,193**	**–**	**–**	**3,193**
At 31 December 2022	**742**	**–**	**2,866,831**	**666,896**	**35,105**	**(1,029,688)**	**2,539,886**

* These reserve accounts comprise the consolidated reserves of RMB2,539,144,000 (2021: RMB2,728,326,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2022

	Notes	2022 *RMB'000*	2021 *RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(314,843)**	(199,017)
Adjustments for:			
Finance costs	*7*	**157**	125
Share of the loss of an associate		**22,894**	17,875
Bank interest income	*5*	**(44,162)**	(22,506)
Investment income from financial assets at fair value through profit or loss	*5*	**(3,322)**	(2,484)
Loss on disposal of items of property, plant and equipment	*6*	**4**	–
Depreciation of property, plant and equipment	*13*	**12,949**	12,875
Depreciation of right-of-use assets	*14(a)*	**2,269**	2,198
Amortisation of intangible assets	*15*	**14,973**	14,472
Amortisation of long-term deferred expenditure		**314**	431
Write-down of inventories to net realisable value	*6*	**48,553**	7,729
(Reversal of impairment)/impairment of trade receivables	*18*	**(11)**	7
Impairment of other intangible assets	*15*	**54,748**	–
Impairment of property, plant and equipment	*13*	**443**	–
Equity-settled share award and option expense	*6*	**3,193**	7,130
		(201,841)	(161,165)
Increase in inventories		**(12,839)**	(5,068)
Increase in long-term deferred expenditure		**(596)**	(262)
Decrease/(increase) in trade receivables		**29,744**	(26,993)
Decrease in prepayments, other receivables and other assets		**2,716**	7,846
Increase in trade payables		**2,081**	124
Increase in other payables and accruals		**14,289**	16,787
Decrease in deferred income		**(1,588)**	(2,609)
Cash used in operations		**(168,034)**	(171,340)
Interest received		**25,581**	24,410
Net cash flows used in operating activities		**(142,453)**	(146,930)

Consolidated Statement of Cash Flows

	Notes	**2022** **RMB'000**	2021 RMB'000
Net cash flows used in operating activities		**(142,453)**	(146,930)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment and construction in progress		**(7,070)**	(4,968)
Proceeds from disposal of intangible assets		**92**	–
Purchases of intangible assets		**(7,331)**	(2,230)
Purchases of financial assets at fair value through profit or loss		**(482,000)**	(337,400)
Proceeds from sale of financial assets at fair value through profit or loss		**476,000**	332,200
Investment income from financial assets at fair value through profit or loss		**3,322**	2,484
Increase in time deposits with original maturity of over three months		**(1,280,400)**	(264,578)
Net cash flows used in investing activities		**(1,297,387)**	(274,492)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal portion of lease payments	*29(b)*	**(2,223)**	(2,284)
Shares repurchased		**–**	(28,689)
Proceeds from issue of shares		**961**	–
Interest paid for lease liabilities	*29(b)*	**(157)**	(125)
Net cash flows used in financing activities		**(1,419)**	(31,098)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,441,259)**	(452,520)
Cash and cash equivalents at beginning of year		**1,727,411**	2,210,504
Effect of foreign exchange rate changes, net		**117,616**	(30,573)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**403,768**	1,727,411
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	*21*	**2,470,834**	2,495,496
Non-pledged time deposits with original maturity of over three months when acquired		**(2,067,066)**	(768,085)
Cash and cash equivalents as stated in the consolidated statement of cash flows		**403,768**	1,727,411

Notes to Financial Statements

Year ended 31 December 2022

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 25 February 2014. The registered office address of the Company is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9008, Cayman Islands. The principal place of business in Hong Kong of the Company is located at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the research and development, production, marketing and sale of pharmaceutical products.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 August 2018.

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
PowerTree Investment (BVI) Ltd. ("PowerTree")	British Virgin Islands 13 January 2011	United States dollars ("US$")102	100%	–	Investment holding
AP11 Limited	British Virgin Islands 20 November 2018	US$103	100%	–	Investment holding
Ascletis Pharma (China) Co., Limited (歌禮製藥(中國)有限公司)	Hong Kong 15 March 2018	US$80,050,254.04	–	100%	Investment holding
SoundRidge Pharmaceuticals (Hong Kong) Co., Limited	Hong Kong 23 April 2019	US$28,015,012.75	–	100%	Investment holding
Gannex Pharma Co., Ltd. ("Gannex Pharma") (甘萊製藥有限公司)(i)*	People's Republic of China/Mainland China 3 September 2019	US$28,000,000	–	100%	Manufacture, and research and development of pharmaceutical products
Ascletis BioScience (歌禮生物科技(杭州)有限公司)(i)*	People's Republic of China/Mainland China 26 April 2013	US$180,600,162	–	100%	Research, development and commercialisation of pharmaceutical products

Notes to Financial Statements

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about subsidiaries (Continued)

Particulars of the Company's subsidiaries are as follows: (Continued)

Name	Place and date of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ascletis Pharmaceuticals Co., Ltd. ("Ascletis Pharmaceuticals") (歌禮藥業(浙江)有限公司)(ii)*	People's Republic of China/Mainland China 24 September 2014	Renminbi ("RMB") 411,002,100	–	100%	Manufacture, commercialisation, and research and development of pharmaceutical products
Ascletis Biopharmaceutical (Hangzhou) Co., Ltd. ("Ascletis Biopharma") (歌禮生物製藥(杭州)有限公司)(ii)*	People's Republic of China/Mainland China 19 April 2018	RMB50,000,000	–	100%	Manufacture, and research and development of pharmaceutical products
Ascletis XinNuo Medicine (Hangzhou) Co., Ltd. ("Ascletis XinNuo") (歌禮欣諾醫藥(杭州)有限公司)(ii)*	People's Republic of China/Mainland China 24 July 2018	RMB15,000,000	–	100%	Sale of pharmaceutical products
Gannex, LLC	United States/Delaware 30 October 2020	US$5,000,000	–	100%	Research and development
Ascletis (Australia) Pty Ltd	Australia/ South Melbourne 8 March 2022	AUD1,000	100%	–	Research and development

Notes:

(i) These entities are registered as wholly-foreign-owned enterprises under People's Republic of China ("PRC") law.

(ii) These entities are limited liability enterprises established under PRC law.

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

Notes to Financial Statements

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2022. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 3	*Reference to the Conceptual Framework*
Amendment to HKFRS 16	*Covid-19-Related Rent Concessions beyond 30 June 2021* (early adopted)
Amendments to HKAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*
Amendments to HKAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to HKFRSs 2018-2020	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

(a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* (the "Conceptual Framework") issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date.The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no business combinations during the year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

Notes to Financial Statements

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) *Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that is applicable to the Group is as follows:

HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively from 1 January 2022. As there was no modification or exchange of the Group's financial liabilities during the year, the amendment did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 16	*Lease Liability in a Sale and Leaseback*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 17	*Insurance Contracts*[1,5]
Amendment to HKFRS 17	*Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information*[6]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current*[2,4] (the "2020 Amendments")[2,4]
Amendments to HKAS 1	*Non-current Liabilities with Covenants* (the "2022 Amendments")[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion

5 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of HKFRS 17

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

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

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

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss resulting from a downstream transaction when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

Amendments to HKAS 1 *Classification of Liabilities as Current or Non-current* clarify the requirements for classifying liabilities as current or non-current, in particular the determination over whether an entity has a right to defer settlement of the liabilities for at least 12 months after the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. In 2022, the HKICPA issued the 2022 Amendments to further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. In addition, the 2022 Amendments require additional disclosures by an entity that classifies liabilities arising from loan arrangements as non-current when it has a right to defer settlement of those liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments are effective for annual periods beginning on or after 1 January 2024 and shall be applied retrospectively. Earlier application is permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 *Disclosure of Accounting Policies* require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. Amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2023 and earlier application is permitted. Since the guidance provided in the amendments to HKFRS Practice Statement 2 is non-mandatory, an effective date for these amendments is not necessary. The Group is currently revisiting the accounting policy disclosures to ensure consistency with the amendments.

Notes to Financial Statements

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 12 narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and shall be applied to transactions related to leases and decommissioning obligations at the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to the opening balance of retained profits or other component of equity as appropriate at that date. In addition, the amendments shall be applied prospectively to transactions other than leases and decommissioning obligations. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's investment in the associate, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of an associate is included as part of the Group's investment in an associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment in an associate (Continued)

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of the year as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

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

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

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

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

Plant and machinery	9.50% to 33.33%
Motor vehicles	19.00% to 25.00%
Office equipment	19.00% to 33.33%
Leasehold improvements	20.00% to 34.29%

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

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

Construction in progress represents plants under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Intangible assets are stated at cost less impairment and are amortised on the straight-line basis over the following useful economic lives:

Software	2 to 5 years
Intellectual property	14 to 17 years

Research and development costs

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

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

Leases

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee

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

(a) Right-of-use assets

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

Office premises and staff dormitories	3 years

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

(b) Lease liabilities

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee *(Continued)*

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of staff dormitories (that is those leases that have a lease term of 12 months and do not contain a purchase option).

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

Investments and other financial assets

Initial recognition and measurement

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through profit or loss

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

Derecognition of financial assets

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Simplified approach

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition as payables.

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

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

Subsequent measurement

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

Financial liabilities at amortised cost (payables)

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

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

Derecognition of financial liabilities

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Offsetting of financial instruments

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

Treasury shares

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

Government grants

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

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

Revenue recognition

Revenue from contracts with customers

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers *(Continued)*

(a) Sale of products

Revenue from the sale of products is recognised at the point in time when control of the asset is transferred to the customer, generally on acceptance of the products.

(b) Promotion service revenue

Transaction price is derived from the service fee based on a percentage of the customer's sales, and the performance obligation is not satisfied until the customer's sales occur. Accordingly, revenue from the provision of promotion services is recognised at a point in time, generally when the customer's sales occur.

(c) Collaboration revenue

The Group performs by transferring goods or services to the collaboration partner, and the collaboration partner performs by paying consideration to the Group.

Any unconditional rights to consideration are presented separately as trade receivables.

Other income

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

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Refund liabilities

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

The Group operates a share award for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB as the major operations of the Group are within the PRC. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is the US$ and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the year. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the non-PRC established subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the non-PRC established companies which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Research and development costs

Research and development costs are expensed in accordance with the accounting policy for research and development costs in note 2.4 to the consolidated financial statements. Determining the amounts to be capitalised or expensed requires management to make assumptions and judgements regarding to technical feasibility of completing the intangible asset, future economic benefits and so forth.

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty

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

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made for those identified obsolete and slow-moving inventories and inventories with a carrying amount higher than net realisable value. The assessment of the provision required involves management's judgement and estimates on which are influenced by assumptions concerning future sales and usage and judgements in determining the appropriate level of inventory provisions against identified surplus or obsolete items. Where the actual outcome or expectation in future is different from the original estimate, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which such estimate has been changed. At 31 December 2022, the carrying amount of inventories was RMB20,519,000 (2021: RMB56,233,000).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. Further details are included in note 25 to the financial statements.

Useful lives of intangible assets

The Group's finite life intangible assets primarily represent patents transferred from third parties. These intangible assets are amortised on a straight-line basis over their useful economic lives, which are estimated to be the patent life. If the Group's estimate of the duration of sale of the product is shorter than the patent life, then the shorter period is used. Additional amortisation is recognised if the estimated useful lives of patents are different from the previous estimation. Useful lives are reviewed at the end of the year based on changes in circumstances.

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Useful lives and residual values of property, plant and equipment

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

Additional depreciation is recognised if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

Impairment of non-financial assets (other than goodwill)

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the year in which it arises in those expense categories consistent with the function of the impaired asset.

Notes to Financial Statements

4. OPERATING SEGMENT INFORMATION

Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2022	2021
	RMB'000	*RMB'000*
Mainland China	**54,064**	70,951
Other country	**26**	5,925
Total	**54,090**	76,876

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2022	2021
	RMB'000	*RMB'000*
Mainland China	**90,238**	146,770
British Virgin Islands	**22,018**	41,858
Cayman Islands	**15**	9,714
United States	**45**	66
Total	**112,316**	198,408

The non-current asset information above is based on the locations of assets.

Information about a major customer

Revenue of RMB40,440,000 (2021: RMB70,918,000) was derived from the rendering of promotion services to a single customer during the year.

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	**54,090**	76,876

Revenue from contracts with customers

(i) Disaggregation of revenue information

	2022 RMB'000	2021 RMB'000
Types of goods or services		
– Sale of products	**12,451**	33
– Promotion service revenue	**40,440**	70,918
– Collaboration revenue	**26**	5,925
– Others	**1,173**	–
Total revenue from contracts with customers	**54,090**	76,876

	2022 RMB'000	2021 RMB'000
Timing of revenue recognition		
At a point in time		
– Sale of products	**12,451**	33
– Promotion service revenue	**40,440**	70,918
– Collaboration revenue	**26**	5,925
– Others	**1,173**	–
Total revenue from contracts with customers	**54,090**	76,876

	2022 RMB'000	2021 RMB'000
Geographical markets		
Mainland China		
– Sale of products	**12,451**	33
– Promotion service revenue	**40,440**	70,918
– Others	**1,173**	–
Other country		
– Collaboration revenue	**26**	5,925
Total revenue from contracts with customers	**54,090**	76,876

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(i) Disaggregation of revenue information (Continued)

No revenue was recognised during the reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods.

(ii) Performance obligations

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

Sale of products

The performance obligation is satisfied upon acceptance of the products and payment is generally due within 30 to 90 days from acceptance.

Promotion services

The performance obligation is satisfied at a point in time when the customer's sales occur and payment is generally due within 60 days from the date of billing.

Collaboration revenue

The performance obligation is satisfied at a point in time as output generated from the development activities is accepted by the collaboration partner, and payment is generally due within 30 days from the date of billing.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2021 and 2022 are as follows:

	2022 ***RMB'000***	2021 *RMB'000*
Amounts expected to be recognised as revenue:		
Within one year	**377**	–

Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(ii) Performance obligations (Continued)

All the amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2022 *RMB'000*	2021 *RMB'000*
Other income and gains		
Government grants*	**4,349**	40,883
Bank interest income	**44,162**	22,506
Investment income from financial assets at fair value through profit or loss	**3,322**	2,484
Exchange gain	**60,182**	–
Others	**1**	18
	112,016	65,891

* The government grants mainly represent subsidies received from the local governments for the purpose of compensation for expenses arising from research activities and clinical trials, awards for new drug development and capital expenditure incurred on certain projects.

Notes to Financial Statements

6. LOSS BEFORE TAX

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

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		**58,024**	7,931
Cost of services provided		**20,758**	29,772
Depreciation of property, plant and equipment	*13*	**12,949**	12,875
Depreciation of right-of-use assets	*14(a)*	**2,269**	2,198
Amortisation of intangible assets*	*15*	**14,973**	14,472
Write-down of inventories to net realisable value**		**48,553**	7,729
Lease payments not included in the measurement of lease liabilities	*14(c)*	**107**	64
Auditor's remuneration		**2,390**	2,290
Research and development costs		**267,102**	213,320
Government grants		**(4,349)**	(40,883)
Foreign exchange differences, net		**(60,182)**	16,439
Impairment of other intangible assets	*15*	**54,748**	–
Impairment of property, plant and equipment	*13*	**443**	–
(Reversal of impairment)/impairment of trade receivables, net	*18*	**(11)**	7
Loss on disposal of items of property, plant and equipment		**4**	–
Employee benefit expenses (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**78,508**	63,973
Pension scheme contributions***		**16,863**	14,388
Staff welfare expenses		**3,229**	2,644
Equity-settled share award and option expense		**3,193**	7,130
		101,793	88,135

* The amortisation of intangible assets is included in "Administrative expenses" and "Research and development costs" in the consolidated statement of profit or loss.

** The write-down of inventories to net realisable value of RMB48,553,000 for the year ended 31 December 2022 (2021: RMB7,729,000) is included in "Cost of sales" in the consolidated statement of profit or loss.

*** There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

Notes to Financial Statements

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities *(note 14(b))*	**157**	125

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2022 RMB'000	2021 RMB'000
Fees	**1,150**	1,108
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**24,979**	22,212
Pension scheme contributions	**272**	233
	25,251	22,445
	26,401	23,553

(a) Independent non-executive directors

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

	2022 RMB'000	2021 RMB'000
Jiong GU	**384**	369
Lin HUA	**383**	370
Yizhen WEI	**383**	369
	1,150	1,108

There were no other emoluments payable to the independent non-executive directors during the year (2021: Nil).

Notes to Financial Statements

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (Continued)

(b) Executive directors and the chief executive

	Salaries, bonuses, allowances and benefits in kind*** RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2022			
Executive directors:			
Jinzi Jason WU*	**22,466****	**118**	**22,584**
Judy Hejingdao WU	**2,513**	**154**	**2,667**
	24,979	**272**	**25,251**
2021			
Executive directors:			
Jinzi Jason WU*	19,839	102	19,941
Judy Hejingdao WU	2,373	131	2,504
	22,212	233	22,445

* Jinzi Jason WU was also the chief executive of the Company during the year.

** During the year, the Group paid a subsidy of RMB9,249,000 to Jinzi Jason WU to offset against his individual income tax liability (after grossed up for China individual income tax) for his subpart F income in 2022 which was derived from the bank interest generated by the Group. He is the citizen of the United States of America ("USA") and pursuant to the USA Internal Revenue Code Section 951, if a foreign corporation is a controlled foreign corporation at any time during any taxable year, and any of the shareholders of such corporation is the citizen of the USA, such shareholder shall include in his gross income his pro rata shares of the corporation's subpart F income for the year, even though such corporation has not paid such shareholder any dividends.

*** The discretionary year-end performance bonus of executive directors were based on their performance appraisal results in accordance with the Company's remuneration policy.

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

Notes to Financial Statements

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2021: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2021: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2022 *RMB'000*	2021 *RMB'000*
Salaries, bonuses, allowances and benefits in kind*	**8,788**	8,800
Pension scheme contributions	**109**	99
Equity-settled share award and option expense	**2,366**	4,572
	11,263	13,471

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

	Number of employees	
	2022	2021
HK$2,000,001 to HK$2,500,000	**1**	–
HK$4,000,001 to HK$4,500,000	**1**	–
HK$4,500,001 to HK$5,000,000	**–**	1
HK$5,000,001 to HK$5,500,000	**–**	1
HK$6,000,001 to HK$6,500,000	**–**	1
HK$6,500,001 to HK$7,000,000	**1**	–
	3	3

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

* The discretionary year-end performance bonus of the remaining three highest paid employees were based on their performance appraisal results in accordance with the Company's remuneration policy.

Notes to Financial Statements

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands ("BVI"), PowerTree is not subject to tax on income or capital gains. In addition, upon payments of dividends by PowerTree to its shareholder, no BVI withholding tax is imposed.

Hong Kong

Under the current laws of the Hong Kong, the subsidiary in Hong Kong is subject to profits tax at a rate of 16.5% (2021: 16.5%) on the estimated assessable profits arising in Hong Kong. During the year, no provision for profits tax has been made as the subsidiary did not generate any assessable profits in Hong Kong.

United States

Under the current laws of the United States, the subsidiary in the United States is subject to tax at a maximum of 21% (2021: 21%) federal corporate income tax rate and 2.5% (2021: 2.5%) North Carolina state tax rate. During the year, no provision for income tax has been made as the subsidiary did not generate any assessable income in United States.

Mainland China

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the "CIT Law"), the subsidiaries which operate in Mainland China are subject to CIT at a rate of 25% (2021: 25%) on the taxable income. Preferential tax treatment is available to Ascletis Pharmaceuticals since it was recognised as a High and New Technology Enterprise, and it was entitled to a preferential tax rate of 15% (2021: 15%) during the year. Gannex Pharma, Ascletis Biopharma and Ascletis XinNuo are qualified as Small and Micro Enterprises and were subject to a preferential tax rate of 2.5% (2021: 2.5%) during the year.

The income tax of the Group for the year is analysed as follows:

	2022	2021
	RMB'000	*RMB'000*
Current tax:		
Charge for the year	**–**	–
Deferred tax *(note 25)*	**–**	–
Total tax for the year	**–**	–

Notes to Financial Statements

10. INCOME TAX (Continued)

Mainland China (Continued)

A reconciliation of the tax applicable to loss before tax at the statutory rate in Mainland China to the tax at the effective tax rate is as follows:

	2022	2021
	RMB'000	*RMB'000*
Loss before tax	**(314,843)**	(199,017)
At the PRC's statutory income tax rate of 25%	**(78,711)**	(49,754)
Effect of tax rate differences in other countries	**5,427**	5,771
Preferential income tax rates enacted by local authority	**15,782**	18,660
Effect of tax concessions and allowances	**(46,819)**	(23,979)
Tax losses not recognised	**96,544**	45,151
Expenses not deductible for tax	**7,777**	4,151
Tax at the Group's effective rate	**–**	–

11. DIVIDENDS

The board does not recommend the payment of any dividend in respect for the year ended 31 December 2022 (2021: Nil).

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

The calculation of the basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the parent of RMB314,843,000 (2021: RMB199,017,000), and the weighted average number of ordinary shares of 1,087,029,890 (2021: 1,097,608,054) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2021 and 2022 in respect of a dilution as the impact of the share award had an anti-dilutive effect on the basic loss per share amounts presented.

Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment *RMB'000*	Leasehold improve-ments *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2022						
At 1 January 2022:						
Cost	99,261	3,295	12,771	2,873	34	118,234
Accumulated depreciation	(32,284)	(2,639)	(7,417)	(1,657)	–	(43,997)
Net carrying amount	66,977	656	5,354	1,216	34	74,237
At 1 January 2022, net of accumulated depreciation	66,977	656	5,354	1,216	34	74,237
Additions	3,985	–	2,268	–	14	6,267
Disposal	(4)	–	–	–	–	(4)
Depreciation provided during the year *(note 6)*	(9,761)	(537)	(2,087)	(564)	–	(12,949)
Impairment *(note 6)*	(443)	–	–	–	–	(443)
Exchange realignment	–	–	5	–	–	5
Transfers	48	–	–	–	(48)	–
At 31 December 2022, net of accumulated depreciation and impairment	60,802	119	5,540	652	–	67,113
At 31 December 2022:						
Cost	103,221	3,295	15,025	2,873	–	124,414
Accumulated depreciation and impairment	(42,419)	(3,176)	(9,485)	(2,221)	–	(57,301)
Net carrying amount	60,802	119	5,540	652	–	67,113

Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Leasehold improve-ments RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021						
At 1 January 2021:						
Cost	96,497	3,295	11,025	2,873	–	113,690
Accumulated depreciation	(22,699)	(2,096)	(5,272)	(1,067)	–	(31,134)
Net carrying amount	73,798	1,199	5,753	1,806	–	82,556
At 1 January 2021, net of accumulated depreciation	73,798	1,199	5,753	1,806	–	82,556
Additions	2,764	–	1,758	–	34	4,556
Depreciation provided during the year *(note 6)*	(9,585)	(543)	(2,157)	(590)	–	(12,875)
At 31 December 2021, net of accumulated depreciation	66,977	656	5,354	1,216	34	74,237
At 31 December 2021:						
Cost	99,261	3,295	12,771	2,873	34	118,234
Accumulated depreciation	(32,284)	(2,639)	(7,417)	(1,657)	–	(43,997)
Net carrying amount	66,977	656	5,354	1,216	34	74,237

During the year, an impairment loss of RMB443,000 was recognised in the consolidated statement of profit or loss as other expense, in respect of certain items of machinery identified as obsolete. The recoverable amount of the machinery was assessed to be zero since the related production process was ceased and the management estimated there is no other use.

Notes to Financial Statements

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of office premises and staff dormitories used in its operations. Leases of office premises and staff dormitories have lease terms between 1 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amount of the Group's right-of-use assets and the movements during the year is as follows:

	Office premises and staff dormitories *RMB'000*
At 1 January 2021	**2,023**
Additions	**3,447**
Depreciation charge *(note 6)*	**(2,198)**
At 31 December 2021and 1 January 2022	**3,272**
Additions	**3,710**
Depreciation charge *(note 6)*	**(2,269)**
At 31 December 2022	**4,713**

(b) Lease liabilities

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

	2022 *RMB'000*	2021 *RMB'000*
Carrying amount at 1 January	**2,750**	1,587
New leases	**3,710**	3,447
Accretion of interest recognised during the year *(note 7)*	**157**	125
Payments	**(2,380)**	(2,409)
Carrying amount at 31 December	**4,237**	2,750
Analysed into:		
Current portion	**2,416**	1,568
Non-current portion	**1,821**	1,182

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

The Group has applied the practical expedient to all eligible rent concessions granted by the lessors for leases of certain staff dormitories during the year.

Notes to Financial Statements

14. LEASES (Continued)

The Group as a lessee (Continued)

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

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities	**157**	125
Depreciation charge of right-of-use assets	**2,269**	2,198
Expense relating to short-term leases leases (included in administrative expenses and research and development costs) *(note 6)*	**107**	64
Total amount recognised in profit or loss	**2,533**	2,387

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

15. OTHER INTANGIBLE ASSETS

	Intellectual property RMB'000	Software RMB'000	Total RMB'000
31 December 2022			
Cost at 1 January 2022, net of accumulated amortization and impairment	**72,326**	**5,887**	**78,213**
Additions	**7,000**	**331**	**7,331**
Disposal	**–**	**(92)**	**(92)**
Amortisation provided during the year *(note 6)*	**(13,181)**	**(1,792)**	**(14,973)**
Impairment during the year *(note 6)*	**(54,748)**	**–**	**(54,748)**
Exchange realignment	**828**	**–**	**828**
At 31 December 2022	**12,225**	**4,334**	**16,559**
At 31 December 2022:			
Cost	**132,130**	**9,988**	**142,118**
Accumulated amortisation and impairment	**(119,905)**	**(5,654)**	**(125,559)**
Net carrying amount	**12,225**	**4,334**	**16,559**

During the year, an impairment loss of RMB54,748,000 was recognised in the consolidated statement of profit or loss as other expense, in respect of the intellectual property used for research and development purpose. The recoverable amount of the intellectual property was assessed to be zero since the related research and development project was ceased and the management estimated there is no other use.

Notes to Financial Statements

15. OTHER INTANGIBLE ASSETS (Continued)

	Intellectual property *RMB'000*	Software *RMB'000*	Total *RMB'000*
31 December 2021			
Cost at 1 January 2021, net of accumulated amortization and impairment	85,333	5,369	90,702
Additions	–	2,230	2,230
Amortisation provided during the year *(note 6)*	(12,760)	(1,712)	(14,472)
Exchange realignment	(247)	–	(247)
At 31 December 2021	72,326	5,887	78,213
At 31 December 2021:			
Cost	123,591	9,779	133,370
Accumulated amortisation and impairment	(51,265)	(3,892)	(55,157)
Net carrying amount	72,326	5,887	78,213

16. INVESTMENT IN AN ASSOCIATE

	2022 ***RMB'000***	2021 *RMB'000*
Share of net assets	**(5,153)**	16,984
Goodwill on acquisition	**27,171**	24,874
	22,018	41,858

The Group's shareholding in Sagimet Bioscience Inc. ("Sagimet") comprise equity shares held through a wholly-owned subsidiary of the Company. The Group's investment in Sagimet is accounted for under the equity method of accounting because the Group had significant influence over Sagimet by way of representation on the board of directors and participation in the policy-making process for the year ended 31 December 2022, despite the fact that the Group's direct equity interest with voting power in Sagimet was lower than 20%.

Notes to Financial Statements

16. INVESTMENT IN AN ASSOCIATE (Continued)

The following table illustrates the financial information of the Group's associate:

	2022 *RMB'000*	2021 *RMB'000*
Share of the associate's loss for the year	**(22,894)**	(17,875)
Share of the associate's other comprehensive income/(loss) for the year	**3,054**	(1,182)
Share of the associate's total comprehensive loss	**(19,840)**	(19,057)
Carrying amount of Group's investment in the associate	**22,018**	41,858

17. INVENTORIES

	2022 *RMB'000*	2021 *RMB'000*
Raw materials	**9,116**	44,348
Work in progress	**9,766**	3,345
Finished goods	**1,637**	8,540
	20,519	56,233

18. TRADE RECEIVABLES

	2022 *RMB'000*	2021 *RMB'000*
Trade receivables	**23,878**	53,622
Impairment	**(5)**	(16)
	23,873	53,606

The Group's trading terms with its customers are mainly on credit. The credit period is generally 30 days to 90 days. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the before mentioned and the fact that the Group's trade receivables relate to large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Notes to Financial Statements

18. TRADE RECEIVABLES (Continued)

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

	2022	2021
	RMB'000	*RMB'000*
Within 3 months	**13,537**	38,676
3 to 6 months	**10,336**	14,930
	23,873	53,606

The movement in the loss allowance for impairment of trade receivables is as follows:

	2022	2021
	RMB'000	*RMB'000*
At beginning of year	**16**	9
(Reversal of impairment)/impairment losses, net *(note 6)*	**(11)**	7
At end of year	**5**	16

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

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

As at 31 December 2022

		Past due			
	Current	**Less than 3 months**	**3 to 6 months**	**Over 6 months**	**Total**
Expected credit loss rate	**0.02%**	**–**	**–**	**–**	**0.02%**
Gross carrying amount *(RMB'000)*	**23,878**	**–**	**–**	**–**	**23,878**
Expected credit losses *(RMB'000)*	**5**	**–**	**–**	**–**	**5**

As at 31 December 2021

		Past due			
	Current	Less than 3 months	3 to 6 months	Over 6 months	Total
Expected credit loss rate	0.03%	–	–	–	0.03%
Gross carrying amount *(RMB'000)*	53,622	–	–	–	53,622
Expected credit losses *(RMB'000)*	16	–	–	–	16

Notes to Financial Statements

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2022	2021
	RMB'000	*RMB'000*
Unlisted investments, at fair value	**11,200**	5,200

The unlisted investments represented certain financial products issued by commercial banks. They were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

20. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022	2021
	RMB'000	*RMB'000*
Value-added tax recoverable	**5,399**	13,785
Deposits and other receivables	**2,648**	2,593
Prepayments	**8,125**	2,340
Prepaid expenses	**2,128**	2,298
	18,300	21,016

Other receivables mainly represent rental and other deposits. An impairment analysis is performed at each reporting date by applying an expected credit loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions. As at 31 December 2022 and 2021, the expected credit loss rate was close to zero.

The financial assets included in the above balances are non-interest-bearing, unsecured and repayable on demand and relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2022 and 2021, the loss allowance was assessed to be minimal.

Notes to Financial Statements

21. CASH AND CASH EQUIVALENTS

	2022 *RMB'000*	2021 *RMB'000*
Cash and bank balances	**403,768**	1,727,411
Time deposits	**2,067,066**	768,085
Cash and cash equivalents	**2,470,834**	2,495,496
Denominated in RMB	**539,286**	521,840
Denominated in US$	**1,921,762**	1,964,699
Denominated in HK$	**9,770**	8,942
Denominated in other currencies	**16**	15
Cash and cash equivalents	**2,470,834**	2,495,496

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

22. TRADE PAYABLES

	2022 *RMB'000*	2021 *RMB'000*
Trade payables	**3,135**	1,054

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

	2022 *RMB'000*	2021 *RMB'000*
Within 3 months	**2,365**	648
3 to 12 months	**745**	406
1 to 2 years	**25**	–
	3,135	1,054

The trade payables are non-interest-bearing and are normally settled within three months.

Notes to Financial Statements

23. OTHER PAYABLES AND ACCRUALS

	Note	**2022** **RMB'000**	2021 RMB'000
Other payables	(a)	**42,688**	34,344
Accrued expenses		**30,472**	25,240
Payroll payable		**24,126**	23,095
Taxes other than income tax		**1,553**	3,959
Contract liabilities	(b)	**377**	–
Refund liabilities		**1,834**	123
		101,050	86,761

Notes:

(a) Other payables are non-interest-bearing.

(b) Contract liabilities include short-term advances received to deliver products. The increase in contract liabilities in 2022 was mainly due to the increase in short-term advances received from customers in relation to the sale of products at the end of the year.

24. DEFERRED INCOME

	2022 **RMB'000**	2021 RMB'000
Government grants		
Current	**1,588**	1,588
Non-current	**7,146**	8,734
	8,734	10,322

The movements in government grants during the year are as follows:

	2022 **RMB'000**	2021 RMB'000
At beginning of year	**10,322**	12,931
Amount released	**(1,588)**	(2,609)
At end of year	**8,734**	10,322
Current	**1,588**	1,588
Non-current	**7,146**	8,734
	8,734	10,322

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research activities and clinical trials, awards for its new drug development and capital expenditure incurred on certain projects.

Notes to Financial Statements

25. DEFERRED TAX

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

2022

Deferred tax liabilities

	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2022	**226**	226
Deferred tax charged to profit or loss during the year	**604**	604
Gross deferred tax liabilities at 31 December 2022	**830**	830

Deferred tax assets

	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022	**226**	226
Deferred tax credited to profit or loss during the year	**604**	604
Gross deferred tax assets at 31 December 2022	**830**	830

2021

Deferred tax liabilities

	Right-of-use assets RMB'000	Total RMB'000
At 1 January 2021	396	396
Deferred tax credited to profit or loss during the year	(170)	(170)
Gross deferred tax liabilities at 31 December 2021	226	226

Notes to Financial Statements

25. DEFERRED TAX (Continued)

Deferred tax assets

	Lease liabilities *RMB'000*	Total *RMB'000*
At 1 January 2021	396	396
Deferred tax charged to profit or loss during the year	(170)	(170)
Gross deferred tax assets at 31 December 2021	226	226

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

	2022 ***RMB'000***	2021 *RMB'000*
Net deferred tax recognised in consolidated statement of financial position	**–**	–

The Group has tax losses arising in Mainland China of RMB1,473,213,000 (2021: RMB930,267,000) that will expire in one to ten years for offsetting against future taxable profits.

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

26. SHARE CAPITAL

	2022	2021
Authorised:		
7,000,000,000 (2021: 7,000,000,000) ordinary shares of US$0.0001 each		
US$	**700,000**	700,000
Issued and fully paid:		
1,087,134,000 (2021: 1,094,448,000) ordinary shares of US$0.0001 each		
US$	**108,713**	109,445
RMB	**742,000**	746,000

Notes to Financial Statements

26. SHARE CAPITAL (Continued)

A summary of movements in the Company's issued share capital, treasury shares and share premium is as follows:

	Notes	Number of shares in issue	Share capital RMB'000	Treasury shares RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2021,		1,100,662,000	750	(4,522)	2,898,056	2,894,284
Shares repurchased	*(a)*	–	–	(28,689)	–	(28,689)
Shares cancelled	*(a)*	(6,214,000)	(4)	14,502	(14,498)	–
At 31 December 2021 and 1 January 2022		1,094,448,000	746	(18,709)	2,883,558	2,865,595
Shares issued	*(b)*	**400,000**	**1**		**960**	**961**
Exchange differences		**–**	**–**	**50**	**–**	**50**
Transfer of capital reserve upon the exercise of share options		**–**	**–**	**–**	**967**	**967**
Shares cancelled	*(a)*	**(7,714,000)**	**(5)**	**18,659**	**(18,654)**	**–**
At 31 December 2022		**1,087,134,000**	**742**	**–**	**2,866,831**	**2,867,573**

Notes:

(a) In 2021, the Company purchased 12,048,000 of its shares on the Stock Exchange for a total cash consideration of HK$34,995,000 (equivalent to approximately RMB28,689,000). In the same year, the Company cancelled the remaining 1,880,000 shares purchased in 2020 on 14 January 2021 and 4,334,000 shares purchased in 2021 on 7 December 2021 (equivalent to approximately RMB14,502,000 in total). The remaining 7,714,000 shares were cancelled on 17 January 2022.

(b) The subscription rights attaching to 400,000 share options were exercised at the subscription price of HK$2.87 per share (note 28), resulting in the issue of 400,000 shares for a total cash consideration, before expenses, of HK$1,148,000 (equivalent to approximately RMB961,000). An amount of HK$1,148,000 was transferred from the share option reserve to share capital upon the exercise of the share options.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity of the Group.

Statutory reserve

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

Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not the RMB.

Notes to Financial Statements

28. SHARE AWARD

Restricted Stock Unit Scheme

On 14 July 2016, Zande Investment and Management LLP ("Zande") entered into an equity interest subscription agreement with PowerTree, pursuant to which Zande subscribed for approximately 2.44% equity interest in Ascletis BioScience for a cash consideration of US$312,220. Subsequently on 2 August 2016, Zande, Hangzhou Zanqin Investment and Management LLP ("Zanqin"), Hangzhou Zanwei Investment and Management LLP ("Zanwei") and Hangzhou Zanfang Investment and Management LLP ("Zanfang") (collectively, the "PRC Share Incentive Entities") and PowerTree entered into an equity interest subscription agreement with Ascletis BioScience, pursuant to which Zanqin, Zanwei, Zanfang, Zande and PowerTree agreed to subscribe for approximately 1.18%, 1.18%, 1.18%, 0.25% and 10.08% equity interest in Ascletis BioScience, respectively, at cash considerations of RMB2,319,581, RMB2,319,581, RMB2,319,581, RMB497,045 and US$3,133,689, respectively. The considerations were determined based on fair market value at that time. The purpose to establish the PRC Share Incentive Entities was to reserve equity interest for future employee incentive plans. Ms. Heying YANG, being a supervisor of Ascletis BioScience and the mother of a director, as the general partner, and the Group's employees, each as a limited partner, subscribed for equity interest in Zanqin and Zanwei by way of entering into partnership agreement.

On 15 March 2018, JJW11 Limited was incorporated in the BVI. The purpose for its incorporation is to set up an offshore share incentive platform to replace the PRC Share Incentive Entities and to hold incentive shares for the participants of the employee incentive plans. For any participant who had subscribed for equity interest in the PRC Share Incentive Entities, the amount of the award is determined based on his/her previous interest in such PRC Share Incentive Entities. There is no significant change to the terms of the employee incentive plans.

The employees of the Group shall not have any right to receive any shares awarded to them and all other interest attributable thereto unless and until the shares have transferred the legal and beneficial ownership of such awarded shares to them and the legal and beneficial ownership of those awarded shares vested in them. When the participant ceased to be the Group's employee, the unvested shares would be retained by the partnerships.

The fair value of services received in return for shares granted is measured by reference to the fair value of shares granted. The fair value of the shares granted is measured at the grant date at the market value of the shares and is determined using an option pricing model, adjusted for the exclusion of expected dividends to be received in the vesting period.

Pursuant to a share award on 9 July 2016, an equity interest in Ascletis BioScience was granted to a selected employee at a consideration of RMB100,000 and the earliest vesting date is 9 July 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to a share award on 21 December 2016, an equity interest in Ascletis BioScience was granted to 5 selected employees at a total consideration of RMB319,000 and the earliest vesting date is 21 December 2021. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Notes to Financial Statements

28. SHARE AWARD (Continued)

Restricted Stock Unit Scheme (Continued)

Pursuant to a share award on 25 June 2017, an equity interest in Ascletis BioScience was granted to 19 selected employees at a total consideration of RMB486,000 and the earliest vesting date is 25 June 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to a share award on 18 December 2017, an equity interest in Ascletis BioScience was granted to 67 selected employees at a total consideration of RMB2,750,000 and the earliest vesting date is 18 December 2022. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

Pursuant to a share award on 12 March 2018, an equity interest in Ascletis BioScience was granted to a selected employee at a total consideration of RMB420,000 and the earliest vesting date is 12 March 2023. There is no other performance target required except the eligible participant remains as an employee of the Group during the vesting period.

During the year, a share award expense of RMB695,000 (2021: RMB1,395,000) was charged to the consolidated statement of profit or loss.

Restricted Stock Unit Option Incentive Scheme

The shareholder of the Company, JJW11 Limited, adopted a Restricted Stock Unit Option Incentive Scheme on 8 August 2018 (the "Scheme"). The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include senior management members who serve as directors, supervisors, presidents, vice presidents, financial managers and board secretaries at the Group as well as other core technical personnel, key personnel or other natural persons or entities that were or will be important to the development of the Group.

Subject to any early termination as may be determined by the board of directors in accordance with the rules of the Scheme, the Scheme shall be valid and effective for a term of twelve years commencing on 8 August 2018 (the "Adoption Date").

The director of JJW11 Limited (or its authorised person) (the "Option Manager") shall have the full and absolute management right over the operation of the Scheme, including, but not limited to, the absolute discretion in matters such as the grant, vesting, exercise, cancellation and validity period of options.

The grantees shall only be entitled to the property rights expressly specified in the Scheme in relation to the restricted stock units acquired from the exercise of their options, and shall not be entitled to any voting rights or any other shareholders' rights of JJW11 Limited and the Company. The Option Manager shall have the absolute right to exercise the voting rights attached to the Company's shares held by JJW11 Limited and any other shareholders' rights on behalf of JJW11 Limited.

Notes to Financial Statements

28. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme (Continued)

Options granted to the grantees shall not be exercised within 3 years from the date of signing the option incentive agreement under the Scheme. 60% of the options granted shall become exercisable by the grantees between 3 years (inclusive of the 3rd anniversary) and 4 years (exclusive of the 4th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units; 80% of the options granted shall become exercisable by the grantees between 4 years (inclusive of the 4th anniversary) and 5 years (exclusive of the 5th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of corresponding number of restricted stock units; 100% of the options granted shall become exercisable by the grantees after 5 years (inclusive of the 5th anniversary) from the date of signing the option incentive agreement under the Scheme for the purchase of the corresponding number of restricted stock units.

The option exercise price shall be agreed in writing at the time the grantees sign the option incentive agreement with JJW11 Limited, and the grantees may choose (a) to settle at the option exercise price at the point when the options are exercised, and request the Option Manager to continue to manage the underlying restricted stock units associated with the exercised options, or (b) to deduct the option exercise price from the proceeds from the transfer of the underlying shares of the Company immediately following the exercise of the options.

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

	2022		2021	
	Weighted average exercise price ***HK$ per share***	**Number of options** ***'000***	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	**3.2807**	**1,420**	3.2807	1,920
Granted during the year	**–**	**–**	3.2807	–
Forfeited during the year	**3.2807**	**(280)**	3.2807	(500)
At 31 December	**3.2807**	**1,140**	3.2807	1,420

Notes to Financial Statements

28. SHARE AWARD (Continued)

Restricted Stock Unit Option Incentive Scheme (Continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2022

Number of options *'000*	**Exercise price** *HK$ per share*	**Exercise period**
330	**3.2807**	2022/10/8-2031/10/7
810	**3.2807**	2023/3/31-2032/3/30
1,140		

2021

Number of options *'000*	Exercise price *HK$ per share*	Exercise period
330	3.2807	2022/10/8-2031/10/7
1,090	3.2807	2023/3/31-2032/3/30
1,420		

The fair value of the options granted during the year was nil (2021: nil), of which the Group recognised a share option expense of RMB1,345,000 (2021: RMB1,929,000) during the year ended 31 December 2022.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2020
Dividend yield (%)	0.00
Expected volatility (%)	82.22
Risk-free interest rate (%)	0.77
Early exercise multiple	2.20 – 2.80
Weighted average share price (HK$ per share)	2.90
Forfeiture rate (%)	0.00

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

Notes to Financial Statements

28. SHARE AWARD (Continued)

Share Option Scheme

The Company has adopted a share option scheme (the "Share Option Scheme") on 6 June 2019 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include the Company's directors, including independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, the Company's shareholders, and any non-controlling shareholder in the Company's subsidiaries. The Share Option Scheme became effective on 6 June 2019 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum aggregate number of unexercised share options currently permitted to be granted under the Share Option Scheme or any new share option scheme (the "New Scheme") is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Notwithstanding the foregoing, the maximum aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company, must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5,000,000, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The Share Option Scheme does not stipulate either a minimum period for which an option must be held or any performance targets a Grantee is required to achieve before an option may be exercised. The board of the Company may specify in the offer letter any conditions which must be satisfied before the option may be exercised, including, without limitation, such performance targets (if any) and minimum periods for which an option must be held before it can be exercised and any other terms in relation to the exercise of the option, including, without limitation, such percentages of the options that can be exercised during a certain period of time, as the board of the Company may determine from time to time.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Offer Date, which must be a Business Day; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the Offer Date; and (iii) the nominal value of the shares. No consideration is required upon acceptance of the grant of options.

Notes to Financial Statements

28. SHARE AWARD (Continued)

Share Option Scheme (Continued)

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

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

	2022 Weighted average exercise price *HK$ per share*	**2022** Number of options *'000*	2021 Weighted average exercise price *HK$ per share*	2021 Number of options *'000*
At 1 January	**2.70 – 3.53**	**9,076**	2.90	6,921
Granted during the year	**3.93 – 5.51**	**2,400**	2.70 – 3.53	3,900
Exercised during the year	**2.87**	**(400)**	–	–
Forfeited during the year	**2.70 – 2.90**	**(3,979)**	2.88 – 3.53	(1,745)
At 31 December	**2.70 – 5.51**	**7,097**	2.70 – 3.53	9,076

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2022

Number of options *'000*	**Exercise price** *HK$ per share*	**Exercise period**
2,657	**2.90**	2021/3/31-2030/3/30
1,000	**2.89**	2022/4/7-2031/4/6
100	**3.53**	2022/6/30-2031/6/29
940	**2.70**	2022/9/30-2031/9/29
100	**5.51**	2023/3/31-2032/3/30
2,200	**3.93**	2023/6/30-2032/6/29
100	**4.74**	2023/12/30-2032/12/29
7,097		

Notes to Financial Statements

28. SHARE AWARD (Continued)

Share Option Scheme (Continued)

2021

Number of options *'000*	Exercise price *HK$ per share*	Exercise period
3,576	2.90	2021/3/31-2030/3/30
2,000	2.87	2021/12/1-2030/11/30
1,000	2.89	2022/4/7-2031/4/6
100	3.53	2022/6/30-2031/6/29
2,400	2.70	2022/9/30-2031/9/29
9,076		

The fair value of the options granted during the year was HK$6,720,000 (HK$2.65-3.51 each) (2021: HK$7,591,000), of which the Group recognised a share option expense of RMB1,153,000 (2021: RMB3,806,000) during the year ended 31 December 2022.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2022	2021
Dividend yield (%)	**0.00**	0.00
Expected volatility (%)	**82.08 – 85.42**	81.45 – 85.03
Risk-free interest rate (%)	**2.09 – 3.71**	1.21 – 1.44
Early exercise multiple	**2.20 – 2.80**	2.20 – 2.80
Weighted average share price (HK$ per share)	**3.79 – 5.20**	2.70 – 3.53
Forfeiture rate (%)	**0.00**	0.00

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

Notes to Financial Statements

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB3,710,000 (2021: 3,447,000) and RMB3,710,000 (2021: 3,447,000), respectively, in respect of lease arrangements for office premises.

(b) Changes in liabilities arising from financing activities

2022

	Lease liabilities ***RMB'000***
At 1 January 2022 and 31 December 2021	**2,750**
New leases	**3,710**
Change from financing cash flows	**(2,380)**
Finance costs	**157**
At 31 December 2022	**4,237**

2021

	Lease liabilities *RMB'000*
At 1 January 2021 and 31 December 2020	1,587
New leases	3,447
Change from financing cash flows	(2,409)
Finance costs	125
At 31 December 2021	2,750

Notes to Financial Statements

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Total cash outflow for leases

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

	2022 **RMB'000**	2021 RMB'000
Within operating activities	**107**	64
Within financing activities	**2,380**	2,409
	2,487	2,473

30. CONTINGENT LIABILITIES

On 29 December 2022, Viking Therapeutics, Inc. ("Viking"), a pharmaceutical company in the United States, filed certain complaints against the Company, its founder Jinzi Jason WU and certain subsidiaries of the Company in connection with the Group's drug candidates ASC41 and ASC43F. The Company believes that the allegations brought by Viking have no merit and will vigorously defend against the complaints. Accordingly, the Group has not made any provision for the allegations arising from the complaints filed by Viking as at 31 December 2022.

31. COMMITMENTS

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

	2022 **RMB'000**	2021 RMB'000
Contracted, but not provided for:		
Plant and machinery	**1,865**	2,069

32. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with a related party during the year ended 31 December 2022:

	Notes	**2022** **RMB'000**	2021 RMB'000
An associate:			
Collaboration revenue	*(i)*	**26**	5,925
Payment of license fee	*(ii)*	**–**	570

Notes:

(i) The revenue from an associate was based on the price mutually agreed between the parties.

(ii) The payment of license fee was made according to the published prices and conditions offered by the associate to its major customers.

Notes to Financial Statements

32. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balance with a related party:

There was no outstanding balance between the Group and its related parties (31 December 2021: Nil) as at the end of the reporting period.

(c) Compensation of key management personnel of the Group:

	2022	2021
	RMB'000	*RMB'000*
Short term employee benefits*	**34,383**	31,490
Pension scheme contributions	**393**	381
Equity-settled share award and option expense	**1,294**	4,661
Total compensation paid to key management personnel	**36,070**	36,532

* The discretionary year-end performance bonus of key management personnel were based on their performance appraisal results in accordance with the Company's remuneration policy.

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

33. FINANCIAL INSTRUMENTS BY CATEGORY

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

2022

Financial assets

	Financial assets at amortised cost	**Financial assets at fair value through profit or loss Mandatorily designated as such**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Trade receivables	**23,873**	**–**	**23,873**
Financial assets included in prepayments, other receivables and other assets	**2,648**	**–**	**2,648**
Financial assets at fair value through profit or loss	**–**	**11,200**	**11,200**
Cash and cash equivalents	**2,470,834**	**–**	**2,470,834**
	2,497,355	**11,200**	**2,508,555**

Notes to Financial Statements

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

2022

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	**Total** *RMB'000*
Trade payables	**3,135**	**3,135**
Financial liabilities included in other payables and accruals	**73,160**	**73,160**
	76,295	**76,295**

2021

Financial assets

	Financial assets at amortised cost *RMB'000*	Financial assets at fair value through profit or loss Mandatorily designated as such *RMB'000*	Total *RMB'000*
Trade receivables	53,606	–	53,606
Financial assets included in prepayments, other receivables and other assets	2,593	–	2,593
Financial assets at fair value through profit or loss	–	5,200	5,200
Cash and cash equivalents	2,495,496	–	2,495,496
	2,551,695	5,200	2,556,895

Financial liabilities

	Financial liabilities at amortised cost *RMB'000*	Total *RMB'000*
Trade payables	1,054	1,054
Financial liabilities included in other payables and accruals	59,584	59,584
	60,638	60,638

Notes to Financial Statements

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts and fair values	
	31 December 2022	31 December 2021
	RMB'000	*RMB'000*
Financial assets		
Financial assets at fair value through profit or loss	**11,200**	5,200

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

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

The Group invests in unlisted investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

Notes to Financial Statements

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

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

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss	**–**	**11,200**	**–**	**11,200**

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *RMB'000*	Significant observable inputs (Level 2) *RMB'000*	Significant unobservable inputs (Level 3) *RMB'000*	Total *RMB'000*
Financial assets at fair value through profit or loss	–	5,200	–	5,200

The Group did not have any financial liabilities measured at fair value as at 31 December 2022 and 31 December 2021.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

Notes to Financial Statements

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency *%*	**Increase/ (decrease) in loss before tax** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
2022			
If the RMB weakens against the US$	**5**	**25,765**	**95,859**
If the RMB strengthens against the US$	**(5)**	**(25,765)**	**(95,859)**
If the RMB weakens against the HK$	**5**	**489**	**489**
If the RMB strengthens against the HK$	**(5)**	**(489)**	**(489)**
2021			
If the RMB weakens against the US$	5	33,703	96,926
If the RMB strengthens against the US$	(5)	(33,703)	(96,926)
If the RMB weakens against the HK$	5	442	442
If the RMB strengthens against the HK$	(5)	(442)	(442)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different regions.

Further analysis in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in notes 18 and 19 to the financial statements, respectively.

To manage this risk arising from cash and cash equivalents, they are mainly placed with banks with high credit ratings. There has been no recent history of default in relation to these financial institutions. The expected credit loss is close to zero.

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the year, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2022				
	On demand *RMB'000*	Less than 1 month *RMB'000*	1 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	–	113	2,421	1,869	4,403
Trade payables	2,680	455	–	–	3,135
Financial liabilities included in other payables and accruals	40,964	31,724	472	–	73,160
	43,644	**32,292**	**2,893**	**1869**	**80,698**

Notes to Financial Statements

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	As at 31 December 2021				
	On demand *RMB'000*	Less than 1 month *RMB'000*	1 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Total *RMB'000*
Lease liabilities	–	99	1,564	1,219	2,882
Trade payables	406	648	–	–	1,054
Financial liabilities included in other payables and accruals	34,294	25,238	52	–	59,584
	34,700	25,985	1,616	1,219	63,520

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2022 and 31 December 2021.

Notes to Financial Statements

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2022 *RMB'000*	2021 *RMB'000*
NON-CURRENT ASSETS		
Intangible assets	**–**	9,692
Investments in subsidiaries	**1,709,179**	1,561,734
Long-term deferred expenditure	**15**	22
Total non-current assets	**1,709,194**	1,571,448
CURRENT ASSETS		
Other current assets	**320**	294
Cash and cash equivalents	**1,408,069**	1,276,082
Total current assets	**1,408,389**	1,276,376
CURRENT LIABILITIES		
Other payables and accruals	**31,111**	27,869
Total current liabilities	**31,111**	27,869
NET CURRENT ASSETS	**1,377,278**	1,248,507
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,086,472**	2,819,955
Net assets	**3,086,472**	2,819,955
EQUITY		
Share capital	**742**	746
Reserves *(note)*	**3,085,730**	2,819,209
Total equity	**3,086,472**	2,819,955

Notes to Financial Statements

36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves is as follows:

	Treasury shares RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2021	(4,522)	2,898,056	13,166	(91,070)	96,261	2,911,891
Loss for the year	–	–	–	–	(4,605)	(4,605)
Other comprehensive loss for the year:						
Exchange differences	–	–	–	(66,522)	–	(66,522)
Total comprehensive loss for the year	–	–	–	(66,522)	(4,605)	(71,127)
Equity-settled share award and option arrangements	–	–	7,130	–	–	7,130
Shares repurchased	(28,689)	–	–	–	–	(28,689)
Shares cancelled	14,502	(14,498)	–	–	–	4
At 31 December 2021	(18,709)	2,883,558	20,296	(157,592)	91,656	2,819,209
At 1 January 2022	**(18,709)**	**2,883,558**	**20,296**	**(157,592)**	**91,656**	**2,819,209**
Income for the year	**–**	**–**	**–**	**–**	**1,784**	**1,784**
Other comprehensive loss for the year:						
Exchange differences	**50**	**–**	**–**	**260,529**	**–**	**260,579**
Total comprehensive income for the year	**50**	**–**	**–**	**260,529**	**1,784**	**262,363**
Transfer of capital reserve upon the exercise of share options	**–**	**967**	**(967)**	**–**	**–**	**–**
Equity-settled share award and option arrangements	**–**	**–**	**3,193**	**–**	**–**	**3,193**
Issue of shares	**–**	**960**	**–**	**–**	**–**	**960**
Shares cancelled	**18,659**	**(18,654)**	**–**	**–**	**–**	**5**
At 31 December 2022	**–**	**2,866,831**	**22,522**	**102,937**	**93,440**	**3,085,730**

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 March 2023.

Definitions

"API(s)"	Active Pharmaceutical Ingredient, the component of a drug product that is intended to furnish pharmacological activity or other direct effect in the diagnosis, cure, mitigation, treatment, or prevention of disease, or to affect the structure or any function of the body
"Articles of Association"	the articles of association of the Company
"Ascletis", "Company", "the Company" or "We"	Ascletis Pharma Inc. (歌禮製藥有限公司), an exempted company incorporated in the Cayman Islands with limited liability on February 25, 2014
"AGM"	annual general meeting of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of directors of the Company
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"Chairman"	the Chairman of the Board
"China", "Mainland China" or "the PRC"	the People's Republic of China, excluding, for the purpose of this report, Hong Kong, Macau Special Administrative Region and Taiwan, China
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Dr. Wu, Mrs. Judy Hejingdao Wu, JJW12 Limited, Lakemont Holding LLC, the Lakemont Remainder Trust and Northbridge Trust, as a group, or any member of them
"COVID-19"	An infectious disease caused by a newly discovered coronavirus (severe acute respiratory syndrome coronavirus)
"Director(s)"	the director(s) of the Company
"Dr. Wu"	Dr. Jinzi Jason WU (吳勁梓), our Founder and the spouse of Mrs. Judy Hejingdao Wu, chairman of the Board, chief executive officer, an executive Director of the Company, one of our Controlling Shareholders
"FASN"	fatty acid synthase
"FDA"	U.S. Food and Drug Administration
"FXR"	Farnesoid X receptor

Definitions

"Gannex Pharma"	Gannex Pharma Co., Ltd. (甘萊製藥有限公司), a limited liability company incorporated under the laws of the PRC on September 3, 2019, a wholly-owned subsidiary of the Company
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"Group", "our Group" or "the Group"	the Company and its subsidiaries
"HCV"	hepatitis C virus
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	International Financial Reporting Standards
"IND(s)"	investigational new drug(s), (an) experimental drug for which a pharmaceutical company obtains permission to ship across jurisdictions (usually to clinical investigators) before a marketing application for the drug has been approved
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on August 1, 2018
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time
"Main Board"	the Main Board of the Stock Exchange
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules
"NASH"	non-alcoholic steatohepatitis
"NDA"	new drug application
"NMPA"	China National Medical Products Administration (中國國家藥品監督管理局)
"NS3/4A"	a protease that plays an essential role in translation and polyprotein processing during the HCV viral replication process

Definitions

"NS5A"	non-structural protein 5A, a zinc-binding and proline-rich hydrophilic phosphoprotein that plays a key role in HCV RNA replication
"PBC"	primary biliary cholangitis
"PD-L1"	programmed death ligand 1, which is a protein on the surface of a normal cell or a cancer cell that attaches to certain proteins on the surface of the T-cell that causes the T-cell to turn off its ability to kill the cancer cell
"RdRp"	RNA-dependent RNA polymerase
"Renminbi" or "RMB"	Renminbi Yuan, the lawful currency of the PRC
"Reporting Period"	the one-year period from January 1, 2022 to December 31, 2022
"Roche"	F. Hoffmann-La Roche AG, a Swiss multi-national healthcare company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
"Shareholder(s)"	holder(s) of Shares
"Share(s)"	ordinary shares in the share capital of our Company of US$0.0001 each
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"U.S."	United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. dollar(s)," "USD" or "US$"	United States dollars, the lawful currency of the United States of America
"Written Guidelines"	the Guidelines for Securities Transactions by Directors adopted by the Company

In this annual report, the terms "associate", "connected person", "controlling shareholder" and "subsidiary" shall have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.