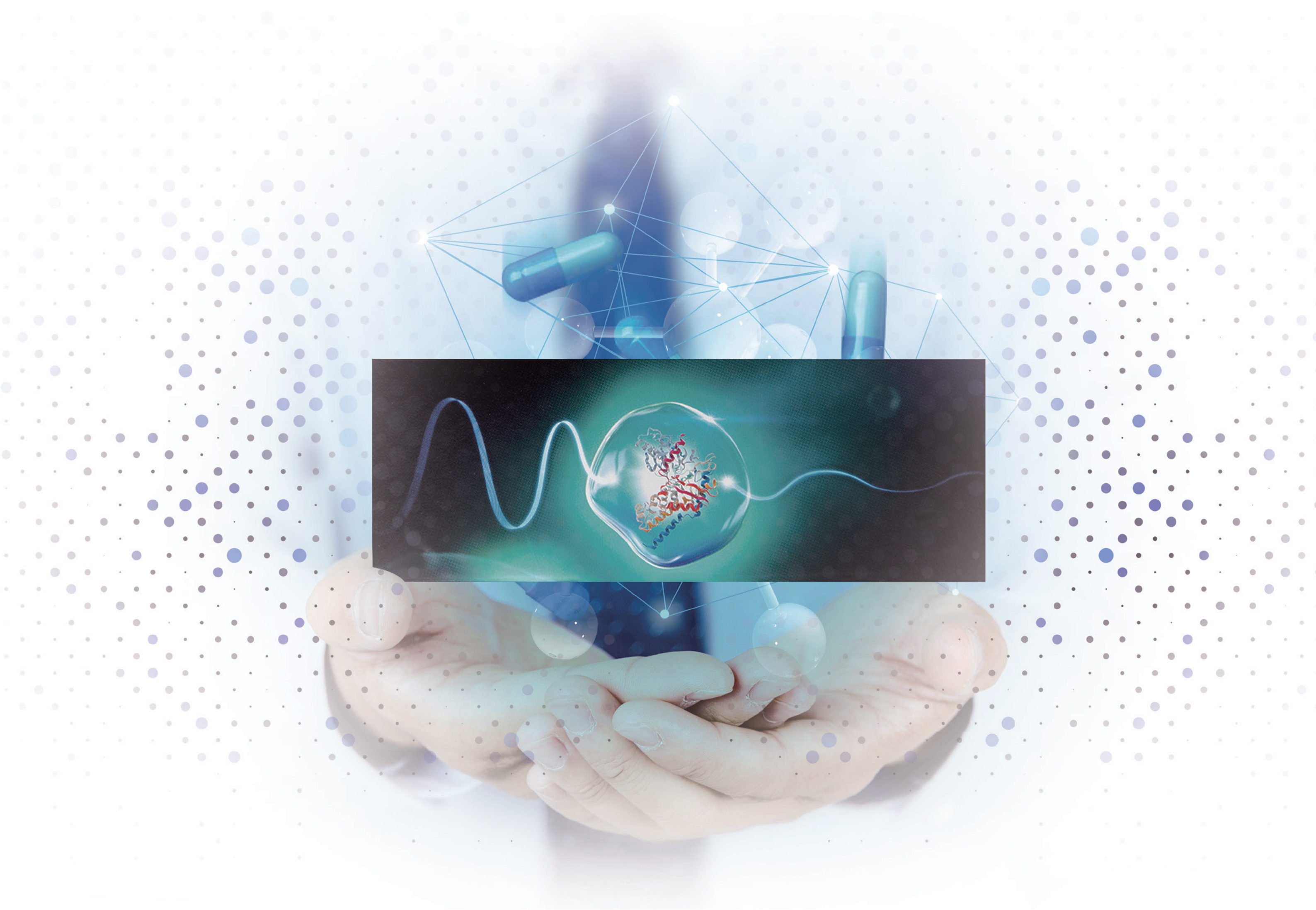
Hua Medicine
華領醫藥

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 2552



Annual Report 2022

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CORPORATE INFORMATION

Executive directors

Li CHEN (陳力) *(Chief Executive Officer)*
George Chien Cheng LIN (林潔誠)
(Executive Vice President and Chief Strategy Officer)

Non-executive directors

Robert Taylor NELSEN *(Chairman)*
Wei ZHAO (趙瑋) *(appointed on March 16, 2022)*

Independent non-executive directors

William Robert KELLER
Junling LIU (劉峻嶺) *(resigned on March 31, 2023)*
Yiu Wa Alec TSUI (徐耀華)
Yiu Leung Andy CHEUNG (張耀樑)
(appointed on January 1, 2023)

Audit committee

Yiu Leung Andy CHEUNG (張耀樑) *(Chairman)*
William Robert KELLER
Yiu Wa Alec TSUI (徐耀華)

Remuneration committee

William Robert KELLER *(Chairman)*
Junling LIU (劉峻嶺)
(ceased to be a member on March 31, 2023)
Wei ZHAO (趙瑋)
(appointed on March 31, 2023)
Yiu Wa Alec TSUI (徐耀華)

Nomination committee

Robert Taylor NELSEN *(Chairman)*
Junling LIU (劉峻嶺)
(ceased to be a member on March 31, 2023)
William Robert KELLER
Yiu Wa Alec TSUI (徐耀華) *(appointed on March 31, 2023)*

Strategy committee

Li CHEN (陳力) *(Chairman)*
Robert Taylor NELSEN
Junling LIU (劉峻嶺)
(ceased to be a member on March 31, 2023)
George Chien Cheng LIN (林潔誠)
(appointed on March 31, 2023)

Company secretary

Wing Yan Winnie YUEN (袁潁欣)

Authorized representatives

George Chien Cheng LIN (林潔誠)
Wing Yan Winnie YUEN (袁潁欣)

Auditor

Deloitte Touche Tohmatsu
Registered Public Interest Entity Auditors

Registered Office

PO Box 309, Ugland House, Grand Cayman,
KY1-1104, Cayman Islands

Corporate headquarters

Hua Medicine, Building 2, Lane 36, Xuelin Road,
Pudong New Area, Shanghai 201203, PRC

Principal place of business in Hong Kong

Suite 2202, Methodist House, 36 Hennessy Road,
Wan Chai, Hong Kong

Cayman Islands share registrar

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square, Grand Cayman,
KY1-1102, Cayman Islands

Hong Kong share registrar

Tricor Investor Services Limited
17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong

Principal bankers

In Hong Kong:

The Hongkong and Shanghai Banking Corporation Limited
HSBC Main Building, 1 Queen's Road Central, Hong Kong

In the PRC:

China Construction Bank Corporation Shanghai Zhangjiang Branch
No. 232 Ke Yuan Road, Shanghai, China

China Merchants Bank Corporation Shanghai Lingang Land of Wonder Sub-Branch
No. 271, Yunying Road, Lingang District, Shanghai

Company's website

www.huamedicine.com

Stock code

2552

BUSINESS AND FINANCIAL HIGHLIGHTS

Business highlights

- In October 2022, we received formal notice of the commercial approval of our HuaTangNing (华堂宁®) (aka dorzagliatin) from the National Medical Products Administration (NMPA) of China. HuaTangNing (华堂宁®) is the first approved glucokinase activator (GKA) worldwide.

- HuaTangNing (华堂宁®) was approved for two indications, both to improve blood glucose control for Type 2 diabetes (T2D) patients, as monotherapy for T2D patients, or in combination with metformin in metformin tolerated T2D patients to control blood glucose level.

    - In addition, three allowances were included in the approval of HuaTangNing (华堂宁®). For patients with chronic kidney disease (CKD) and Type 2 diabetes (i.e., diabetes kidney disease), no dose adjustment is required. For the combination with either empagliflozin (SGLT-2 inhibitor) or sitagliptin (DPP-IV inhibitor), the combination is expected to better improve blood glucose control and pancreatic islet functions in T2D patients than either empagliflozin or sitagliptin taken alone.

    - Most significantly, in the official label approved by the NMPA, HuaTangNing (华堂宁®) is identified as a GKA, which acts on glucokinase targets in pancreatic islets, intestinal endocrine cells, liver and other glucose storage and output organs, and improves impaired glucose-stimulated insulin secretion and GLP-1 secretion in Type 2 diabetes patients, and thus improves β-cell function and reduces insulin resistance. Accordingly, it improves blood glucose homeostasis in patients with Type 2 diabetes and has a mechanism of action designed specifically to restore the autonomous physiological regulation of blood glucose homeostasis.

- By the end of October 2022, we recorded our first commercial sales of HuaTangNing (华堂宁®). Commercial sales of HuaTangNing (华堂宁®) were made through hospitals, retail pharmacies and online channels in China. The commercialization of HuaTangNing (华堂宁®) represents the first time globally in almost ten years that a new mechanism of action to treat Type 2 diabetes is introduced, and the first time in history that a global first-in-class drug for Type 2 diabetes is introduced first in China.

- The commercial approval and launch of HuaTangNing (华堂宁®) entitled us to receive an aggregate milestone payment of RMB400 million from our commercialization partner in China, Bayer Healthcare Company Limited. We received the RMB400 million cash payment in January 2023.

- The initial commercialization of HuaTangNing (华堂宁®) in China has been very successful and well received by the medical community and patients. Due to significant demand and initial launch supply constraints, we voluntarily restricted sales after the first week of launch to ensure adequate continuous supply was available for patients who successfully secured HuaTangNing (华堂宁®) prescriptions.

- In December 2022, we acquired 100% equity interest in Nanjing AscendRare Pharmaceutical Technology Co., Ltd (南京盛德瑞爾醫藥科技有限公司) ("AscendRare") for approximately RMB1 million in cash and assumption of its liabilities. AscendRare is principally engaged in conducting pancreatic islet research-based development of new drugs for islet-related diseases, including congenital hyperinsulinism and diabetes, both in rare disease indications as well as for broader metabolic disorders.

Financial highlights

- Cash position was approximately RMB490.6 million as of December 31, 2022.

- Total revenue generated by the Company for the year ended December 31, 2022 was approximately RMB17.6 million, reflecting sales of HuaTangNing (华堂宁®) since its commercial launch in the fourth quarter of 2022.

- Total expenditures incurred by the Company for the year ended December 31, 2022 was approximately RMB278.7 million, of which approximately RMB129.5 million consisted of research and development expenses.

- For the year ended December 31, 2022, research and development expenses decreased by approximately RMB57.3 million or approximately 31% to approximately RMB129.5 million.

- For the year ended December 31, 2022, loss before tax decreased by approximately RMB122.2 million or approximately 38% to approximately RMB203.5 million.

- For the year ended December 31, 2022, total comprehensive expense for the year decreased by approximately RMB121.9 million or approximately 37% to approximately RMB203.4 million.

CHAIRMAN AND CEO STATEMENT

Dear Shareholders,

We are pleased to report the commercialization launch in China of our core product, HuaTangNing (华堂宁®) (aka dorzagliatin), a first-in-class glucose homeostasis therapeutic for the treatment of Type 2 diabetes (T2D) in China. We are especially pleased that HuaTangNing (华堂宁®) is the first approved treatment to offer T2D patients in China the potential for a disease-modifying approach in treating Type 2 diabetes. As differentiated from other approved anti-diabetes drugs, HuaTangNing (华堂宁®) is a first-in-class allosteric activator of glucokinase (GKA), designed specifically to restore its glucose sensor function – critical to the autonomous physiological regulation of blood glucose homeostasis. We plan to continue to expand our novel GKA-driven, glucose homeostasis approach to benefit T2D patients worldwide in other geographic regions, starting from our launch in China.

HuaTangNing (华堂宁®) was approved by the National Medical Products Administration (NMPA) of China with a relatively broad drug label with two indications: monotherapy for T2D patients, and combination with metformin for metformin tolerated Type 2 diabetes. In addition, the approved drug label provides for three allowed usages in T2D patients: for patients with ESRD (before dialysis) no adjustment is needed, and in combination with either sitagliptin or empagliflozin for blood glucose control. HuaTangNing (华堂宁®) has demonstrated a safe and tolerable profile in the clinical and real world setting and is well received by patients and physicians in its first quarter commercial launch. We are heartened by the successful initial commercialization of HuaTangNing (华堂宁®) with our partner in China, Bayer, elevating HuaTangNing (华堂宁®) to a top seller in the diabetes field in the initial launch period. HuaTangNing (华堂宁®) is currently available in China through hospitals, pharmacies and online channels. We are working hard to broaden access in China by preparing for negotiations for HuaTangNing (华堂宁®) to be included in the National Reimbursement Drug List in the near future.

As is the tradition for Hua Medicine, we continue to publish and present the results and benefits of dorzagliatin in leading international medical journals as well as at global metabolic and diabetes conferences. In May 2022, our Phase III results (i.e., the SEED and DAWN trials) were published in Nature Medicine, and highlighted by the editors as "A new class of drug in the diabetes toolbox" and that "the DAWN and SEED trials demonstrate that GKAs should have a place in the antihyperglycemic armamentarium." In June 2022, we and our leading scientific collaborators presented detailed additional findings of dorzagliatin at the 2022 82nd American Diabetes Association. Reports published in Diabetes 2023 suggests dorzagliatin regulates glucokinase and improves glucose sensitivity in GCK-MODY patients, a clear clinical and molecular evidence for dorzagliatin acting on and improving the glucose sensor function of glucokinase. In March 2023, we also published in Nature Communication the clinical evidence of dorzagliatin improving the impaired glucose stimulated GLP-1 secretion in diabetes and obese patients, which further supports the unique mechanism of action of HuaTangNing (华堂宁®) in regulating glucose homeostasis through its action in the pancreas, intestine and liver.

2022 also marked the year in which Hua Medicine completed its first acquisition. We acquired AscendRare to bolster our scientific foundation and capabilities in pancreatic-islet research, as well as secure several preclinical candidates that could be promising in the metabolic disease fields, including congenital hyperinsulinism and diabetes. We look forward to nurturing these opportunities at AscendRare and integrating their team and science to further the Hua Medicine mission.

From a capitalization perspective, the Company remains on solid footing, ending the calendar year 2022 with approximately RMB490 million. In January 2023, we also received an additional RMB400 million of milestone payments in connection with the approval and commercialization of HuaTangNing (华堂宁®).

For 2023, we plan to diligently work on maximizing sales for HuaTangNing (华堂宁®) in China with our partner, Bayer, optimizing our manufacturing processes and capacity to ensure supply meets growing demand while reducing costs, and advancing our various pipeline projects. We will continue to explore opportunities to expand our GKA-driven, glucose homeostasis approach to benefit T2D patients outside of China.

We are excited about 2023 as Hua Medicine works to maximize access to HuaTangNing (华堂宁®) for T2D patients in China. As always, our successes are the combined effort of the Hua Medicine team, our partners and shareholders. We would like to express our deep appreciation to you all.

Thank you.

Robert Nelsen
Chairman

Li Chen
CEO and Founder

MANAGEMENT DISCUSSION AND ANALYSIS

Business overview

We are a China-based drug development company principally focused on advancing Type 2 diabetes treatment through the commercialization of HuaTangNing (华堂宁®) (aka dorzagliatin tablets), a global first-in-class oral drug approved by the National Medical Products Administration (NMPA) of China on September 30, 2022, and for which we received notice of approval from the NMPA on October 8, 2022. As differentiated from other approved anti-diabetes drugs, HuaTangNing (华堂宁®) is a first-in-class glucokinase allosteric activator (GKA), designed specifically to restore the autonomous physiological regulation of blood glucose homeostasis.

HuaTangNing (华堂宁®) was approved for two indications, both to improve blood glucose control for Type 2 diabetes (T2D) patients, as monotherapy for T2D patients, or in combination with metformin in metformin tolerated T2D patients to control blood glucose level.

- In addition, three allowances were included in the approval of HuaTangNing (华堂宁®). For patients with chronic kidney disease (CKD) and Type 2 diabetes (i.e., diabetes kidney disease), no dose adjustment is required. For the combination with either empagliflozin (SGLT-2 inhibitor) or sitagliptin (DPP-IV inhibitor), the combination is expected to better improve blood glucose control and pancreatic islet functions in T2D patients than either empagliflozin or sitagliptin taken alone.

- Most significantly, in the official label approved by the NMPA, HuaTangNing (华堂宁®) is identified as a GKA, which acts on glucokinase targets in pancreatic islets, intestinal endocrine cells, liver and other glucose storage and output organs, and improves impaired glucose-stimulated insulin secretion and GLP-1 secretion in Type 2 diabetes patients, and thus improves β-cell function and reduces insulin resistance. Accordingly, it improves blood glucose homeostasis in patients with Type 2 diabetes and has a mechanism of action designed specifically to restore the autonomous physiological regulation of blood glucose homeostasis.

The scientific data and medical records for the development and approval of HuaTangNing (华堂宁®) is extensive. Hua Medicine has successfully completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II trial in China, two Phase III trials in China, and one clinical study for a 52-week drug-free period after the completion of SEED Phase III trial (which demonstrated a 65.2% diabetes remission rate)[1]. The results of our Phase II trial was published in The Lancet Diabetes & Endocrinology, a leading international medical journal, in May 2018. In May 2022, we published two peer-reviewed papers on the Phase III clinical trials results of dorzagliatin in Nature Medicine, a leading international medical journal. These two papers described and analyzed the clinical efficacy and safety characteristics of dorzagliatin monotherapy (SEED) in drug-naïve T2D patients and the combination therapy of dorzagliatin and metformin (DAWN) in patients who failed in metformin adequacy therapy for the treatment of Type 2 diabetes, respectively.

[1] In September 2021 at the 6th China BioMed Innovation and Investment Conference, certain principal investigators from our SEED Phase III trial presented the extensive results from the clinical study called DREAM. The main objective of the DREAM study was to evaluate the ability of T2D patients who participated in our SEED study and achieved glycemic control as defined by investigators, to maintain normal to near-normal HbA1c levels (i.e., remission of T2D), without any glucose-lowering medication after the completion of the SEED study for a minimum follow-up period of 52-weeks. The results showed that the subjects had a 52-week diabetes remission rate of 65.2% at week 52 (95% CI, 53.4%, 77.0%) during the research period.

In summary, the collective results of our clinical trials indicate HuaTangNing (华堂宁®) has a safe, tolerable and benign profile, is effective at restoring regulation of blood glucose homeostasis through improvement in β-cell function and reduction in insulin resistance, and has led to diabetes remission in select populations of T2D patients.

We were notified of HuaTangNing (华堂宁®) approval on October 8, 2022, and we commenced sales on October 28, 2022. Commercial sales of HuaTangNing (华堂宁®) were made through hospitals, retail pharmacies and online channels in China. The commercialization of HuaTangNing (华堂宁®) represents the first time globally in almost ten years that a new mechanism of action to treat Type 2 diabetes is introduced, and the first time in history that a global first-in-class drug for Type 2 diabetes is introduced first in China.

The commercial approval and launch of HuaTangNing (华堂宁®) entitled us to receive an aggregate milestone payment of RMB400 million from our commercialization partner in China, Bayer Healthcare Company Limited. We received the RMB400 million cash payment in January 2023.

The initial commercialization of HuaTangNing (华堂宁®) in China has been very successful and well received by the medical community and patients. Due to significant demand and initial launch supply constraints, we voluntarily restricted sales after the first week of launch to ensure adequate continuous supply was available for patients who successfully secured HuaTangNing (华堂宁®) prescriptions. Normalized commercial sales resumed in January 2023. For the period from the first commercial sales at end of October 2022 through the end of January 2023, approximately 148,000 packs (28 tablets/pack) (unaudited) of HuaTangNing (华堂宁®) have been sold, generating net sales revenues of approximately RMB49 million (unaudited).

In February 2022, we announced a supply agreement with WuXi STA for the commercial manufacturing of dorzagliatin to further enhance our existing collaboration.

In June 2022, three research findings on dorzagliatin were presented at the 2022 82nd American Diabetes Association ("2022 ADA"): i) an oral presentation at the 2022 ADA Scientific Sessions on the results of SENSITIZE, a clinical study demonstrating dorzagliatin improved insulin secretion and glucose sensitivity; ii) a post-hoc analysis of the Phase III trials of dorzagliatin to validate the potential of dorzagliatin in improving early phase insulin secretion and restoring glucose sensitivity in T2D patients; and iii) the results of the DREAM study from the dorzagliatin monotherapy (SEED) study to explore the potential of dorzagliatin in diabetes remission.

In December 2022, we acquired 100% equity interest in AscendRare for approximately RMB1 million in cash and assumption of its liabilities. AscendRare is principally engaged in conducting pancreatic islet re-search-based development of new drugs for islet-related diseases, including congenital hyperinsulinism and diabetes, both in rare disease indications as well as for broader metabolic disorders.

In addition to our commercialization activities for HuaTangNing (华堂宁®) in China, we continued to advance the development of our second generation GKA, with the potential for once daily administration and a more efficient manufacturing process. Since the acquisition of AscendRare in December 2022, we also continued to develop our newly-acquired glucokinase regulator candidate for congenital hyperinsulinism.

Cautionary Statement required under Rule 18A.08(3) of the Listing Rules: We may not be able to ultimately develop and market all of our drug candidates successfully.

Product pipeline

Set out below are the key stages of our product candidates under development:

Product Name	Indication	Development phase	Pre-clinical	IND	Phase I	Phase II	Phase III	NDA	Launched
HuaTangNing (华堂宁®)	T2D -monotherapy	Launched (China)							
	T2D – combination therapy with metformin	Launched (China)							
HuaTangNing (华堂宁®)	DKD	Launched (China) - Allowances							
	Combination therapy with DPP4i	Launched (China) - Allowances							
	Combination therapy with SGLT2i	Launched (China) - Allowances							
Fixed dose combinations - dorzagliatin and OADs	T2D	Phase I ready							
Next Generation of GKA	Metabolic Diseases	Pre-clinical							
Glucokinase regulator	Congenital Hyperinsulinism	Pre-clinical							
Fructose Kinase Inhibitor	Metabolic Diseases	Pre-clinical							
mGLUR5 NAM- CNS	PD-LID	Pre-clinical							

Our fixed dose combinations (FDCs) consist principally of three different new chemical entities, each comprised of dorzagliatin combination with: i) metformin; ii) sitagliptin (DPP-IV inhibitor); and iii) empagliflozin (SGLT-2 inhibitor). The compounds are IND-ready, and able to enter Phase I trials in China and/or the United States immediately thereafter, subject to securing requisite funding through financial or strategic partners. These opportunities would be to leverage the existing and extensive clinical data of the aforementioned compounds in loose dose format and for the treatment of Type 2 diabetes. The Company has filed patent applications for each of these product candidates, as well as for fixed dose combinations of dorzagliatin with each of the following three approved oral anti-diabetic drug classes: i) α-glucosidase inhibitor; ii) PPARγ agonists; and iii) sulfonylureas. These latter three opportunities are in even earlier stage of development than FDCs involving metformin, sitagliptin and empagliflozin.

Our next generation GKA candidates are in preclinical studies, and we are targeting IND filing in the United States within the next 12 months. The next generation GKA candidates are effectively prodrugs of dorzagliatin, with the potential added benefit of once daily administration, lower manufacturing costs, and longer patent life. The next generation GKA opportunity would target metabolic diseases, including, but not limited to, Type 2 diabetes.

Our glucokinase candidate targeting congenital hyperinsulinism, is in preclinical studies, and we are targeting development in the United States and/or China in the future. We currently have good AI-based lead discovery results, and the program is currently in lead optimization stage. Congenital hyperinsulinism (cHI) is categorized as a rare disease both in the United States and in China, and the development of drug candidates for cHI is expected to proceed through accelerated approval pathways in both countries.

Our fructokinase inhibitor program is in the late stage of lead optimization as we continue to evaluate potential candidates for addressing various metabolic diseases, including, but not limited to, NAFLD and hyperuricemia.

Our mGLUR5 NAM program is the late stage of lead optimization as we continue to evaluate potential candidates for central nervous disorders, including, but not limited to, Parkinson's disease and addiction.

With the exception of the fixed dose combination programs, which we would endeavor to secure external funding prior to advancement, the other pipeline programs are in relatively early stage research and development, and the expenses associated with such early stage studies are expected to be less than later stage, large scale clinical trials needed for approval. We believe all our programs have global development potential.

Business outlook

In October 2022, we received formal notice of the commercial approval of our HuaTangNing (华堂宁®) from the NMPA and recorded our first commercial sales of HuaTangNing (华堂宁®) by the end of October 2022. The initial commercialization of HuaTangNing (华堂宁®) in China has been very successful and well received by the medical community and patients. We will continue to focus on the commercialization of HuaTangNing (华堂宁®) in China and advancing development of our fixed dose combinations with dorzagliatin, as well as the development of our second generation GKA, with the potential for once daily administration and a more efficient manufacturing process. We are also actively preparing to seek entry into the National Reimbursement Drug List for HuaTangNing (华堂宁®). Since the acquisition of AscendRare in December 2022, we will also continue to develop our newly-acquired glucokinase regulator candidate for congenital hyperinsulinism.

Important events after the Reporting Period

On January 12, 2023 and January 19, 2023, we received RMB400 million in aggregate upon the grant of approval of HuaTangNing (华堂宁®) as monotherapy for T2D patients, the grant of approval of the use of HuaTangNing (华堂宁®) in combination with metformin in metformin tolerated T2D patients and the achievement of another commercialization milestone.

On April 7, 2023, the Company entered into a sales and distribution agreement with 111, Inc. pursuant to which, 111, Inc., as a non-exclusive distributor of the Group, would purchase the HuaTangNing (华堂宁®) from the Group and then sell the same to end users through their online platform for a period from April 7, 2023 to December 31, 2023. For further details, please refer to the announcement of the Company dated April 10, 2023.

Save as disclosed above, there are no important events that have occurred up to the date of this report.

Financial review

Revenue

Our revenue was generated from the sale of our core product – HuaTangNing (华堂宁®). The scientific data and medical records for the development and approval of HuaTangNing (华堂宁®) is extensive. Hua Medicine has successfully completed eight Phase I trials in China, four Phase I trials in the United States, one Phase II trial in China, two Phase III trials in China, and one clinical study for a 52-week drug-free period after the completion of SEED Phase III trial (which demonstrated a 65.2% diabetes remission rate). The results of our Phase II trial was published in The Lancet Diabetes & Endocrinology, a leading international medical journal, in May 2018. In May 2022, we published two peer-reviewed papers on the Phase III clinical trials results of dorzagliatin in Nature Medicine, a leading international medical journal. These two papers described and analyzed the clinical efficacy and safety characteristics of dorzagliatin monotherapy (SEED) in drug-naïve T2D patients and the combination therapy of dorzagliatin and metformin (DAWN) in patients who failed in metformin adequacy therapy for the treatment of Type 2 diabetes, respectively.

In summary, the collective results of our clinical trials indicate HuaTangNing (华堂宁®) has a safe, tolerable and benign profile, is effective at restoring regulation of blood glucose homeostasis through improvement in β-cell function and reduction in insulin resistance, and has led to diabetes remission in select populations of T2D patients. From first commercial launch through December 31, 2022, approximately 53,000 packs of HuaTangNing (华堂宁®) were sold, generating sales of approximately RMB17.6 million.

Gross profit

For the year ended December 31, 2022, we recorded a gross profit of approximately RMB7.7 million and a gross margin of 43.7%. In view of the high unit production cost and high fixed cost ratio due to the sales volume at the early stage of commercialization, the gross margin for year 2022 is relatively low. As our commercialization scale increases, our gross margin is expected to increase to a more normalised rate.

Other income

Our other income consisted primarily of bank interest income, Bayer milestone income and government grants. Our other income increased by RMB29.6 million to RMB41.5 million for the year ended December 31, 2022 from RMB11.9 million for the year ended December 31, 2021, which was mainly attributable to an increase of RMB19.9 million in government grants and RMB10.8 million of monthly amortization of Bayer milestone income for the year ended December 31, 2022, adjusted for a decrease of RMB0.8 million in bank interest income from short-term time deposits. We received RMB23.3 million government grants from the local governments for research and development and operating activities, from which we recognized other income of RMB9.7 million for the year ended December 31, 2022. We recognized other income of RMB16.7 million from deferred revenue which we received in the past for the year ended December 31, 2022. We also recognized other income of RMB10.8 million from contract liability after we received NDA approval in the fourth quarter of 2022.

Other gains and losses

Our other gains and losses consisted primarily of gains or losses due to fluctuations in the exchange rates between the Renminbi and the U.S. dollar and between the Renminbi and the HK dollar. Our other gains and losses increased by RMB36.4 million to a gain of RMB26.0 million for the year ended December 31, 2022 from a loss of RMB10.4 million for the year ended December 31, 2021, which was mainly attributable to foreign exchange gains in connection with bank balances and cash denominated in U.S. dollars and HK dollars and the large appreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2022, compared to the large depreciation of the U.S. dollar and HK dollar against the Renminbi in the year ended December 31, 2021.

Our business mainly operates in the PRC, and most of our transactions are settled in Renminbi. Since inception, we have financed our business principally through equity financings, with related proceeds denominated in U.S. dollars, HK dollars and Renminbi. We converted a portion of those U.S. dollar proceeds to Renminbi, with the remaining amounts reserved for additional conversions to Renminbi as needed. Conversion of our assets and liabilities for financial statement presentation purposes exposes us to currency-related gains or losses and the actual conversion of our U.S. dollar and HK dollar denominated cash balances (including the HK dollar proceeds received from the Global Offering (comprising the Hong Kong public offering of 10,476,000 shares of the Company (the "Shares") and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company) (the "Global Offering") into Renminbi) will also expose us to currency exchange risk. We have not engaged in any foreign exchange hedging related activity.

Administrative expenses

Our administrative expenses consisted primarily of employee compensation and related costs. Our administrative expenses decreased by RMB4.9 million to RMB129.9 million in the year ended December 31, 2022 from RMB134.8 million in the year ended December 31, 2021, which was mainly attributable to i) decrease in labour costs which was attributable to the decrease of RMB7.5 million in share-based payment under the accelerated amortization method, adjusted for an increase of RMB4.0 million in cash compensation, ii) decrease of RMB1.9 million in marketing and public relations costs, mainly due to fewer national and regional meetings conducted in the year of 2022 which was impacted by our marketing strategy and COVID-19, iii) decrease of RMB2.0 million in recruitment expense due to our recruitment strategy, iv) decrease of RMB0.8 million in entertainment expense and RMB0.7 million in travelling expense due to decreased commercial and travel activities compared to the year 2021, which was impacted by COVID-19, and v) adjusted for the increase in consulting fee of RMB7.3 million mainly associated with the NDA approval application and commercialization strategy consulting in the year of 2022 and fewer such activities in the year of 2021.

Finance costs

Our finance cost consisted of expenses associated with the interest on lease liabilities and short-term loan. Our finance cost was RMB3.7 million for the year ended December 31, 2022 as compared to RMB4.0 million for the year ended December 31, 2021, which was mainly attributable to the payment of lease liabilities during the year 2022.

Selling expenses

Our selling expenses consisted primarily of expenses related to selling and marketing activities. Our selling expenses was RMB15.3 million for the year ended December 31, 2022. Which consisted primarily of RMB5.8 million of employee compensation, RMB8.2 million of promotion expense and RMB1.3 million of meeting expense, logistics expense and other related expenses.

Research and development expenses

The following table sets forth the components of our research and development expenses for the year indicated.

	For the year ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Dorzagliatin Clinical Trials	4,928	3.8%	22,162	11.9%
Dorzagliatin Non-clinical Studies	4,368	3.4%	3,670	2.0%
Chemical, Manufacturing and Control	9,765	7.5%	31,288	16.7%
Labor Cost	84,341	65.1%	98,064	52.5%
Dorzagliatin Licensing and Patent Fee	2,453	1.9%	2,549	1.4%
Others	23,673	18.3%	29,102	15.5%
Total	129,528	100.0%	186,835	100.0%

Research and development expenses decreased by RMB57.3 million to RMB129.5 million for the year ended December 31, 2022 from RMB186.8 million for the year ended December 31, 2021. The decrease in research and development expenses included:

- a decrease of RMB17.3 million for dorzagliatin clinical trials from RMB22.2 million for the year ended December 31, 2021 to RMB4.9 million for the year ended December 31, 2022, which was primarily attributable to the data analysis and trial master file report preparation of SEED/HMM0301 and DAWN/HMM0302 conducted in the year 2021. In the year 2022, we primarily focused on our NDA approval and conducted several additional clinical research to support the review by the NMPA;

- a decrease of RMB21.5 million in chemical, manufacturing, and control (CMC) expenses from RMB31.3 million for the year ended December 31, 2021 to RMB9.8 million for the year ended December 31, 2022. We focused on the process validation, drug substance and production for clinical trial which was required by NMPA in the first half of 2022, and transitioned to commercial production after NDA approval. In year of 2021, we focused on the chemical and process research for our fructose kinase inhibitor candidates and manufacture-dynamic process validation batch production to support our NDA approval;

- a decrease of RMB13.8 million in labor cost from RMB98.1 million for the year ended December 31, 2021 to RMB84.3 million for the year ended December 31, 2022, which was primarily attributable to the decrease of share-based payment under the accelerated amortization method; and;

- a decrease of RMB5.4 million in other expenses from RMB29.1 million for the year ended December 31, 2021 to RMB23.7 million for the year ended December 31, 2022, which was primarily attributable to decreased travelling cost, meeting cost and utility cost due to the impact of COVID-19 in the year 2022.

Income tax expense

We recognized no income tax expenses for the year ended December 31, 2022 and the year ended December 31, 2021.

Liquidity and capital resources

Since our inception, we have been in a net loss position with and net cash outflows from operations. Our primary use of cash is to fund our research and development activities. Our operating activities used RMB230.1 million for the year ended December 31, 2022. As of December 31, 2022, we had cash and cash equivalents of RMB490.6 million.

As of December 31, 2022, there were no significant investments held by the Company (including any investment in an investee company with a value of 5% or more of the Company's total assets as of 31 December 2022), nor were there any material acquisitions or disposals of subsidiaries, associates and joint ventures during the Reporting Period.

Cash Operating Cost

The following table sets out the components of our cash operating cost for the years indicated:

	For the year ended December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Research and development costs	110,433	159,904
Administrative costs		
– Workforce employment	64,901	50,500
– Others	49,390	62,577
Selling costs	5,390	–
	119,681	113,077
	230,114	272,981

Cash Flows

The following table provides information regarding our cash flows for the years ended December 31, 2021 and 2022:

	For the year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Net cash used in operating activities	(230,114)	(272,981)
Net cash used in investing activities	(4,752)	(68,219)
Net cash from (used in) financing activities	21,476	(6,134)
Effect of exchange rate changes	28,784	(9,518)
Net change in cash and cash equivalents	(184,606)	(356,852)

Net Cash Used in Operating Activities

The primary use of our cash was to fund our research and development activities, regulatory, and other clinical trial costs, and related supporting administration. Our prepayments and other current assets, accounts payable and other payables balances were affected by the timing of vendor invoicing and payments.

During the year ended December 31, 2022, our operating activities used RMB230.1 million of cash, which resulted principally from our loss before tax of RMB203.5 million, adjusted for non-cash charges and non-operating cash income of RMB0.5 million, and by cash used in increasing our working capital of RMB27.1 million. Our net non-cash charges and non-operating cash income during the year ended December 31, 2022 primarily consisted of RMB11.6 million of depreciation of equipment, RMB19.0 million of depreciation for right-of-use assets, RMB1.2 million of intangible assets amortization, RMB3.5 million of interest on lease liabilities; RMB21.3 million of share option expenses, RMB4.2 million of bank interest income, RMB23.3 million of income from government grants and RMB28.7 million net foreign exchange gains.

During the year ended December 31, 2021, our operating activities used RMB273.0 million of cash, which resulted principally from our loss before tax of RMB325.7 million, adjusted for non-cash charges and non-operating cash charges of RMB71.9 million, and by cash used in increasing our working capital of RMB19.2 million. Our net non-cash charges and non-operating cash charges during the year ended December 31, 2021 primarily consisted of RMB12.0 million of depreciation of equipment, RMB18.8 million of depreciation for right-of-use assets, RMB0.7 million of intangible assets amortization, RMB4.0 million of interest on lease liabilities; RMB32.7 million of share option expenses, RMB5.0 million of bank interest income, RMB1.0 million of income from government grants; RMB0.3 million of rent concession and RMB10.0 million net foreign exchange losses.

Net Cash used in Investing Activities

Net cash used in investing activities was RMB4.8 million for the year ended December 31, 2022, which resulted primarily from the purchase of equipment, useful right of Roche Royalty and construction of Lingang project, partially offset by the interest received from bank and government grant related to assets. Net cash used in investing activities was RMB68.2 million for the year ended December 31, 2021, which resulted primarily from the purchase of equipment, land and construction of Lingang project, partially offset by the interest received from bank.

Net Cash from (used in) Financing Activities

Net cash from financing activities was RMB21.5 million for the year ended December 31, 2022, which proceeds from short-term bank loan and exercise of share options, offset by payments relating to lease liabilities. Net cash used in financing activities was RMB6.1 million for the year ended December 31, 2021, which resulted from payments relating to lease liabilities, offset by proceeds from exercise of share options.

Financial position

Our net current assets increased from RMB597.7 million as of December 31, 2021 to RMB751.9 million as of December 31, 2022. Current assets increased from RMB704.6 million as of December 31, 2021 to RMB940.3 million as of December 31, 2022, primarily due to an increase in trade and other receivables from RMB24.7 million as of December 31, 2021 to RMB441.2 million as of December 31, 2022, which was due primarily to the commercial approval and launch of HuaTangNing (华堂宁®) entitled us to receive an aggregate milestone payment of RMB400.0 million from our commercialization partner in China, Bayer Healthcare Company Limited.

Indebtedness

As of December 31, 2022 and 2021, our lease liabilities and borrowings amounted to RMB97.6 million and RMB71.5 million, respectively. The following table sets forth our lease liabilities and borrowings as of the dates indicated:

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Current portion	55,413	13,296
Non-current portion	42,169	58,232
Total	97,582	71,528

Our lease liabilities as of December 31, 2022 were from leased properties lease contracts with lease terms of two to three years. As of December 31, 2022, we did not have any other indebtedness.

Qualitative and Quantitative Disclosures About Market Risk

We are exposed to a variety of market risks, including currency risk, interest rate risk, credit risk, and liquidity risk, as set out below. We manage and monitor these exposures to ensure appropriate measures are implemented in a timely and effective manner. We currently do not hedge or consider it necessary to hedge any of these risks.

Currency Risk

Our business mainly operates in the PRC with most of our transactions settled in Renminbi, and our financial statements are presented in Renminbi. Renminbi is not a freely convertible currency. The State Administration of Foreign Exchange, under the authority of the People's Bank of China, controls the conversion of Renminbi into foreign currencies. The value of Renminbi is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China Foreign Exchange Trading System market. We do not believe that we currently have any significant direct foreign exchange risk and have not used any derivative financial instruments to hedge our exposure to such risk.

Since our inception, we have raised funds through various rounds of offshore financings and received proceeds of such financings in U.S. dollars, HK dollars and Renminbi. We convert a portion of those funds to Renminbi immediately and place the remaining amount in time deposits. We convert additional amounts to Renminbi as needed. The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions. To the extent that we need to convert U.S. dollars or other currencies we have received in previous financings into Renminbi for our operations, or if any of our arrangements with other parties are denominated in U.S. dollars and need to be converted into Renminbi, appreciation of the Renminbi against the U.S. dollar or other currencies would have an adverse effect on the Renminbi amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollar or other currencies for business purposes, appreciation of the U.S. or HK dollar against the Renminbi would have a negative effect on the U.S. dollar or other currencies amounts available to us. We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency rate.

The following table details our sensitivity to a 5% increase and decrease in Renminbi against U.S. dollars and HK dollars, the foreign currencies with which we may have material exposure. No sensitivity analysis has been disclosed for the Taiwan dollars denominated assets as the impact on profit is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates an increase/decrease in loss where Renminbi strengthens 5% against U.S. dollars and HK dollars. For a 5% weakening of Renminbi against U.S. dollars and HK dollars there would be an equal and opposite impact on loss for the year.

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Impact on profit or loss		
US$	(9,893)	(18,134)
HK$	(2,250)	(2,057)

Interest Rate Risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, lease liabilities, pledged bank deposits and bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Liquidity Risk

As of December 31, 2022 and 2021, we recorded net current assets of RMB751.9 million and RMB597.7 million, respectively. In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows.

Key Financial Ratios

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

	As of December 31,	
	2022	**2021**
Current ratio[1]	5.0	6.6
Quick ratio[2]	5.0	6.6
Gearing ratio[3]	34.9%	15.9%

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

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

3. Gearing ratio represents liability divided by equity as of the same date. Liability is defined as short term loan and lease liabilities (excluding trade and other payables, deferred income and contract liability). Equity includes all capital and reserves of the Group.

The current ratio and quick ratio as of December 31, 2022 decreased by 1.6 compared with that as of December 31, 2021, which was mainly due to the cost of research activities and daily operation. The gearing ratio as of December 31, 2022 increased by 19.0% compared with that as of December 31, 2021, which was mainly due to the increase of short term loan caused by our financing strategy.

Charge of the Group's assets

Save as disclosed in this report, as of December 31, 2022, RMB7.8 million of the Group's bank deposits were charged by the bank for the performance guarantees to the Management Committee of Lingang New Area, Shanghai Pilot Free Trade Zone, China to secure commencement and completion of the factory construction and launch of production.

Deposits amounting to RMB4,696,000 (2021: RMB4,696,000) carry fixed interest rate of 1.50% and have been pledged to secure commencement of the factory construction. These deposits will be released within 10 working days upon the commencement of the factory construction. Deposits amounting to RMB1,565,000 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and have been pledged to secure completion of the factory construction. These deposits will be released within 10 working days upon the completion of the factory construction, if such completion is before May 13, 2024. The remaining deposits amounting to RMB1,565,000 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and have been pledged to secure production of the factory. These deposits will be released within 10 working days upon the launch of production, if such launch is before November 12, 2024.

Capital commitments

The following table sets forth our capital commitments as of the dates indicated:

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	1,107	4,381

Future plans for material investments or capital assets

Save as disclosed in this report, as of December 31, 2022, we plan to continually invest in Shanghai Huasheng Inc, which was established at Shanghai Lingang Special Area for ensuring adequate dorzagliatin commercial supply.

Contingent liabilities

Save as disclosed in this report, the Group had no material contingent liabilities as at December 31, 2022.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Li CHEN (陳力), aged 60, is our founder, Chief Executive Officer, and the Chairman of the Company's Strategy Committee. He was appointed as a Director on June 4, 2010 and re-designated as an executive Director on May 11, 2018. He has been our Chief Executive Officer since June 4, 2010. Since August 2010, March 2011, April 2020, February 2021 and December 2022, respectively, he has served as a director of Hua HK, Hua Shanghai, Hua USA, Hua Lingang and Nanjing AscendRare.

Dr. Chen has over 30 years of experience in the biopharmaceutical industry. He is a pioneer in collaborative innovation in China and has been actively involved in the development of dorzagliatin including the years he spent at Roche (from whom we acquired our rights to dorzagliatin in 2011). Dr. Chen joined Roche in 1992 in the United States, focusing on R&D. Dr. Chen held many leadership positions rising to become a member of Roche's Research Leadership Team. In his last position at Roche before joining the Group, he served as the founding director and chief scientific officer of Roche China R&D Center in Shanghai, China. In that role, Dr. Chen was responsible for development and implementation of Roche China drug discovery strategy, creation of China discovery portfolio, and management of China operations with several drugs from the Roche R&D portfolio during his tenure (including dorzagliatin).

Dr. Chen obtained his Bachelor of Science in Chemistry from Zhengzhou University in July 1982, a Master of Science in Chemistry from East China Normal University in November 1985 in Shanghai and a Ph.D. in Organic Chemistry in August 1992 from Iowa State University in the United States. He is an inventor of 38 granted patents and has authored 58 scientific publications. From September 2007 to September 2010, Dr. Chen served as an adjunct professor at Tongji University in Shanghai. In 2001, Dr. Chen served as the President of the Sino-American Pharmaceutical Professionals Association ("SAPA").

From 2014 to October 2020, Dr. Chen has served as an independent director of Coland Pharmaceutical Co., Ltd (康聯藥業有限公司), a company primarily engaged in sales, marketing and distribution of pharmaceutical products and medical devices, listed on Taiwan Stock Exchange (stock code: 4144) and withdrawal from listing due to privatization effective on 30 October 2020.

George Chien Cheng LIN (林潔誠), aged 52, was appointed as our Director on May 11, 2018 and re-designated as an executive Director on the same date. He has served as the Company's Executive Vice President since December 22, 2017, the Company's Chief Strategy Officer since March 30, 2023 and currently is a member of the Strategy Committee. From December 22, 2017 through March 30, 2023, Mr. Lin also served as the Company's Chief Financial Officer. Mr. Lin has been serving as a member of the Biotech Advisory Panel of the Stock Exchange since April 24, 2018. Mr. Lin has over 19 years of experience in investment banking, working with numerous private and public companies globally. Prior to joining the Group, he worked for Bank of America Merrill Lynch in Hong Kong as an investment banker, and held a number of senior positions including Asia Pacific head of consumer, retail and healthcare investment banking, and head of Hong Kong and Taiwan investment banking coverage from June 2013 to December 2017. From July 2000 to May 2013, he worked for Credit Suisse as an investment banker in the Los Angeles, San Francisco and Hong Kong offices. At Credit Suisse, he focused on financings and merger and acquisitions for a variety of global clients, including, but not limited to, U.S. biotechnology companies and Chinese healthcare companies. His last position at Credit Suisse was Asia Pacific (ex-Japan) head of consumer, retail and healthcare investment banking based in Hong Kong. Prior to investment banking, Mr. Lin practiced corporate law in Los Angeles including working for O'Melveny & Myers for over 4 years from September 1995 to July 1999. Mr. Lin has served as an independent non-executive director at Shanghai Bio-heart Biological Technology Co., Ltd., a company first listed on the main board of the Stock Exchange (stock code: 2185) on December 23, 2021, since November 2020.

Mr. Lin obtained his bachelor's degree in biological sciences from the University of California at Davis in June 1992 and a juris doctor degree from The University of Chicago Law School in June 1995. Mr. Lin was admitted to the California State Bar in December 1995.

Non-executive Directors

Robert Taylor NELSEN, aged 59, was appointed as our Director on April 23, 2010. He is the Chairman of our Board, the Chairman of the Nomination Committee and a member of the Strategy Committee, and has also been a director of our subsidiary, Hua HK, since August 2010.

Since 1994, Mr. Nelsen has served as a co-founder and managing director of ARCH Venture Partners, a venture capital firm focused on early-stage technology companies, and has played a significant role in the early sourcing, financing and development of more than 30 biopharmaceutical companies. Mr. Nelsen has been serving as a non-executive director of Brii Biosciences Limited 騰盛博藥生物科技有限公司 (stock code: 2137) since June 2018, a company listed on the main board of the Stock Exchange. He has also been serving as a director of PRIME Medicine (stock code: PRME) since September 2019 which went public in October 2022, Sana Biotechnology (stock code: SANA) since September 2018, independent director of Lyell Immunopharm (stock code: LYEL) since August 2018, and director of Vir Biotechnology Inc. (stock code: VIR) since January 2017, and previously served as a director of Renovation Healthcare Acquisition Corp. (stock code: REVH) from March 2021 to April 2022, Sienna Biopharmaceuticals, Inc. (stock code: SNNA) from August 2015 to October 2018, Syros Pharmaceuticals, Inc. (stock code: SYRS) from August 2012 to June 2018, Juno Therapeutics, Inc. (stock code: JUNO) from August 2013 to March 2018, KYTHERA Biopharmaceuticals, Inc. (stock code: KYTH) from January 2006 to December 2014, Agios Pharmaceuticals Inc. (stock code: AGIO) from December 2007 to June 2017, Sage Therapeutics, Inc. (stock code: SAGE) from September 2013 to March 2016, Bellerophon Therapeutics, Inc. (stock code: BLPH) from February 2014 to November 2015, Adolor Corporation (stock code: ADLR) from November 1994 to May 2004, Illumina, Inc. (stock code: ILMN) from June 1998 to August 2006, Fate Therapeutics, Inc. (stock code: FATE) from September 2007 to June 2014, and NeurogesX, Inc. (stock code: NGSX) from July 2000 to July 2013, and Unity Biotechnology, Inc. (stock code:

UBX) from November 2011 to December 2020, Karuna Therapeutics Inc. (stock code: KRTX) from August 2018 to June 2021, Beam Therapeutics Inc. (stock code: BEAM) from June 2017 to June 2021 and Denali Therapeutics, Inc. (stock code: DNLI) from May 2015 to June 2022, all of which are companies listed on NASDAQ stock market in the United States. Subsequent to June 29, 2012, NGSX shares were quoted on the Over the Counter Bulletin Board (OTC) in the United States. Mr. Nelsen also previously served as a trustee of Fred Hutchinson Cancer Research Center.

Mr. Nelsen received a Bachelor of Science degree with majors in economics and biology from the University of Puget Sound in the United States in 1985 and an M.B.A. from the University of Chicago in the United States in 1987.

Ms. Wei ZHAO (趙瑋), aged 43, was appointed as our non-executive Director on March 16, 2022 and currently is a member of the Remuneration Committee. Ms. Zhao is a non-practising member of the Chinese Institute of Certified Public Accountants. She is currently the executive director, Corporate Development and Investments of WuXi AppTec (Shanghai) Co., Ltd., and she is mainly responsible for sourcing, evaluating, executing and integrating its strategic acquisitions, investments and joint ventures. Since March 2019, she has also been serving as the non-executive Director of Clarity Medical Group Holding Limited, a company listed on the Stock Exchange (stock code: 1406). Ms. Zhao worked at Ernst & Young Hua Ming Shanghai Branch ("EY Shanghai") from September 2001 to April 2008. From February 2006 to April 2006, she briefly left EY Shanghai and worked for Deloitte & Touche Corporation Finance Ltd. Later, from May 2008 to November 2014, she worked at Ernst & Young (China) Advisory.

Ms. Zhao received her bachelor's degree of science with a major in business and finance in English from Shanghai Jiao Tong University in July 2001 and a master's degree of business administration from The University of Hong Kong in November 2013.

Independent Non-executive Directors

William Robert KELLER, aged 74, was appointed as independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also the Chairman of the Remuneration Committee as well as a member of the Audit Committee and Nomination Committee. Mr. Keller is primarily responsible for supervising and providing independent judgment to our Board.

Since May 2017, Mr. Keller has served as an independent non-executive director on the board of WuXi Biologics, a company primarily engaged in biologics services provision and listed on the main board of the Stock Exchange (stock code: 2269). Since August 2020, he serves as non executive director on the Board of Cathay Biotech Inc, an industrial biotechnology company and listed on the Shanghai Stock Exchange's STAR market (stock code: SS688065.SS). Mr. Keller had been appointed as director of Artisan Acquisition Corp. (stock code: ARTA) on March 8, 2021, a company which is listed on NASDAQ stock market in the United States. From December 2010 to October 2020, he holds directorship at Coland Pharmaceutical Co., Ltd., a company listed on the Taiwan Stock Exchange (stock code: 4144) and withdrawal from listing due to privatization effective on 30 October 2020. From September 2014 to December 2015, Mr. Keller served as an independent director of WuXi PharmaTech, a biopharmaceutical company formerly listed on the New York Stock Exchange during the same period. Between 1974 to 2003, Mr. Keller served in various positions at the Roche Group, including as the general manager of Roche China Ltd. and Shanghai Roche Pharmaceutical Ltd. He has been a vice chairman of the Shanghai Association of Enterprises with Foreign Investment, a senior consultant to the

Shanghai Foreign Investment Development Board, and the deputy general manager of Zhangjiang Biotech and Pharmaceutical Base Development Co., Ltd. Mr. Keller previously held directorships in biopharmaceutical companies including Alexion Pharmaceuticals, Inc., a company listed on NASDAQ (stock code: ALXN) from December 2009 to May 2015, China Nuokang Pharmaceutical Inc., a company listed on NASDAQ (stock code: NKBP) from August 2008 to December 2011. He has also served as a chairman of HBM Biomed China Partners and Coland Pharmaceutical Co. Ltd.

Mr. Keller obtained a Bachelor of Science degrees from the School of Economics and Business Administration in Switzerland in July 1972.

Junling LIU (劉峻嶺) (resigned on March 31, 2023), aged 58, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He was also a member of the Nomination Committee, Strategy Committee and Remuneration Committee. Mr. Liu is the chairman and chief executive officer of 111, Inc., a digital and mobile healthcare platform operator in China, a company listed on NASDAQ (stock code: YI). Mr. Liu was a co-founder and chief executive officer of Yihaodian. Before establishing Yihaodian in 2008, Mr. Liu was a co-president of Dell (China) Company Limited from 2006 to 2007. He has been an independent non-executive Director of Autohome Inc. since January 12, 2015, a company listed on New York Stock Exchange (stock code: ATHM) and the Hong Kong Stock Exchange (stock code: 2518).

Mr. Liu received his Master of International Business Administration degree from Flinders University in Australia in 1998.

Yiu Wa Alec TSUI (徐耀華), aged 73, was appointed as an independent non-executive Director on August 26, 2018, effective from September 14, 2018. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee. Mr. Tsui has extensive experience in finance and administration, corporate and strategic planning, information technology and human resources management. He served at various positions, including the chief executive of the Stock Exchange from February 1997 to August 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited from March 2000 to August 2000 and the chairman of Hong Kong Securities Institute from December 2001 to December 2004. Mr. Tsui was the chairman and director of WAG Worldsec Corporate Finance Limited, a private professional consulting services and financial solutions company from February 2006 to June 2016, and presently serves as a director to WAG Worldsec Management Consultancy Limited.

Mr. Tsui is an independent non-executive director of a number of companies listed in Hong Kong, namely, COSCO Shipping International (Hong Kong) Co., Ltd., (stock code: 517) since February 2004, Pacific Online Limited (stock code: 543) since November 2007, and Brii Biosciences Limited (stock code: 2137) since July 2021. He also serves as independent director of two NASDAQ listed companies, ATA Creativity Global (previous known as ATA Inc.) (stock code: AACG) since January 2008 and Melco Resorts & Entertainment Limited (stock code: MLCO) since December 2006. From December 2012 to November 2020, Mr. Tsui also served as independent director of Melco Resorts and Entertainment (Philippines) Corporation (stock code: MRP), a company listed on the Philippine Stock Exchange and withdrawal from listing effective on June 11, 2019. Mr. Tsui is also an independent non-executive director of Industrial & Commercial Bank of China (Asia) Limited, a company previously listed in Hong Kong, since August 2000. He also served as independent non-executive directors in various other Hong Kong listed companies, including China Power International Development Limited (stock code: 2380) from March 2004 to December 2016, China Oilfield Services Limited (stock code: 2883) from June 2009 to June 2015, Summit Ascent Holdings Limited (stock code: 102) from March 2011 to September 2018, Kangda International Environmental Company Limited (stock code: 6136) from July 2014 to April 2019, and DTXS Silk Road Investment Holdings Company Limited (stock code: 620) from December 2015 to May 2020.

Mr. Tsui graduated from the University of Tennessee in the United States, with a bachelor's degree in science in industrial engineering in June 1975 and a master's degree in engineering in June 1976. He completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University in the United States in August 1993.

Mr. Yiu Leung Andy CHEUNG (張耀樑), aged 63, was appointed as an independent non-executive Director on January 1, 2023. He is primarily responsible for supervising and providing independent view to the Board. Mr. Cheung also serve as the chairman of the Audit Committee.

Mr. Cheung has over 30 years of professional accounting and auditing experience. He has been serving as an independent non-executive director and the chairman of the audit committee of JW (Cayman) Therapeutics Co. Ltd, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (stock code: 2126), since October 2020. He has also been serving as an independent director and the chairman of the audit committee of Adagene Inc., a company listed on NASDAQ Stock Exchange in the United States (stock code: ADAG), since February 2021.

From July 2018 to June 2020, Mr. Cheung was the deputy area managing partner of Ernst & Young ("EY") in Asia Pacific, overseeing its business operations, finance, information technology and risk management functions. He was a member of EY Asia Pacific's Area Operating Executives, EY's Global Accounts Committee and EY's Global Markets and Investment Committee during that period. From July 2013 to June 2018, Mr. Cheung was the assurance managing partner for EY in Greater China, managing its audit, financial accounting advisory, forensic and climate change and sustainability services in the Mainland China, Hong Kong and Taiwan. He was a member of EY Greater China's Leadership Team during that period. From July 2011 to June 2013, Mr. Cheung was the chief operating officer of EY Hua Ming LLP. From July 2010 to June 2011, Mr. Cheung was an assurance partner of EY China. From July 2009 to June 2010, Mr. Cheung worked as the area chief financial officer of EY Asia Pacific and led the effort to set up EY's China Overseas Investment Network in 2007. Prior to joining EY as assurance partner in 2006, Mr. Cheung was an assurance partner with PricewaterhouseCoopers China and Arthur Andersen China.

Mr. Cheung received his bachelor's degree in accounting and finance from the University of Lancaster in the United Kingdom in June 1982. He obtained a master's degree in accounting and finance from London School of Economics in the United Kingdom in August 1983. He has been a member of Hong Kong Institute of Certified Public Accountants since October 1986 and served as a member of its disciplinary panel from January 2015 to December 2020.

Changes to information in respect of the Directors

Robert Taylor NELSEN resigned the director of Renovation Healthcare Acquisition Corp. (stock code: REVH) in April 2022,

Mr. Junling LIU resigned as Independent non-executive Director and as a member of the Remuneration Committee, Nomination Committee and Strategy Committee with effect from March 31, 2023

Mr. George Chien Cheng Lin was appointed Chief Strategy Officer and no longer hold the title of Chief Financial Officer of the Company. He was also appointed as a member of the Strategy Committee with effect from March 31, 2023.

Mr. Yiu Wa Alec Tsui was appointed as a member of the Nomination Committee with effect from March 31, 2023.

Ms. Wei Zhao was appointed as a member of the Remuneration Committee with effect from March 31, 2023. Pursuant to her express request, her appointment letter was updated with no further payment with effect from March 30, 2023.

Save as disclosed above, up to the date of this annual report, there was no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

SENIOR MANAGEMENT

Li CHEN (陳力), see "－Directors" for details.

George Chien Cheng LIN (林潔誠), see "－Directors" for details.

Yi ZHANG (張怡), aged 48, has been serving as the Senior Vice President of our Clinical R&D division since April 2018. In August 2020, Dr. Zhang was promoted to Senior Vice President of Pharma Development and Chief Medical Officer – China. In November 2021, Dr. Zhang served as Senior Vice President of Pharma Development and Chief Medical Officer. Prior to joining our Group in February 2013 as the Head of our Clinical R&D division, Dr. Zhang was the Associate Medical Director of clinical science at Roche Product Development group, Asia Pacific region since 2010. She served as a clinical scientist for innovative drug development in the areas of cardiovascular, metabolic and renal diseases. Prior to Roche, Dr. Zhang was as an Associate Professor and Physician worked at Shanghai Ruijin Hospital, affiliated to Shanghai Jiao Tong University School of Medicine and as Physician worked at Shanghai Renji Hospital, affiliated to Shanghai Jiaotong University School of Medicine during 1999 to 2010. Dr. Zhang received her bachelor and master's degree in Clinical Medicine from Shanghai Jiaotong University School of Medicine in 1999, and her Ph.D. in Cardiology from Shanghai Jiaotong University School of Medicine in 2004. As a Visiting Researcher, she studied at National Institutes of Health (NIH)/NHLBI Framingham Heart Study in USA in 2009. Dr. Zhang was nominated as a"Shanghai Excelling Academic/Technical Leader" (上海市優秀學術/技術帶頭人) in 2015 and has authored 60 publications in journals such as Nature Genetics, Lancet Diabetes Endocrinol, Circulation: Cardiovascular Genetics, and has invented 3 China patents.

Jin SHE (佘勁), aged 50, has been serving as the Vice President in our Chemical Manufacturing Control division since June 2015. In February 2021, Dr. She was promoted to Senior Vice President of Chemical Manufacturing Control division and Chief Manufacturing Officer. Prior to joining our Group in June 2015, Dr. She worked at MSD R&D Center (China) from January 2013 to May 2015 and at Roche R&D Center (China) from April 2009 to December 2012. He has 8 publications in peer-reviewed journals and 8 patents. Dr. She received his Ph.D. degree in chemistry from the University of North Carolina at Chapel Hill in August 2004 and his bachelor and master's degree in chemistry from Peking University in China in July 1996 and July 1999, respectively.

Fuxing TANG (湯福興), aged 56, has been serving as Chief Technology Officer, Vice President in our Chemical Manufacturing Control division and Head of R&D in USA since February 2020. Dr. Tang started his career in Forest labs, Inc. During his tenure in Forest labs, Inc./Allergan, Dr. Tang was instrumental in building biopharmaceutical functions and in charging of multi-functions of ADME, preformulation, drug product formulation and post approval drug products manufacturing process trouble-shooting. In addition, Dr. Tang contributed to the development of novel CaCo2 technology for drug discovery and the concept of MDO – multiple dimensional optimization in drug discovery. Prior to joining us, Dr. Tang worked as reviewer in ORS, FDA and worked in TEVA/Allergan as global Director of Biopharmaceutical Sciences, has led and contributed to multiple products approval/launch and NDA/ANDA filings in USA and China including blockbuster drugs Namenda, Bystolic, Linzess and Vraylar. Dr. Tang obtained his Ph.D. in Pharmaceutical Sciences from the University of Florida in May 2000 and conducted postdoctoral research in peptide delivery in Professor Ronald Borchardt ("Father of Caco-2") group from May 2000 to March 2002.

Yilei FU (付宜磊), aged 52, has been serving as the Vice President for the Quality Assurance division since he joined our Group in July 2017. In February 2021, Mr. Fu was promoted to Senior Vice President of Quality Assurance division and Chief Quality Officer. Mr. Fu served as Quality Director at Boehringer-Ingelheim from September 2010 to July 2017. Mr. Fu also served as Senior Quality and Compliance Manager at pharmaceutical company Xian Janssen in the late 2000s. Prior to that, he served as Quality Assurance Manager at pharmaceutical company AstraZeneca. Mr. Fu obtained his bachelor's degree in pharmaceutical analysis from Shenyang Pharmaceutical University in 1994, his master's degree of business administration from Shanghai Jiaotong University in China in January 2008 and was certified as a licensed pharmacist by the China Food and Drug Administration in October 2000.

Qing DONG (董清), aged 56, has been serving as Senior Commercial Director for the Commercial Strategy and Marketing division since July 2020. In June 2022, Mr. Dong was promoted to Vice President of Pharmaceutical Commercialization division. Prior to joining our Group, Mr. Dong served as National Commercial Sr. Director at Gilead Sciences from August 2017 to July 2020. He worked as National Commercial Director both with Consumer Health BU, Bayer Healthcare Company Ltd. from July 2016 to August 2017 and Sino-American Shanghai Squibb Pharmaceuticals Ltd. from November 2011 to February 2015. He also served as National Market Access Manager at Sandoz (China) Pharmaceutical Company and National Pricing Manager at Eli Lilly Asia Inc. Mr. Dong obtained his bachelor's degree of Pharmacy from Fudan University in 1990.

Changhong LI (李長紅), aged 54, has been serving as Chief Scientific Officer of the Group, and Chief Executive Officer of Nanjing AscendRare Pharmaceutical Technology Co., Ltd. – a wholly owned subsidiary of Hua Medicine since December 1st, 2022. In Oct. 2018, Dr. Li founded Nanjing AscendRare Pharmaceutical Technology Co., Ltd. and held the position of General Manager until Nov. 2022. From 2000 to 2018, Dr. Li worked at the Children's Hospital of Philadelphia and the Perelman School of Medicine at the University of Pennsylvania in the United States for over 18 years, including 3 years of postdoctoral training. During this period, Dr. Li served as Research Assistant Professor at the University of Pennsylvania and the Children's Hospital of Philadelphia. He was trained by and has collaborated closely with the renowned pediatric endocrinologist Dr. Charles Stanley and the preeminent biochemist Dr. Franz Matschinsky, who is known as "the father of glucokinase". Dr. Li obtained his bachelor degree of medicine from Chengde Medical College in 1989 and his M.D. and Ph.D. from Peking University School of Medicine in 1996. Dr. Li has published more than 60 SCI articles in internationally renowned academic journals such as JBC, Diabetes, JCI and Cell Metabolism. He has also published more than 10 Chinese articles in several core Chinese medical journals such as Chinese Medical Journal and Chinese Journal of Internal Medicine.

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 Company, together with its subsidiaries, is principally engaged in the development and commercialization of a global first-in-class oral drug, dorzagliatin or HMS5552, for the treatment of diabetes. Dorzagliatin is a first-in-class glucokinase activator, or GKA, designed to control the progressive degenerative nature of diabetes by restoring glucose homeostasis in Type 2 diabetes. The Group received notice of approval in China for dorzagliatin by the National Medical Products Administration (NMPA) of China on October 8, 2022, and the Group commenced sales of dorzagliatin under the tradename HuaTangNing (华堂宁®) on October 28, 2022. The Company in-licensed the global rights to dorzagliatin from Roche.

Business review

A review of the Company's business, and a discussion of future clinical progress and business development are presented in the sections titled "Chairman and CEO Statement" on pages 6 to 7 of this annual report, "Management Discussion and Analysis" on pages 8 to 19. The financial risk management objectives and policies of the Company are set out in note 34 of the consolidated financial statements in this annual report. Significant events that have an effect on us subsequent to the financial year ended December 31, 2022 are set out in the "Important events after the Reporting Period" section of the "Management Discussion and Analysis" on page 11.

More information regarding the Company's performance with regards to environmental and social-related key performance indicators and policies, as well as compliance with relevant laws and regulations are discussed in the "Environmental, Social and Governance Report".

Financial key performance indicators

The financial key performance indicators of the Group for the year are set out in the section "Business and Financial Highlights" of this annual report.

Dividend policy and final dividend

Subject to the laws of the Cayman Islands and the Articles of Association, the Company may in general meeting declare dividends in any currency but no dividends shall exceed the amount recommended by the Board, and no dividend will be declared or payable except out of the profits and reserves of the Company lawfully available for distribution including share premium. We do not currently have an expected dividend payout ratio. The determination to pay dividends will be made at the discretion of the Board and will be based upon our cash flow, financial condition, capital requirements and any other conditions that our Directors deem relevant.

The Board did not recommend the payment of final dividend for the year ended December 31, 2022 (December 31, 2021: nil).

Major customers and suppliers

The Group received notice of NDA approval by the NMPA on October 8, 2022, and we commenced sales on October 28, 2022. For the year ended December 31, 2022, the Group's five largest customers accounted for 83.0% of the Group's total sales. The Group's single largest customer accounted for 47.0% for the year ended December 31, 2022. Sinopharm Group Co., Ltd., was the Group's largest customer and 111, Inc. was among the Group's five largest customers for the year.

Upon our latest inquiry on April 10, 2023, Mr. Liu JUNLING, an independent non-executive Director during the year ended December 31, 2022,was interested in 36,000,000 Class B ordinary shares and 1,076,988 Class A ordinary shares of 111, Inc., representing approximately 46.0% of the voting rights in 111, Inc..

For the year ended December 31, 2022, the Group's five largest suppliers accounted for 22.2%, as compared to 39.5% of the Group's total purchases for the year ended December 31, 2021. The Group's single largest supplier accounted for 10.1% for the year ended December 31, 2022, as compared to 16.8% of the Group's total purchases for the year ended December 31, 2021. Wuxi App Tec Group, which includes Changzhou SynTheAll Pharmaceutical Co.,Ltd., Shanghai STA Pharmaceuticals Product Co., Ltd., Shanghai STA Pharmaceutical R&D Co., Ltd., Wuxi Medkey Med-Tech Development (Shanghai) Co., Ltd., WuXi Clinical Development Services (Shanghai) Co., Ltd., WuXi AppTec (Chengdu) Co., Ltd., WuXi AppTec (Tianjin) Co., Ltd., and WuXi AppTec (Shanghai) Co., Ltd., a related group controlled by the substantial shareholder of the Company, was the Group's largest supplier for the year.

Save as disclosed above, during the year ended December 31, 2022, at no time did the Directors or any of their close associates or any Shareholders (which, to the knowledge of the Directors, own more than 5% of total issued Shares of the Company) have interest in the Group's five largest suppliers or customers.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 37 to the consolidated financial statements.

Equipment

Details of the movements in equipment of the Group during the year ended December 31, 2022 are set out in note 17 to the consolidated financial statements.

Share capital

The changes in the share capital of the Company during the year ended December 31, 2022 are set out in note 28 to the consolidated financial statements.

Indebtedness

As of December 31, 2022 and 2021, our lease liabilities and borrowings amounted to RMB97.6 million and RMB71.5 million, respectively. The following table sets forth our lease liabilities and borrowings as of the dates indicated:

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Current portion	55,413	13,296
Non-current portion	42,169	58,232
Total	97,582	71,528

Our lease liabilities as of December 31, 2022 were from leased properties lease contracts with lease terms of two to three years. As of December 31, 2022, we did not have any other indebtedness.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended December 31, 2022.

Pre-emptive rights

There is no provision for pre-emptive rights under the Articles of Association, or the law of the Cayman Islands, being the jurisdiction in which the Company is incorporated, under which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Reserves

Details of the movement in the reserves of the Group and the Company during the year ended December 31, 2022 are set out in the consolidated statement of changes in equity and note 38, respectively. The distributable reserve as at December 31, 2022 is RMB1,777,910,000.

Borrowings

Details of the borrowings of the Group are set out in the section headed "Management Discussion and Analysis" in 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 Shares.

Use of net proceeds from the Global Offering

The Shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on September 14, 2018. The net proceeds from the Global Offering have been, and will continue to be, applied according to the intentions set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The following table sets forth the status of the Company's use of proceeds raised in the Global Offering as of December 31, 2022:

		% of use of proceeds	Net proceeds from the Global Offering RMB million	Unutilized net proceeds as of January 1, 2022 RMB million	Utilization during the year ended December 31, 2022 RMB million	Actual usage up to December 31, 2022 RMB million	Unutilized net proceeds as of December 31, 2022 RMB million	Expected time frame for unutilized amount
(a)	Dorzagliatin research and development	39%	291.4	–	–	291.4	–	N/A
(b)	Dorzagliatin lifecycle management and additional indications	9%	67.2	26.8	14.5	54.9	12.3	By the end of year 2023
(c)	Dorzagliatin launch and commercialization	27%	201.8	148.8	50.2	103.2	98.6	By the end of year 2023
(d)	New product and diabetes care technology development	11%	82.2	60.3	1.5	23.4	58.8	By the end of year 2024
(e)	Product licensing and partnership	4%	29.9	23.5	23.5	29.9	–	N/A
(f)	General working capital	10%	74.7	–	–	74.7	–	N/A
Total		100%	747.2	259.4	89.7	577.5	169.7	By the end of year 2024

Directors

The Directors during the year ended December 31, 2022 and up to the date of this annual report were:

Executive directors

Li CHEN (陳力) (Chief Executive Officer)
George Chien Cheng LIN (林潔誠) (Executive Vice President and Chief Strategy Officer)

Non-executive directors

Robert Taylor NELSEN (Chairman)
Wei ZHAO (趙瑋) (appointed on March 16, 2022)
Lian Yong CHEN (陳連勇) (resigned on March 16, 2022)

Independent non-executive directors

Walter Teh-Ming KWAUK (郭德明) (passed away on November 24, 2022)
William Robert KELLER
Junling LIU (劉峻嶺) (resigned on March 31, 2023)
Yiu Wa Alec TSUI (徐耀華)
Yiu Leung Andy CHEUNG (張耀樑) (appointed on January 1, 2023)

Biographies of the Directors and Senior Management

The biographies of the Directors and senior management of the Company are provided in the section titled "Directors and Senior Management" on pages 20 to 26 of this annual report.

Directors' Service Contracts

Each of Dr. Li CHEN and Mr. George Chien Cheng LIN, being our executive Directors, has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than 30 days' notice in writing served by either the executive Director or our Company.

Each of Mr. Robert Taylor NELSEN and Ms. Wei ZHAO, being our non-executive Directors, has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than one month's notice in writing served by either the non-executive Director or our Company.

Each of Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER, Mr. Junling LIU, Mr. Yiu Wa Alec TSUI, and Mr. Yiu Leung Andy CHEUNG being our independent non-executive Directors, has entered into a letter of appointment with us for a term of three years, which may be terminated by not less than one month's notice in writing served by either the independent non-executive Director or our Company. Each of the appointment letters entered into with Mr. Walter Teh-Ming KWAUK and Mr. Junling LIU have terminated upon their respective separation from the Group.

No Director proposed for re-election at the forthcoming AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into by the Company or existed during the year ended December 31, 2022.

Emolument policy

In compliance with the CG Code, the Company has established the Remuneration Committee to formulate remuneration policies. The remuneration is determined and recommended based on each Director's and senior management personnel's performance, qualification, position and seniority, as well as comparable market practices. As for the independent non-executive Directors, their remuneration is determined by the Board upon recommendation from the Remuneration Committee. The Directors and the senior management personnel are eligible participants of the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme.

Details of the Directors' remuneration and the five highest paid individuals in the Group are set out in note 13 and note 14 to the consolidated financial statements in this annual report.

None of the Directors waived or agreed to waive any remuneration and there was no emoluments paid by the Group to any of the Directors as an inducement to upon, or upon joining the Group, or as compensation for loss of office.

Directors' interests in transactions, arrangements, or contracts of significance

Save as disclosed in this annual report, there was no transaction, arrangement or contract of significance to which the Company, or any of its holding companies or subsidiaries or fellow subsidiaries was a party and in which a Director or an entity connected with a Director was materially interested, whether directly or indirectly, that subsisted during or at the end of the Reporting Period.

Directors' interests in competing business

As of the date of this annual report, none of the Directors nor their respective associates (as defined in the Listing Rules) had interests in businesses, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company and its subsidiaries as required to be disclosed pursuant to the Listing Rules.

Dr. Li CHEN has provided a confirmation in respect of the compliance with the deed of non-competition ("Deed of Non-competition") dated August 29, 2018, details of which are set out in the Prospectus.

The independent non-executive Directors have also reviewed the compliance by Dr. CHEN with the Deed of Non-competition during the year ended December 31, 2022 and have confirmed that, as far as they can ascertain, there is no breach by Dr. Chen of the Deed of Non-competition.

Permitted indemnity provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Equity-linked agreement

Save for the Pre-IPO Share Incentive Scheme and the Post-IPO Share Option Scheme of the Company as set out in this annual report, no equity-linked agreements were entered into by the Group, or existed during the year ended December 31, 2022.

Independence of Independent Non-Executive Directors

The Company has received from each of the independent non-executive Directors an annual confirmation of his 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.

Disclosure of Interests

Directors and chief executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations are set forth below:

As of December 31, 2022, the interest or short positions of the Directors or the chief executives of the Company in the Shares or underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 to the Listing Rules were as follows:

Long positions in the ordinary Shares:

Name of Director	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company
Li CHEN	Interest of spouse (1)	25,220,690(L)	2.39%
	Beneficial Owner (2)	35,118,725(L)	3.33%
	Interest of Controlled Corporation (3)	10,000,000(L)	0.95%
George Chien Cheng LIN	Founder and beneficiary of trust (4)	3,633,178(L)	0.34%
	Beneficial Owner (5)	30,758,522(L)	2.91%
Robert Taylor NELSEN	Interest of Controlled Corporation (6)	125,088,960(L)	11.85%
	Beneficial Owner (7)	150,000(L)	0.01%
Yiu Wan Alec TSUI	Beneficial Owner (8)	24,000(L)	0.01%

Notes:

(1) Dr. CHEN is the spouse of Ms. Jane Xingfang HONG. Under the SFO, Dr. CHEN is deemed to be interested in the same number of Shares in which Ms. Jane Xingfang HONG maintains on interest.

(2) Included options for Shares granted pursuant to the Pre-IPO and Post-IPO Share Option Scheme.

(3) On 10 April 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. Jane Xingfang HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

(4) The George and Ann Lin 2005 Trust is a family trust set up by Mr. LIN; therefore, Mr. LIN is deemed to be interested in the same number of Shares held by the George and Ann Lin 2005 Trust.

(5) Included options pursuant to the Pre-IPO Share Incentive Scheme and Post-IPO Share Option Scheme.

(6) ARCH Venture Partners VII, LLC is controlled as to one-third by Mr. Robert Taylor NELSEN and is the general partner of ARCH Venture Partners VII, L.P. Mr. NELSEN is therefore deemed to be interested in the same number of Shares held by ARCH Venture Fund VII, L.P.

(7) Being shares purchased on the secondary exchange market.

(8) Being shares purchased on the secondary exchange market.

(9) The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2022.

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

Save as disclosed above, so far as the Directors are aware, none of the Directors or the chief executive of the Company had registered an interest or short position in any Share or underlying Shares or debentures of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Substantial Shareholders

Substantial Shareholders' interests and short positions in the Shares, underlying Shares and debentures of the Company

As of December 31, 2022, the interests of relevant persons (other than a Director or the chief executives of the Company) who had interests or short positions in the Shares or the underlying Shares, as recorded in the register required to be kept under Section 336 of SFO, were as follows:

Name of Shareholders	Capacity/nature of interest	Number of Shares held[7]	Approximate percentage of shareholding in the Company
ARCH Venture Fund VII, L.P.[1]	Beneficial interest	125,088,960(L)	11.85%
ARCH Venture Partners VII, L.P.[1]	Interest in controlled corporation	125,088,960(L)	11.85%
ARCH Venture Partners VII, LLC[1]	Interest in controlled corporation	125,088,960(L)	11.85%
Keith Lawrence CRANDELL[1]	Interest in controlled corporation	125,088,960(L)	11.85%
Clinton Whitewood BYBEE[1]	Interest in controlled corporation	125,088,960(L)	11.85%
Venrock Associates V, L.P.[2]	Beneficial interest	103,475,595(L)	9.80%
Venrock Management V, LLC[2]	Interest in controlled corporation	103,475,595(L)	9.80%
WuXi PharmaTech Healthcare Fund I L.P.[3]	Beneficial interest	74,029,635(L)	7.01%
WuXi PharmaTech Fund I General Partner L.P.[3]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi PharmaTech Investments (Cayman) Inc.[3]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi PharmaTech Investment Holdings (Cayman) Inc.[3]	Interest in controlled corporation	73,829,635(L)	6.99%

Name of Shareholders	Capacity/nature of interest	Number of Shares held[7]	Approximate percentage of shareholding in the Company
WuXi AppTec International Holdings Limited[3]	Interest in controlled corporation	73,829,635(L)	6.99%
WuXi AppTec Co., Ltd.[3]	Interest in controlled corporation	73,829,635(L)	6.99%
HLYY Limited[4]	Nominee of a trust	105,474,543(L)	9.99%
TCT (BVI) Limited[4]	Interest in controlled corporation	105,474,543(L)	9.99%
The Core Trust Company Limited[4]	Trustee	105,474,543(L)	9.99%
Jane Xingfang HONG[5]	Beneficial interest	19,220,690(L)	1.83%
	Interest of spouse	35,118,725(L)	3.33%
	Interest in controlled corporation	10,000,000(L)	0.95%
	Founder of Trust	6,000,000(L)	0.56%

Notes:

1. To the best of our Directors' knowledge, ARCH Venture Fund VII, L.P. is a Delaware limited partnership established in the United States. The general partner of ARCH Venture Fund VII, L.P. is ARCH Venture Partners VII, L.P., a Delaware limited partnership established in the United States. The general partner of ARCH Venture Partners VII, L.P. is ARCH Venture Partners VII, LLC, a limited liability company incorporated in the United States. ARCH Venture Partners VII, LLC is controlled as to one-third by each of Mr. Robert Taylor NELSEN, our non-executive Director, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE. As such, each of ARCH Venture Partners VII, L.P., ARCH Venture Partners VII, LLC, Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE is deemed to be interested in the equity interest held by ARCH Venture Fund VII, L.P. and the ultimate controllers of ARCH Venture Fund VII, L.P. are Mr. Robert Taylor NELSEN, Mr. Keith Lawrence CRANDELL and Mr. Clinton Whitewood BYBEE.

2. To the best of our Directors' knowledge, Venrock Associates V, L.P. is an exempted limited partnership established in the United States. The general partner of Venrock Associates V, L.P. is Venrock Management V, LLC, an exempted limited liability company established in the United States. Venrock Management V, LLC is ultimately controlled by a group of individuals, none of whom controls, directly or indirectly, one-third or more of the voting power at the general meetings of Venrock Management V, LLC or otherwise is deemed to control Venrock Management V, LLC under the SFO.

3. To the best of our Directors' knowledge, the general partner of Wuxi Pharmatech Healthcare Fund I L.P. is Wuxi Pharmatech Fund I General Partner L.P., a limited partnership established in the Cayman Islands whose general partner is Wuxi Pharmatech Investments (Cayman) Inc., an exempted limited liability company established in the Cayman Islands. Wuxi Pharmatech Investments (Cayman) Inc. is a wholly-owned subsidiary of Wuxi Pharmatech Investment Holdings (Cayman) Inc., which is in turn wholly-owned by Wuxi AppTec International Holdings Limited, which is in turn wholly-owned by WuXi AppTec Co., Ltd.

4. HLYY Limited is 100% owned by TCT (BVI) Limited. TCT (BVI) Limited is 100% owned by The Core Trust Company Limited. HLYY Limited holds the Shares underlying the option and awards granted under the Pre-IPO Share Incentive Scheme.

5. Ms. Jane Xingfang HONG is the spouse of Dr. Li CHEN, who was granted options for 13,921,725 Shares pursuant to the Pre-IPO Share Incentive Scheme and 15,079,000 share options granted pursuant to the Post-IPO Share Option Scheme, respectively. Under the SFO, Ms. HONG is deemed to be interested in the same number of Shares in which Dr. CHEN maintains on interest. She also holds approximately 2.39% of the voting rights of the Company.

   On April 10, 2019, 100,000 ordinary shares beneficially held by Ms. Jane Xingfang HONG were transferred to Chen Family Investments, LLC in exchange of 1 voting share representing 100% voting right in Chen Family Investments, LLC and therefore, Ms. HONG and her spouse, Dr. CHEN, are deemed to be interested in the 10,000,000 ordinary shares of the Company held by Chen Family Investments, LLC.

   On October 13, 2021, 6,000,000 shares were transferred to a discretionary trust set up by Ms. Jane Xingfang HONG; therefore, Ms. HONG is deemed to be interested in the same number of Shares held by the trust.

6. The letter "L" denotes the person's long position in the Shares.

7. The approximate percentage of shareholding is calculated based on the issued share capital of the Company as of December 31, 2022.

Saved as disclosed above, as at December 31, 2022 so far as the Directors are aware, no other persons had registered an interest or short position in any Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified.

Connected Transactions and Continuing Connected Transactions

During the year ended December 31, 2022, the Group has not entered into any connected transaction or continuing connected transaction which should be disclosed pursuant to the requirements of Rule 14A.71 of the Listing Rules.

Related Party Transactions

Details of the related party transactions of the Group for the year ended December 31, 2022 are set out in note 30 to the consolidated financial statements contained herein.

None of the related party transactions constitutes a connected transaction or continuing connected transaction subject to independent shareholders' approval, annual review and disclosure requirements in Chapter 14A of the Listing Rules.

Interests in Competitor

The Company does not hold any interests in our competitors.

Share Schemes

The Company currently has two existing share schemes, namely the Pre-IPO Share Incentive Plan and the Post-IPO Share Option Scheme. The Pre-IPO Share Incentive Plan and the Post-IPO Share Option Scheme were adopted before the effective date of the new Chapter 17 of the Listing Rules. The Company will comply with the new Chapter 17 to the extent required by the transitional arrangements for existing share schemes.

11,200,000 Shares, representing approximately 1.16% of the weighted average number of Shares for the Reporting Period, may be issued in respect of options and awards granted during the Reporting Period to eligible participants pursuant to all of the share schemes.

1. Pre-IPO Share Incentive Scheme

The Pre-IPO Share Incentive Scheme was adopted pursuant to a resolution passed on March 25, 2013. No further option or award would be granted under the Pre-IPO Share Incentive Scheme after Listing.

Purpose

The purpose of the Pre-IPO Share Incentive Scheme is to enable the Group to grant options or awards to qualified persons (as determined by our Board or any committees appointed by the Board to administer this scheme (the "**Committee**") including any Director, employee, adviser and consultant of the Company or any of our associated companies as incentives or rewards by reason of their contribution or potential contribution to the Company and/or any of our associated companies.

Eligible Participants

Qualified persons are determined by the Board or the Committee and includes any Director, employee, adviser and consultant of the Company or any of our associated companies.

Maximum Number of Shares Available for Issue

The maximum number of Shares in respect of which options or awards may be granted under the Pre-IPO Share Incentive Scheme is 117,000,000. The Company has established an employee trust to administer the scheme and a total of 117,000,000 Shares, representing all the Shares underlying the options and awards granted under the Pre-IPO Share Incentive Scheme, had been issued to HLYY Limited, the nominee under the trust, to hold the Shares to satisfy the options and awards granted upon exercise/vesting. It follows that zero Shares, representing 0% of the issued Shares as at April 19, 2023 (being the latest practicable date for ascertaining certain information in this annual report before its publication) (the "Latest Practicable Date"), were available for issue under the Pre-IPO Share Incentive Scheme.

Maximum Entitlement of Each Participant

Under the Pre-IPO Share Incentive Scheme, there is no specific limit on the maximum number of options or awards which may be granted to a single eligible participant under the Pre-IPO Share Incentive Scheme.

Exercise Period

Each grantee to whom an option has been granted shall be entitled to exercise the option in such manner as determined by the Committee and as set out in the grant letter. Notwithstanding the grant letter, an option shall expire not more than 10 years after its date of grant.

Vesting Period

Each grantee to whom a share award has been granted shall be entitled to the Shares they are awarded in accordance with the terms (including any restrictions and vesting requirement that may be imposed) of the Pre-IPO Share Incentive Scheme and the grant letter. Notwithstanding the grant letter, a share award should either vest or be forfeited not more than 10 years after the date of grant.

Consideration

No consideration was paid by the grantees for the options and awards granted under the Pre-IPO Share Incentive Scheme.

Exercise Price

The exercise price of each option granted under the Pre-IPO Share Incentive Scheme is determined by the administrator designated by the Board with reference to its reasonable fair market value at the time of grant and using a reasonable methodology as determined by such designated administrator.

Remaining Life

The Board may, at any time, terminate or, from time to time, amend, modify or suspend the Pre-IPO Share Incentive Scheme, in whole or in part, save that the amendment, suspension or termination may not affect a grantee in any material adverse manner. The Board ended further grants pursuant to the Pre-IPO Share Incentive Scheme effective on the Listing Date.

Further details of the Pre-IPO Share Incentive Scheme are set out in the Prospectus.

Outstanding Options

Details of the outstanding options under the Pre-IPO Share Incentive Scheme are as follows: [(1) (2)(3)]

Name	Date of grant	Outstanding as at 1 January 2022	Exercised during the Reporting Period	Forfeited/ Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at 31 December 2022	Weighted average closing price of the Shares immediately before the dates on which the options were exercised
Directors							
Dr. Li CHEN	December 4, 2014[(4)]	200,000	–	–	–	200,000	NA
	January 11, 2016[(5)]	750,000	–	–	–	750,000	NA
	July 19, 2016[(6)]	750,000	–	–	–	750,000	NA
	March 6, 2017[(7)]	1,500,000	–	–	–	1,500,000	NA
	January 7, 2018[(8)]	1,362,975	–	–	–	1,362,975	NA
	April 3, 2018[(9)]	4,608,750	–	–	–	4,608,750	NA
	August 26, 2018[(10)]	2,250,000	–	–	–	2,250,000	NA
Mr. George Chien Cheng LIN	April 3, 2018[(11)]	25,592,405	–	–	–	25,592,405	NA
Other grantees in aggregate							
Five highest paid individuals (excluding Directors) during the Reporting Period	September 1, 2023 to June 1, 2018	16,891,140	122,500	–	–	16,768,640	HKD4.19
All other grantees	March 25, 2013 to August 26, 2018[(12)]	33,046,926	4,595,567	236,875	220,331	27,994,153	HKD3.71
Total		86,952,196	4,718,067	236,875	220,331	81,776,923	HKD3.72

Notes:

(1) No options were granted after Listing.

(2) Unless stated otherwise, 25% of the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date (the "Standard Vesting Schedule"). The share options shall be valid for a period of ten years from the date upon which the offer for the grant is options is made by the Company.

(3) All options shall expire not more than 10 years after their respective date of grant and no consideration was paid by the grantees for the options and awards granted under the Pre-IPO Share Incentive Scheme.

(4) With vesting commencement date of November 21, 2014 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.07 (equivalent to approximately HK$0.55).

(5) With vesting commencement date of December 22, 2015 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.23 (equivalent to approximately HK$1.79).

(6) With vesting commencement date of April 28, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.40 (equivalent to approximately HK$3.12).

(7) With vesting commencement date of December 30, 2016 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

(8) With vesting commencement date of December 29, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67) or approximately US$0.07 (equivalent to approximately HK$0.55).

(9) With vesting commencement date of April 4, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67) or approximately US$0.25 (equivalent to approximately HK$1.95).

(10) With vesting commencement date of August 1, 2018 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.37 (equivalent to approximately HK$2.89) or US$0.49 (equivalent to approximately HK$3.82).

(11) With vesting commencement date of September 14, 2018 or December 22, 2017 and are exercisable in accordance with the Standard Vesting Schedule at an exercise price of approximately US$0.47 (equivalent to approximately HK$3.67).

(12) The options are exercisable in accordance with the Standard Vesting Schedule at exercise prices of approximately US$0.07 (equivalent to approximately HK$0.55) to US$0.49 (equivalent to approximately HK$3.82)

Outstanding Restricted Stock Units

Details of the outstanding restricted Stock units under the Pre-IPO Share Incentive Scheme are as follows:

On April 3, 2018, Mr. George Chien Cheng LIN was granted restricted stock units in respect of an aggregate of 7,422,975 Shares of the Company under the Pre-IPO Share Incentive Scheme on April 3, 2018. No consideration was paid for the restricted stock units granted under the Pre-IPO Share Incentive Scheme and such restricted stock units are to be vested after a qualified HK IPO in 48 monthly instalments, subject to Mr. LIN's continued employment through the applicable vesting dates. As at January 1, 2022, 1,391,781 restricted stock units were outstanding. During the Reporting Period, 1,391,781 restricted stock units were vested. Zero restricted stock units were cancelled and zero restricted stock units lapsed. As such, as at December 31, 2022, the weighted average closing price of the Shares immediately before the date(s) on which the restricted stock units vested is HKD3.67, zero restricted stock units were outstanding. No restricted share units were granted after Listing.

2. Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme was adopted by the resolutions in writing of all the Shareholders passed on August 26, 2018.

Purpose

The purpose of the Post-IPO Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Post-IPO Share Option Scheme, with its broadened basis of participation, will enable our Group to reward our employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine the performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalize on the benefits of the options granted.

Eligible Participants

Our Directors (which expression shall, for the purpose of this paragraph, include a duly authorized committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants, who our Board considers, in its sole discretion, have contributed or will contribute to our Group, to take up options to subscribe for Shares:

(i) any directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of any member of our Group; and

(ii) any advisers, consultants, distributors, contractors, customers, suppliers, agents, business partners, joint venture business partners, service providers of any member of our Group.

For the purposes of the Post-IPO Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of these classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of these classes of participants shall not, by itself, unless our Directors otherwise so determine, be construed as a grant of option under the Post-IPO Share Option Scheme.

The eligibility of any of these class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to the participant's contribution to the development and growth of our Group.

Maximum Number of Shares Available for Grant

The total number of Shares which may be issued upon exercise of all options to be granted under the Post-IPO Share Option Scheme and any other share option scheme of our Group shall not in aggregate exceed 105,191,330 Shares (excluding any Shares which were issued upon the exercise of the Over-allotment Option.

As at January 1, 2022, 62,407,411 Shares were available for future grant under the scheme mandate pursuant to the Post-IPO Share Option Scheme. During the Reporting Period, options representing 11,200,000 underlying Shares were granted to eligible participants pursuant to the Post-IPO Share Option Scheme. As at 31 December 2022 and the Latest Practicable Date, 53,275,570 and 42,375,750 Shares were available for future grant under the Post-IPO Share Option Scheme, respectively.

Maximum Number of Shares Available for Issue

As at January 1, 2022, 104,947,869 Shares were available for issue under the Post-IPO Share Option Scheme. During the Reporting Period, 451,500 Shares were issued pursuant to the Post-IPO Share Option Scheme. As at 31 December 2022 and the Latest Practicable Date, 104,496,369 Shares and 104,496,369 Shares (representing approximately 9.90% of the issued share capital of the Company as at the Latest Practicable Date) were available for issue under the Post-IPO Share Option Scheme, respectively.

Maximum Entitlement of Each Grantee

Unless otherwise approved by the Shareholders in general meeting, the number of Shares that may be granted to a participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial Shareholders (as defined in the Listing Rules), or the total number of Shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time.

Exercise and Vesting Period

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under the Post-IPO Share Option Scheme.

Consideration

A consideration of HK$1.00 is payable on acceptance of the grant of an option.

Exercise Price

The exercise price per Share under the Post-IPO Share Option Scheme will be a price determined by our Directors, but shall 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 date of the offer of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer of grant (provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before Listing); and (iii) the nominal value of a Share on the date of grant.

Remaining Life

The Post-IPO Share Option Scheme is valid and effective for a period of 10 years commencing from the Listing Date and up to September 14, 2028. The remaining life of the Post-IPO Share Option Scheme is approximately five years.

Outstanding Options

Details of the outstanding options under the Post-IPO Share Option Scheme are as follows:

Name	Date of grant	Outstanding as at 1 January 2022	Granted during the Reporting Period	Exercised during the Reporting Period	Forfeited/ Cancelled during the Reporting Period	Lapsed during the Reporting Period	Outstanding as at 31 December 2022	Weighted average closing price of the Shares immediately before the dates on which the options were exercised
Directors								
Dr. Li CHEN	June 25, 2019[13]	12,079,000		–	–	–	12,079,000	NA
	March 22, 2021[14]	3,000,000		–	–	–	3,000,000	NA
	March 17, 2022[15]	0	5,000,000	–	–	–	5,000,000	NA
Mr. George Chien Cheng LIN	May 17, 2019[13]	300,000		–	–	–	300,000	NA
Other grantees in aggregate								
Employee Participants	October 29, 2018 to December 1, 2022[16]	21,811,301	6,200,000	451,500	1,961,640	2,068,339	23,529,822	HKD3.73
Service Providers	May 15, 2019	200,000		–	–	–	200,000	NA
Total		37,390,301	11,200,000	451,500	1,961,640	2,068,339	44,108,822	

Notes:

(13) With vesting commencement date of January 23, 2019 or November 11, 2019 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$8.866.

(14) With grant date of January 7, 2021 and vesting commencement date of January 7, 2021 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$5.584. The closing price of the Shares immediately before the date on which the options were granted was HK$5.22.

(15) With grant date of March 17, 2022 and vesting commencement date of March 17, 2022 and are exercisable in accordance with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at an exercise price of HK$3.400. The closing price of the Shares immediately before the date on which the options were granted was HK$2.60. The fair value of the options at the date of grant is HKD2.42. Please see Note 29 to the consolidated financial statements for details on the fair value, accounting standard and policy adopted for the calculation.

(16) With grant dates from October 29, 2018 through December 1, 2022, and are exercisable in according with the vesting schedule that the Shares subject to the options will be vested on the first anniversary of the vesting commencement date and the remaining 75% of the Shares subject to the options will be vested in 36 monthly installments thereafter, subject to the grantee's continued employment through the applicable vesting date, at exercise prices ranging from HK$3.470 to HK$7.192. In respect of 1,000,000 options granted on June 24, 2022, the closing price of the Shares immediately before the date such options were granted was HKD3.91 and the fair value of the options at the date of grant is HKD2.78. In respect of 1,500,000 options granted on December 1, 2022, the closing price of the Shares immediately before the date such options were granted was HKD3.41 and the fair value of the options at the date of grant is HKD2.41. Please see Note 29 to the consolidated financial statements for details on the fair value, accounting standard and policy adopted for the calculation.

(17) All options shall expire not more than 10 years after their respective date of grant and no consideration was paid by the grantees for the options and awards granted under the Post-IPO Share Option Scheme.

Principal Risks and Uncertainties

The Company has the following risks and uncertainties which may affect the results and business operations, some of which are inherent to the Company, some are inherent to the pharmaceutical sector, and some are from external sources.

- Company reliance on third parties:

  We continued to rely on third-party CMOs to produce dorzagliatin for commercial production requirements. If we experience problems with our CMOs, the manufacturing of dorzagliatin could be delayed and our efforts to market dorzagliatin compromised. Our quality assurance team conducts regular quality checks, has set up with joint quality committees, and our clinical operations team conducts regular trainings for our CROs. We have partnered with Bayer to commercialize dorzagliatin in China. Smooth cooperation with Bayer is critical in maximizing commercial sales in China.

- **Dorzagliatin as cornerstone therapy:**

  Dorzagliatin as a monotherapy or in combination with other T2D treatments may cause undesirable side effects that could delay or prevent its regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following regulatory approval, if any. The Company continues to plan for and conduct additional clinical trials and other studies to establish dorzagliatin's potential as a cornerstone therapy for T2D.

- **National Reimbursement Drug List entry is not certain:**

  Reimbursement may not be available for dorzagliatin in China, which could diminish our sales or affect our profitability. The Company continues to maintain regular dialogue with national and provincial level authorities.

- **Retention of key staff members:**

  Our continued success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel. The Company has regularly reviewed our compensation packages and benefits to ensure we remain competitive in the market.

- **The Company's key operations are in China:**

  There are potential risks associated with doing business primarily in one geographic region.

Key Relationships

- **Employees**

  The Company's relationship with its employees are discussed in the "Environmental, Social and Governance Report" to be published with this annual report.

- **Key customers**

  Our customers are mainly regional pharmaceutical distributors located in China. We are reliant on our customers to distribute our core product – HuaTangNing (华堂宁®) to hospitals, pharmacies and online channels.

- **Service Providers and Suppliers**

  Our service providers and suppliers are mainly CROs, CMOs, SMOs and promotion service providers located in China, providing us with a range of services such as drug discovery, development, clinical trial expertise, clinical and commercial manufacturing and commercialization service in China. We are heavily reliant on our suppliers to provide us services regarding our clinical trials, preclinical studies, manufacturing and commercialization service in China.

- **Hospitals**

  Our clinical trials are conducted in hospitals across China. We remain committed to offering hospitals and doctors related training and full support in conducting the clinical trials. We maintain a close relationship directly, through telephone calls, direct mail, visits, and training sessions. We also work with our CROs and SMOs to ensure that hospitals and doctors have the support they need to guarantee the quality of our clinical trials.

- Licensing Agreement with Roche

  We have entered into a research, development and commercialization agreement with Hoffmann-La Roche Inc. and F. Hoffmann-La Roche Ltd., or collectively, Roche in December 2011, under which we obtained an exclusive license under certain patents and know-how owned by Roche to develop, make, commission, use, sell, offer for sale, export and import Roche's proprietary GKA, RO5305552 (now referred to as dorzagliatin or HMS5552), worldwide in the licensed field of treatment of diabetes. The key U.S. patent licensed from Roche (U.S. 7,741,327) recites claims to compounds and pharmaceutical compositions thereof, and has an expiration date of March 9, 2029. We have the right to sublicense our rights to third parties. Under our agreement, we are required to make various upfront, milestone and royalty payments.

- Licensing Agreement with Bayer

  We have entered into a commercialization agreement and strategic partnership with Bayer Healthcare Company Ltd. in August 2020. Under the terms of the agreement, we received an upfront payment of RMB300 million in 2020, a following payment of RMB400 million in January 2023 after we received the NDA approval by NMPA and processed the first commercial sales successfully, and additional payments could reach up to RMB3.78 billion if certain milestones are met. We will pay Bayer tiered service fees based on net sales in China, initially sharing equally in sales, with adjusting sales percentages based on agreed China net sales thresholds. We will continue to be the market authorization holder of dorzagliatin, and responsible for clinical development, registration, product supply and distribution, while Bayer as the promotion service provider will be responsible for the marketing, promotion, and medical education activities in China.

Employees and remuneration policy

As of December 31, 2022, the Group employed a total of 144 employees, as compared to a total of 146 employees as of December 31, 2021. The majority of the employees are employed in mainland China. For the year ended December 31, 2022, staff costs (including Directors' emoluments but excluding any contributions to pension scheme) were approximately RMB155.2 million as compared to RMB163.3 million for the year ended December 31, 2021.

The Group will continue to offer competitive remuneration packages, discretionary share options and bonuses to staff. The Group's employee remuneration policy is determined by taking into account factors such as remuneration in respect of the overall remuneration standard in the industry and employee's performance. The management reviews the Group's employee remuneration policy and agreements on a regular basis. Moreover, the social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve their working efficiency. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended December 31, 2022.

The Company has also adopted a Pre-IPO Share Incentive Scheme and a Post-IPO Share Option Scheme. Please refer to the section headed "Share Incentive Schemes" in this annual report for further details.

Sufficiency of Public Float

The Company has maintained the public float as required by the Listing Rules during the year ended December 31, 2022.

Review of Annual Results

The consolidated financial results of the Group for the year ended December 31, 2022 has been audited by the Company's auditor, Deloitte Touche Tohmatsu, and reviewed by the Audit Committee of the Company, which consists of Mr. Yiu Leung Andy Cheung, Mr. William Robert KELLER and Mr. Yiu Wa Alec TSUI.

Auditor

The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by Deloitte Touche Tohmatsu, auditor of the Company, who shall retire and, being eligible, have offered itself for re-appointment as auditor at the AGM.

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company and to authorize the Board to fix the remuneration of the auditor.

By Order of the Board,
Hua Medicine
Dr. Li CHEN
Chief Executive Officer and Executive Director

Hong Kong, March 29, 2023

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The Board of the Company is committed to maintaining high corporate governance standards. The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix 14 of the Listing Rules. The Appendix 14 of the Listing Rules has been revised and renamed as "Corporate Governance Code" with effective from January 1, 2022.

The Board is of the view that the Company has complied with all applicable code provisions as set out in the CG Code throughout the Reporting Period except the non-compliance of listing rules 3.10(2) and 3.21 as explained in the relevant section under this report.

Model Code for Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code throughout the Reporting Period.

The Company has also established the Code for Securities Transactions by Relevant Officers of the Company (the "Code") on terms no less exacting than the Model Code for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Code by the relevant officers during the Reporting Period was noted by the Company.

Board of Directors

The Company is headed by an effective Board which oversees the Group's businesses, strategic decisions and performance and takes decisions objectively in the best interests of the Company.

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

Board Composition

The Board currently comprises two executive Directors, two non-executive Directors and three independent non-executive Directors.

The composition of the Board is as follows:

Executive Directors
Li CHEN *(Chief Executive Officer)*
George Chien Cheng LIN *(Executive Vice President and Chief Strategy Officer)*

Non-executive Directors
Robert Taylor NELSEN *(Chairman)*
Wei ZHAO *(appointed on March 16, 2022)*
Lian Yong CHEN (陳連勇) *(resigned on March 16, 2022)*

Independent Non-executive Directors
Walter Teh-Ming KWAUK (passed away on November 24, 2022)
William Robert KELLER
Junling LIU (resigned on March 31, 2023)
Yiu Wa Alec TSUI
Yiu Leung Andy CHEUNG *(appointed on January 1, 2023)*

None of the members of the Board is related to one another.

The biographical information of the Directors are set out in the section headed "Directors and Senior Management" on pages 20 to 26 of this annual report.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Robert Taylor NELSEN and Dr. Li CHEN, respectively. The Chairman provides leadership and is responsible for the effective functioning and leadership of the Board. The Chief Executive Officer focuses on the Company's business development and daily management and operations generally.

Independent Non-executive Directors

During the Reporting Period, the Board at all times exceeded the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

Following the passing away of Mr. Kwauk on November 24, 2022, the number of independent non-executive directors is still in compliance with the requirement under Rule 3.10(1) but fail to meet Rule 3.10(2) which required at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

The Company has complied with the requirements of Rules 3.10(2) of the Listing Rules since the appointment of Mr. Yiu Leung Andy Cheung (Mr. Cheung), who possessing appropriate professional qualifications and relevant experiences, as the independent non-executive director of the Company on January 1, 2023.

The Company has received written confirmation from each of the independent non-executive Directors in respect of his 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.

Board Independence Evaluation

The Company has established a Board Independence Evaluation Mechanism during the year which sets out the processes and procedures to ensure a strong independent element on the Board, which allows the Board effectively exercises independent judgment to better safeguard Shareholders' interests.

The objectives of the evaluation are to improve Board effectiveness, maximise strengths, and identify the areas that need improvement or further development. The evaluation process also clarifies what actions of the Company need to be taken to maintain and improve the Board performance, for instance, addressing individual training and development needs of each Director.

Pursuant to the Board Independence Evaluation Mechanism, the Board will conduct annual review on its independence. The Board Independence Evaluation Report will be presented to the Board which will collectively discuss the results and the action plan for improvement, if appropriate.

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company for an initial term of three years commencing from the Listing Date, subject to renewal after the expiry of the then current term.

According to the Company's Articles of Association, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at that meeting. Besides, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Under the Articles of Association of the Company, every Director shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

Responsibilities of the Board and Management

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 non-executive Directors and 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 judgement 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 Directors shall disclose to the Company details of other offices held by them.

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 co-ordinating the daily operation and management of the Company are delegated to the management.

The Group's senior management is responsible for the day-to-day management of the Group's business and is responsible for overseeing the general operation, business development, finance, marketing, and operations.

The Company has arranged appropriate insurance coverage on Directors' and officers' liabilities in respect of any legal actions taken against Directors and management arising out of corporate activities. The insurance coverage would be reviewed on an annual basis.

Continuous Professional Development of Directors

Pursuant to the code provision C.1.4 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. The Company should be responsible for arranging and funding suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, in order to ensure compliance and enhance their awareness of good corporate governance practices. The Company also arranges suitable professional development seminars and courses for the Directors from time to time.

The Directors informed the Company that they had received sufficient and relevant training and continuous professional development during the Reporting Period.

Record of training received by the Directors for the year ended December 31, 2022 are summarized as follows:

Directors	**Type of Training** [Note]
Executive Directors	
Li CHEN	A/B
George Chien Cheng LIN	A/B
Non-executive Directors	
Robert Taylor NELSEN	A/B
Wei ZHAO	A/B
Independent Non-executive Directors	
William Robert KELLER	A/B
Junling LIU	A/B
Yiu Wa Alec TSUI	A/B

Note:

Types of Training

A. Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B. Reading relevant news alerts, newspapers, journals, magazines and relevant publications

Board Meetings and Directors' Attendance Records

Code provision C.5.1 of the CG Code stipulates that Board meetings should be held at least four times a year at approximately quarterly intervals with active participation of the majority of the Directors, either in person or through electronic means of communications.

Apart from regular Board meetings, the Chairman has met with the independent non-executive Directors without the presence of other Directors in accordance with code provision C.2.7 of the CG Code.

The attendance records of the Directors at the Board meetings and general meetings of the Company during the Reporting Period are as follows:

	Attendance/No. of Meeting(s)	
Name of Directors	**Board Meetings**	**Annual General Meeting**
Executive Directors		
Li CHEN	5/5	1/1
George Chien Cheng LIN	5/5	1/1
Non-executive Directors		
Robert Taylor NELSEN (Chairman)	5/5	1/1
Lian Yong CHEN (resigned on 16 March 2022)	1/1	–
Wei ZHAO (appointed on 16 March 2022)	4/4	1/1
Independent Non-executive Directors		
Walter Teh-Ming KWAUK (郭德明) (passed away on November 24, 2022)	5/5	1/1
William Robert KELLER	5/5	1/1
Junling LIU	5/5	1/1
Yiu Wa Alec TSUI	5/5	1/1

Board Committees

The Board has established four committees, namely, the Audit Committee, Remuneration Committee, Nomination Committee and Strategy 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 available on the Company's website and the Stock Exchange's website. The terms of reference of the Strategy Committee is available on the Company's website.

The list of the chairman and members of each Board committee is set out under "Corporate Information" in this annual report on page 2.

Audit Committee

The Company established the Audit Committee in compliance with Rules 3.21 and 3.22 of the Listing Rules and code provision D.3.3 of the CG Code.

During the Reporting Period, the Audit Committee consisted of three members, namely Mr. Walter Teh-Ming KWAUK, Mr. William Robert KELLER and Mr. Yiu Wa Alec TSUI, independent non-executive Directors. Mr. Walter Teh-Ming KWAUK is the chairman of the Audit Committee.

Following the passing away of Mr. Kwauk on 24 November 2022, the number of members who are independent non-executive directors in the Audit Committee of the Company will be reduced to two, which falls short of the requirement under Rule 3.21 of the Listing Rules where a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2).

The Company has complied with the requirements of Rules 3.21 and 3.10(2) of the Listing Rules since the appointment of Mr. Yiu Leung Andy CHEUNG, who possessing appropriate professional qualifications and relevant experience, as the independent non-executive director and Chairman of Audit Committee on January 1, 2023.

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 assist the Board in reviewing the financial information and reporting process, risk management and internal control systems, effectiveness of the internal audit function, scope of audit and appointment of external auditors, and arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

During the Reporting Period, the Audit Committee held 4 meetings to review the annual and interim reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems and internal audit function, appointment of external auditors, engagement of non-audit services, relevant scope of works, connected transactions and arrangements for employees to raise concerns about possible improprieties.

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

Name of Members of the Audit Committee	**Attendance**
Walter Teh-Ming KWAUK (Chairman)	4/4
William Robert KELLER	4/4
Yiu Wa Alec TSUI	4/4

Remuneration Committee

The Company established the Remuneration Committee in compliance with Rules 3.25 and 3.26 of the Listing Rules and code provision E.1.2 of the CG Code.

During the Reporting Period until November 24, 2022, the Remuneration Committee consisted of three members, namely Mr. William Robert KELLER, Mr. Junling LIU and Mr. Walter Teh-Ming KWAUK, independent non-executive Directors. Mr. William Robert KELLER is the chairman of the Remuneration Committee.

On January 1, 2023, Mr. Yiu Wa Alec Tsui, an independent non-executive Director, has been appointed as a member of the Remuneration Committee replacing Mr. Walter Teh-Ming KWAUK following his unfortunate passing away in November 24, 2022.

The terms of reference of the Remuneration Committee are of no less exacting terms than those set out in the CG Code. The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, the remuneration policy and structure for all Directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his associates will participate in deciding his own remuneration.

During the Reporting Period, the Remuneration Committee held 5 meetings to review and make recommendations to the Board on the remuneration policy and packages and other related matters.

Details of the remuneration of the senior management by band are set out in the section headed "Remuneration of Directors and Senior Management".

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

Name of Members of the Remuneration Committee	Attendance
William Robert KELLER (Chairman)	5/5
Walter Teh-Ming KWAUK	5/5
Lian Yong CHEN (resigned on 16 March 2022)	1/1
Mr. Junling LIU (appointed on 16 March 2022)	4/4

Nomination Committee

The Company established the Nomination Committee in compliance with code provisions B.3.1 of the CG Code.

During the Reporting Period, the Nomination Committee consisted of three members, namely Mr. Robert Taylor NELSEN, non-executive Director, Mr. Junling LIU and Mr. William Robert KELLER, independent non-executive Directors. Mr. Robert Taylor NELSEN is the chairman of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of Directors, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence, time commitment and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held 1 meeting to review the structure, size and composition of the Board and the independence of the independent non-executive Directors, and to consider the qualifications of the retiring directors standing for election at the annual general meeting. The Nomination Committee reviewed the board diversity policy and considered that an appropriate balance of diversity of perspectives of the Board is maintained.

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

Name of Members of the Nomination Committee	Attendance
Robert Taylor NELSEN (Chairman)	1/1
William Robert KELLER	1/1
Junling LIU	1/1

Board Diversity Policy

The Company has adopted a board diversity policy (the "Board Diversity Policy") which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

The Nomination Committee will review annually the structure, size and composition of the Board and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy. In relation to reviewing and assessing the Board composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry and regional experience.

The Board will consider setting measurable objectives to implement the Board Diversity Policy and review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives.

The Nomination Committee will review the Board Diversity Policy annually to ensure its effectiveness.

Gender Diversity

The Company values gender diversity across all levels of the Group. The following table sets out the gender ratio in the workforce of the Group, including the Board and senior management as at the date of this annual report:

	Female	Male
Board	12.5% (1)	87.5% (8)
Senior Management	14.3% (1)	85.7% (6)
Other employees	60% (82)	40% (55)
Overall workforce	55% (84)	45% (69)

The Board had targeted to achieve, and had achieved, its gender diversity target of at least 1 female Director, 1 female senior management and 50% female employees.

Director Nomination Policy

The Company has adopted a director nomination policy (the "Director Nomination Policy") which aims to set out the criteria and process in the nomination and appointment of directors of the Company, to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and to ensure the Board continuity and appropriate leadership at Board level.

The nomination process set out in the Director Nomination Policy is as follows:

Appointment of New Director

(i) The Nomination Committee and/or the Board may select candidates for directorship from various channels, including but not limited to internal promotion, re-designation, referral by other member of the management and external recruitment agents.

(ii) The Nomination Committee and/or the Board should, upon receipt of the proposal on appointment of new Director and the biographical information (or relevant details) of the candidate, evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

(iii) If the process yields one or more desirable candidates, the Nomination Committee and/or the Board should rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable).

(iv) The Nomination Committee should then recommend to the Board to appoint the appropriate candidate for directorship, as applicable.

(v) For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee and/or the Board should evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship.

Where appropriate, the Nomination Committee and/or the Board should make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

Re-election of Director at General Meeting

(i) The Nomination Committee and/or the Board should review the overall contribution and service to the Company of the retiring Director and the level of participation and performance on the Board.

(ii) The Nomination Committee and/or the Board should also review and determine whether the retiring Director continues to meet the criteria as set out above.

(iii) The Nomination Committee and/or the Board should then make recommendation to Shareholders in respect of the proposed re-election of Director at the general meeting.

Where the Board proposes a resolution to elect or re-elect a candidate as Director at the general meeting, the relevant information of the candidate will be disclosed in the circular to Shareholders and/or explanatory statement accompanying the notice of the relevant general meeting in accordance with the Listing Rules and/or applicable laws and regulations.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including but not limited to the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Diversity in all aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service;
- Requirements of independent non-executive Directors on the Board and independence of the proposed independent non-executive Directors in accordance with the Listing Rules; and
- Commitment in respect of available time and relevant interest to discharge duties as a member of the Board and/or Board committee(s) of the Company.

The Nomination Committee will conduct regular review on the structure, size and composition of the Board and the Director Nomination Policy and where appropriate, make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

During the year ended 31 December 2022, the Nomination Committee recommended to the Board the appointment of one Non-executive director and one Independent Non-executive Director, namely Wei ZHAO and Yiu Leung Andy CHEUNG. The appointments were subject to a stringent nomination process in accordance with the Director Nomination Policy and the Board Diversity Policy, to ensure the Board possesses the necessary skills, experience and knowledge in alignment with the Company's strategy.

Strategy Committee

During the Reporting Period, the Strategy Committee consists of three members, namely Dr. Li CHEN, Executive Director, Mr. Robert Taylor NELSEN, non-executive Director, and Mr. Junling LIU, independent non-executive Director. Dr. Li CHEN is the chairman of the Strategy Committee.

The principal duties of the Strategy Committee include considering, reviewing and advising on the mid-term and long-term development strategies of the Company's operations and to supervise or monitor the implementation of the development strategies and business plans.

During the Reporting Period, the Strategy Committee held 1 meeting to supervise and monitor the implementation of the development strategies and business plans of the Company.

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

Name of Members of the Strategy Committee	Attendance
Li CHEN (Chairman)	1/1
Robert Taylor NELSEN	1/1
Junling LIU	1/1

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision A.2.1 of the CG Code.

During the year ended December 31, 2022, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and written employee guidelines of the Company, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Risk Management and Internal Control

The Board acknowledges its responsibility in 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.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and overseeing the management in the design, implementation and monitoring of the risk management and internal control systems.

The Audit Committee assists the Board by forming independent opinion on financial reporting process and the effectiveness of internal control and risk assessment systems, supervises audit process and performs other duties assigned by the Board.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department has examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee.

During the Reporting Period, the Company has assessed the likelihood of risk occurrence, including providing the response plan to the global pandemic, adjusting and monitoring the risk management progress and has reported all the execution results and effectiveness of the systems to the Audit Committee and the Board.

The Company has adopted a series of internal control policies, procedures and programs designed to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control systems include the following:

Information Disclosure Policy – The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

Anti-Corruption Policy – The Company has developed anti-corruption policy to prohibit any form of fraud or bribery.

Anti-fraud Policy – The Company has developed anti-fraud policy to implement measures and prevent fraudulent behavior.

Whistleblower Policy – The Company has implemented measures that enable employees to raise concerns on improper conducts related to financial reports, internal control and other aspects, to ensure the strict compliance with the Company's code of conduct.

Employee Handbook – The Employee Handbook has been adopted to define the rights and obligations of both the company and employees, to maintain a normal working order in the organization, improve work efficiency and protect the legitimate rights and interests of employees.

Procedural Document Management Policy – The Company has implemented the policy to regulate the lifecycle management of procedural documents and ensure the compliance of various business processes.

Connected Transactions – The Company has adopted the policy to ensure connected transactions comply with the Listing Rules.

Internal Audit Policy – The Company has established the policy during Reporting Period to regulate internal audit procedures and define roles and responsibilities.

Departments also conduct trainings and assessment regularly to identify risks that potentially impact the business of the Group.

The Board, as supported by the Audit Committee as well as the management report and the internal audit findings, reviewed the risk management and internal control systems, including financial, operational and compliance controls, for the year ended December 31, 2022, and considered that such systems are effective and adequate.

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 66 to 70 of this annual report.

Auditors' Remuneration

The remuneration paid to Deloitte Touche Tohmatsu ("Deloitte"), the external auditors of the Company, in respect of audit services and non-audit services for the year ended December 31, 2022 amounted to RMB1.67 million and RMB0.8 million, respectively.

An analysis of the remuneration paid to Deloitte 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	1,672
Non-audit Services	
– Interim review	698
– Special review	58
	2,428

Remuneration of Directors and Senior Management

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management of the Group. Details of the remuneration by band of the members of the Board and senior management of the Company, whose biographies are set out on pages 20 to 26 of this annual report, for the year ended December 31, 2022 are set out below:

Remuneration band	Number of individuals
Below RMB2,500,000	0
RMB2,500,001 to RMB3,000,000	0
RMB3,000,001 to RMB3,500,000	1
RMB3,500,001 to RMB4,000,000	1
RMB4,000,001 to RMB4,500,000	1
RMB4,500,001 to RMB5,000,000	0
Above RMB5,000,000	4

Company Secretary

Ms. YUEN Wing Yan, Winnie ("Ms. Yuen") of Tricor Services Limited has been engaged by the Company as the Company's company secretary. Ms. Yuen's primary contact person at the Company is Mr. George Chien Cheng LIN, executive Director and Chief Strategy Officer.

Ms. Yuen has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of the relevant professional training during the year ended December 31, 2022.

Shareholders' Rights

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 is 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, Directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

To safeguard Shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Directors. 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

The Company's Shareholders may convene an extraordinary general meeting ("EGM") or put forward proposals at Shareholders' meetings as follows:

– Pursuant to Article 12.3 of the Company's Articles of Association, EGM shall convened on the written requisition of any two or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. EGM may also be convened on the written requisition of any one member which is a recognized clearing house (or its nominee(s)) deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting, the resolutions to be added to the meeting agenda, and signed by the requisitionist, provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the voting rights, on a one vote per share basis, in the share capital of the Company.

– Pursuant to Article 16.4 of the Articles of Association, no person shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

Putting Forwards Enquiries to the Board

For putting forward any enquiries to the Board of the Company, 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	:	Suite 2202, Methodist House 36 Hennessy Road Wanchai, Hong Kong (For the attention of the Head of China IR - Mr. Chengde WANG)
Tel	:	+86(21) 38101803
Email	:	ir@huamedicine.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.

Amendments to Constitutional Documents

During the Reporting Period , the Company amended its Memorandum and Articles of Association. Details of the amendments are set out in the circular of the dated April 19, 2022. The current version of the Company's Memorandum and Articles of Association is available on the Company's website and the Stock Exchange's website.

Communication with Shareholders and Investor Relations

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, directors (or their delegates as appropriate) are available to meet Shareholders and answer their enquiries.

Shareholders' Communication Policy

The Company has in place a shareholders' communication policy to ensure that Shareholders' views and concerns are appropriately addressed. The policy is available on the Company's website and annually reviewed by the Board to ensure its effectiveness.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HUA MEDICINE

(Incorporated in Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Hua Medicine (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 71 to 147, which comprise the consolidated statement of financial position as of December 31, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 of December 31, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Risk of misstatement of research and development expenses	
The Group incurred significant research and development ("R&D") expenses of approximately RMB130 million for the year ended December 31, 2022. R&D is considered as the key operating business of the Group during the reporting period. The recognition and allocation of R&D expenses mostly contributes to the financial performance. Among the Group's R&D expenses, the substantial portion are comprised of outsourced service expenses paid to contract research organizations ("CROs"), clinical site management operators ("SMOs"), and contract manufacturing organizations ("CMOs") (collectively referred as "Outsourced Service Providers") and staff cost related to R&D activities. We identified occurrence, accuracy, and classification of outsourced service expenses and R&D related staff cost as a key audit matter due to the potential significance of misstatements to the financial statements that could arise from recognising R&D expenses that did not occur, not accurately recognized or were not classified properly.	Our procedures included, among others: Obtain an understanding of key controls in relation to the recognition and allocation of outsourced service expenses and R&D related staff cost. **Outsourced service expenses** – Inquire the project managers and exam the relevant supporting documents to understand the progress of R&D projects; – Perform background check on the major Outsourced Service Providers; and – Check to agreements with the Outsourced Service Providers on a sample basis, and trace to the invoices or subsequent payments, to validate the occurrence of such expenses. **R&D related staff cost** – Obtain the list of R&D related staff and evaluate whether payroll expenses and share-based payment expenses recognized in R&D expenses are either directly attributed to or allocated on a reasonable basis for R&D activities by verifying the function of staff on a sample basis. For payroll expenses: – Perform substantial analytical procedure on payroll expenses; and – Trace the payroll payment, on a sample basis, to the relevant supporting documents.

Key audit matter	How our audit addressed the key audit matter
Risk of misstatement of research and development expenses	
	For share-based payment expenses: – Obtain the share option list of R&D related staff; – Check to the grant letters for share options newly granted in 2022, or supporting documents for share options either vested or forfeited on a sample basis; – Involve internal valuation specialists to review the fair value determination on newly granted share options made by external valuers on a sample basis; – Assess the reasonableness of forfeiture rates adopted by the management; and – Recalculate the share-based payment expense to evaluate the accuracy of the amount recognized.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance 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 IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Chan Men.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

March 29, 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2022

	Notes	Year ended December 31, 2022 RMB'000	2021 RMB'000
Revenue	6	17,599	–
Cost of sales		(9,910)	–
Gross profit		7,689	–
Other income	7	41,511	11,871
Other gains and losses	8	26,026	(10,373)
Administrative expenses		(129,931)	(134,835)
Finance costs	9	(3,667)	(3,950)
Selling expenses		(15,348)	–
Other expenses	10	(259)	(1,612)
Research and development expenses		(129,528)	(186,835)
Loss before tax	10	(203,507)	(325,734)
Income tax expense	11	–	–
Loss for the year		(203,507)	(325,734)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		94	454
Other comprehensive income for the year, net of income tax		94	454
Total comprehensive expense for the year		(203,413)	(325,280)
Loss per share	15	RMB	RMB
Basic and diluted		(0.21)	(0.34)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT DECEMBER 31, 2022

		As of December 31,	
		2022	2021
	Notes	RMB'000	RMB'000
Non-current assets			
Plant and equipment	17	53,855	57,942
Right-of-use assets	18	85,853	98,658
Intangible assets	19	31,952	9,026
Pledged bank deposits	22	3,130	3,130
Trade and other receivables	21	6,450	30,197
		181,240	198,953
Current assets			
Inventories	20	1,915	–
Trade and other receivables	21	441,192	24,666
Amounts due from related parties	30	1,822	–
Pledged bank deposits	22	4,696	4,696
Bank balances and cash	22	490,632	675,238
		940,257	704,600
Current liabilities			
Trade and other payables	23	79,111	79,738
Borrowings	24	33,923	–
Lease liabilities	25	21,490	13,296
Contract liabilities	26	43,303	–
Deferred income	27	10,559	13,850
		188,386	106,884
Net Current Assets		751,871	597,716
Total Assets Less Current Liabilities		933,111	796,669
Non-current liabilities			
Lease liabilities	25	42,169	58,232
Contract liabilities	26	606,248	283,019
Deferred income	27	5,114	5,087
		653,531	346,338
Net Assets		279,580	450,331

		As of December 31,	
		2022	**2021**
	Note	**RMB'000**	**RMB'000**
Capital and reserves			
Share capital	28	7,214	7,211
Treasury shares held in trust	28	(584)	(626)
Reserves		272,950	443,746
Equity attributable to owners of the Company		279,580	450,331
Total Equity		279,580	450,331

The consolidated financial statements on pages 71 to 147 were approved and authorized for issue by the directors of the Company on March 29, 2023 and are signed on its behalf by:

Dr. Li Chen
DIRECTOR

Mr. George Chien Cheng Lin
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2022

	Attributable to owners of the Company							
	Share capital RMB'000	Treasury shares held in trust RMB'000	Share premium RMB'000	Other reserve RMB'000	Share-based payments reserve RMB'000	Translation reserve RMB'000	Accumulated losses RMB'000	Total equity RMB'000
As of January 1, 2021	7,209	(690)	5,899,838	(9,392)	206,387	(453)	(5,370,404)	732,495
Loss for the year	–	–	–	–	–	–	(325,734)	(325,734)
Other comprehensive income for the year	–	–	–	–	–	454	–	454
Total comprehensive expense for the year	–	–	–	–	–	454	(325,734)	(325,280)
Exercise of share options (Note 28 (a/b))	2	51	10,419	(51)	–	–	–	10,421
Restricted stock units vested under the trust (Note 28 (c))	–	13	–	(13)	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	32,695	–	–	32,695
As of December 31, 2021	7,211	(626)	5,910,257	(9,456)	239,082	1	(5,696,138)	450,331
Loss for the year	–	–	–	–	–	–	(203,507)	(203,507)
Other comprehensive income for the year	–	–	–	–	–	94	–	94
Total comprehensive expense for the year	–	–	–	–	–	94	(203,507)	(203,413)
Exercise of share options (Note 28 (d/e))	3	32	11,383	(32)	–	–	–	11,386
Restricted stock units vested under the trust (Note 28 (f))	–	10	–	(10)	–	–	–	–
Recognition of equity-settled share-based payment	–	–	–	–	21,276	–	–	21,276
As of December 31, 2022	7,214	(584)	5,921,640	(9,498)	260,358	95	(5,899,645)	279,580

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2022

	Note	Year ended December 31 2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES			
Loss before tax		(203,507)	(325,734)
Adjustments for:			
Bank interest income		(4,240)	(5,036)
Income from government grants		(23,264)	(960)
Rent concession		–	(345)
Depreciation of equipment		11,592	11,984
Depreciation of right-of-use assets		19,002	18,853
Amortization of intangible assets		1,183	752
Finance costs		3,667	3,950
Share-based payment expense		21,276	32,695
Loss on disposal of equipment		–	76
Gain on termination of lease		–	(20)
Net unrealized foreign exchange (gains) losses		(28,691)	9,972
Operating cash flows before movements in working capital		(202,982)	(253,813)
Increase in trade and other receivables		(413,244)	(13,622)
Increase in amounts due from related parties		(1,822)	–
Increase in inventories		(1,895)	–
Decrease in trade and other payables		(7)	(2,514)
Decrease (increase) in value added tax recoverable		23,304	(3,032)
Increase in contract liabilities		366,532	–
NET CASH USED IN OPERATING ACTIVITIES		(230,114)	(272,981)
INVESTING ACTIVITIES			
Purchase of intangible assets		(22,909)	(6,391)
Purchase of plant and equipment		(4,558)	(20,196)
Net cash outflow on acquisition of a subsidiary	31	(706)	–
Proceeds from disposal of equipment		–	73
Payments for right-of-use assets		–	(40,304)
Payments for rental deposits		–	(77)
Placement of pledged bank deposits		–	(7,826)
Withdraw of rental deposits		–	814
Interest received from bank		3,421	5,688
Receipt of government grants		20,000	–
NET CASH USED IN INVESTING ACTIVITIES		(4,752)	(68,219)

	Note	Year ended December 31 2022 RMB'000	 2021 RMB'000
FINANCING ACTIVITIES			
Proceeds from borrowings		28,923	–
Proceeds from exercise of share options		11,001	10,349
Payments for bank interests		(88)	–
Repayments of lease liabilities		(18,360)	(16,483)
NET CASH FROM(USED IN) FINANCING ACTIVITIES	36	21,476	(6,134)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(213,390)	(347,334)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		675,238	1,032,090
Effect of exchange rate changes		28,784	(9,518)
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		490,632	675,238

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2022

1. General information

Hua Medicine (the "Company") was established in the Cayman Islands as an exempted company with limited liability on November 10, 2009, and its shares are listed on The Stock Exchange of Hong Kong Limited on September 14, 2018 (the "Listing Date"). The address of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the annual report. The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as "Group") are principally engaged in development and commercialization of a global first-in-class oral drug, Dorzagliatin or HMS5552, for the treatment of Type 2 diabetes.

The consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

2. Application of amendments to international financial reporting standards ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2022 for the preparation of the consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of these amendments to IFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. Application of amendments to international financial reporting standards ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[3]
Amendments to IAS 1	Non-current Liabilities with Covenants[3]
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to IAS 8	Definition of Accounting Estimates[1]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

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

2 Effective for annual periods beginning on or after a date to be determined

3 Effective for annual periods beginning on or after January 1, 2024

Except for the new and amendments to IFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. Application of amendments to international financial reporting standards ("IFRSs") (Continued)

New and amendments to IFRSs in issue but not yet effective (Continued)

Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of IAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

As disclosed in note 3 to the consolidated financial statements, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognized due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognize a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on January 1, 2023. As at December 31, 2022, the carrying amounts of right-of-use assets and lease liabilities which are subject to the amendments amounted to RMB46,691,000 and RMB63,659,000 respectively, in which the Group will recognize the related deferred tax assets and deferred tax liabilities of RMB7,004,000 and RMB7,004,000 respectively. Deferred tax assets will be recognized to the extent of the deferred tax liabilities being recognized only due to the unpredictability of future profit streams. Upon the application of the amendments, there is no impact on the opening balance of retained earnings.

3. Basis of preparation of consolidated financial statements and significant accounting policies

3.1 Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.1 Basis of preparation of consolidated financial statements (Continued)

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with IFRS 16 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3.2 Significant accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Basis of consolidation (Continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

A business is an integrated set of activities and assets which includes an input and a substantive process that together significantly contribute to the ability to create outputs. The acquired processes are considered substantive if they are critical to the ability to continue producing outputs, including an organized workforce with the necessary skills, knowledge, or experience to perform the related processes or they significantly contribute to the ability to continue producing outputs and are considered unique or scarce or cannot be replaced without significant cost, effort, or delay in the ability to continue producing outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

For business combinations in which the acquisition date is on or after January 1, 2022, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the *Conceptual Framework for Financial Reporting* issued by IASB in March 2018 (the "Conceptual Framework") except for transactions and events within the scope of IAS 37 or IFRIC 21, in which the Group applies IAS 37 or IFRIC 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination. Contingent assets are not recognized.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date (see the accounting policy below);

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard; and

- lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the products underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Except for granting of a licence that is distinct from other promised goods or services, control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Revenue from contracts with customers (Continued)

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

For granting of a license that is distinct from other promised goods or services, the nature of the Group's promise in granting a license is a promise to provide a right to access the Group's intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the license directly expose the customer to any positive or negative effects of the Group's activities; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group accounts for the promise to grant a license as a performance obligation satisfied over time. Otherwise, the Group considers the grant of license as providing the customers the right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the license is granted

A contract liability represents the Group's obligation to transfer products to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Leases

Definition of 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.

For contracts entered into or modified on or after the date of initial application of IFRS 16 or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

Short-term leases

The Group applies the short-term lease recognition exemption to leases vehicles and apartments that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from Covid-19-related rent concessions in which the Group applied the practical expedient.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Right-of-use assets (Continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liabilities at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Leases (Continued)

The Group as a lessee (Continued)

Lease liabilities (Continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

Except for Covid-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liabilities, less any lease incentives receivable, based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Covid-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the Covid-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying IFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognized in the profit or loss in the period in which the event occurs.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise (Note 8).

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

All borrowing costs not directly attributable to the acquisition, construction or production of qualifying assets are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Government grants (Continued)

Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Employee benefits

Retirement benefit costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries) after deducting any amount already paid.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Share-based payments

Equity-settled share-based payment transactions

Share options/restricted stock units granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments is determined at the grant date without taking into consideration all non-market vesting conditions and the equity-settled share-based payments are expensed by tranche (each date on which any portion of option granted shall be vested is hereinafter referred to as a "Vesting Date" and each tranche on which any portion of option granted shall be vested is hereinafter referred to as a "Tranche") on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payment reserve). At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share-based payments reserve.

When the share options are exercised or when the restricted stock units are vested, the Company transfers the treasury shares into ordinary shares or issues new ordinary shares, and the amount previously recognized in the share-based payments reserve will continue to be held in share-based payments reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in the share-based payment reserve will continue to be held in share-based payments reserve.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Share-based payments (Continued)

Share options granted to non-employees

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognized as expenses (unless the goods or services qualify for recognition as assets).

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before tax" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Taxation (Continued)

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to the assets and the related liabilities separately. Temporary differences on initial recognition of the relevant assets and the related liabilities are not recognized due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of the assets and the related liabilities, resulting from remeasurement of the liabilities and lease modifications, that are not subject to initial recognition exemption are recognized on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Plant and equipment

Plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes and leasehold improvement in the course of construction are carried at cost, less any recognized impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, including costs of testing whether the related assets is functioning properly and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Sale proceeds of items that are produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management (such as samples produced when testing whether the asset is functioning properly), and the related costs of producing those items are recognized in the profit or loss. The cost of those items are measured in accordance with the measurement requirements of IAS 2. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Intangible assets (Continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible assets so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible assets;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognized separately from goodwill and are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortization and any accumulated impairment losses and, on the same basis as intangible assets that are acquired separately.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Impairment on plant and equipment, right-of-use assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its plant and equipment, right-of-use assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of plant and equipment, right-of-use assets and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In testing a cash-generating unit for impairment, corporate assets are allocated to the relevant cash-generating unit when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Impairment on plant and equipment, right-of-use assets and intangible assets other than goodwill (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Cash and cash equivalents

Cash and cash equivalents presented on the consolidated statement of financial position include:

(a) cash, which comprises of cash on hand and demand deposits, excluding bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash; and

(b) cash equivalents, which comprises of short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur to make the sale.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributed to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "other income" line item.

Impairment of financial assets subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including bank balances, pledged bank deposits, trade and other receivables, amounts due from related parties) which are subject to impairment assessment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets subject to impairment assessment under IFRS 9 (Continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and amounts due from related parties. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless there has been a significant increase in credit risk since initial recognition, in which case the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

a) significant financial difficulty of the issuer or the borrower;

b) a breach of contract, such as a default or past due event;

c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of other receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Measurement and recognition of ECL (Continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and amounts due from related parties where the corresponding adjustment is recognized through a loss allowance account.

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 derecognized (i.e., removed from the Group's consolidated balance sheet) when the rights to receive cash flows from the asset have expired.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities held by the Group are subsequently measured at amortized cost using the effective interest method.

3. Basis of preparation of consolidated financial statements and significant accounting policies (Continued)

3.2 Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Treasury shares

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

4. Critical accounting judgements and key source of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgement in applying accounting policies

The following is the critical judgement, which has the most significant effect on the amounts recognized in the consolidated financial statements.

4. Critical accounting judgements and key source of estimation uncertainty (Continued)

Critical judgement in applying accounting policies (Continued)

Internal generated research and development expenses

Internal generated development expenses incurred on the Group's drug product pipelines are capitalized 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, the Group's intention to complete and the Group's ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the pipeline and the ability to measure reliably the expenditure during the development. Internal generated research and development expenses which do not meet these criteria are expensed when incurred. Determining the amounts to be capitalized requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. After assessment, the directors of the Company conclude that all expenses incurred for research and development activities were regarded as research and development expenses which did not meet these criteria and therefore were expensed when incurred.

Key source of estimation uncertainty

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

Deferred tax assets

As at December 31, 2022, no deferred tax asset has been recognized on the tax losses of RMB1,439,039,000 and other deductible temporary differences of RMB685,874,000. The realizability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a recognition takes place.

5. Segment information

For the purpose of resources allocation and performance assessment, the Group's chief executive officer, being the chief operating decision maker, reviews the consolidated results when making decisions about allocating resources and assessing performance of the Group as a whole and hence, the Group has only one reportable segment and no further analysis of this single segment is presented.

All revenue from external customers are all derived from the PRC and all non-current assets of the Group are located in the PRC.

Revenue from customer of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Customer A	8,272	N/A
Customer B	3,120	N/A

6. Revenue

The following is an analysis of the Group's revenue：

(i) Disaggregation of revenue from contracts with customers

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Timing of revenue recognition		
At a point in time		
Sales of pharmaceutical products	17,599	–

(ii) Performance obligations for contracts with customers

For the sale of pharmaceutical products, revenue is recognized when control of the goods has transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customers have the primary responsibility when selling the goods and bears the risks of obsolescence and loss in relation to the goods. A receivable is recognized by the Group when the goods are delivered to customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The normal credit term is 60 days upon delivery. Customers can only return or request refund if the goods delivered do not meet required quality standards. Therefore, the probability of the significant reversal in revenue in relation to sales return in the future is remote.

7. Other income

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Bank interest income	4,240	5,036
Government grants and subsidies (Note a)	26,445	6,490
Amortization of payments received for exclusive promotion rights granted (Note b)	10,826	–
Rent concession	–	345
	41,511	11,871

Note a: The amount mainly represents 1) government grant related to income received as compensation for future research and development costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income were recorded in deferred income when received and recognized in profit or loss when related costs were subsequently incurred and the Group received government acknowledge of compliance; and 2) amortisation of subsidies received from the PRC local government authorities to subsidize the purchase of the Group's leasehold improvement, furniture, fixture and equipment.

Note b: The amount represents the amortization of advance payments received to grant the promotion rights to an independent third party on dorzagliatin over the agreed exclusive promotion period.

8. Other gains and losses

Other gains and losses mainly represent the foreign exchange gains and losses during the years ended December 31, 2022 and 2021.

9. Finance costs

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Interest on lease liabilities	3,547	3,950
Interest on borrowings	120	–
	3,667	3,950

10. Loss before tax

Loss before tax for the year has been arrived at after charging (crediting):

	Year ended December 31	
	2022	2021
	RMB'000	RMB'000
Depreciation of plant and equipment	11,592	11,984
Depreciation of right-of-use assets	19,808	19,189
Amortization of intangible assets	1,183	752
Total depreciation and amortization	32,583	31,925
Capitalized in construction in progress	(806)	(336)
	31,777	31,589
Other expenses (Note a)	259	1,612
Staff costs (including directors' emoluments):		
– Salaries and other benefits	133,964	130,579
– Retirement benefit scheme contributions	11,466	11,162
– Share-based payment	21,276	32,695
	166,706	174,436
Covid-19-related rent concessions	–	(345)
Auditors' remuneration		
– Audit services	1,672	1,670
– Non-audit services	756	906
	2,428	2,576
Expense relating to short-term leases (Note 18)	767	1,316

Note a: In 2022, the amount mainly represents the acquisition-related costs disclosed in Note 31. Except for the foregoing, the Company had no other expenses in 2022, as compared to 2021, when US$0.25 million (equivalent to RMB1,612,000) was donated for establishing a Type 2 diabetes research fund in the Department of Biochemistry and Biophysics at the Raymond and Ruth Perelman School of Medicine of the University of Pennsylvania, USA.

11. Income tax expense

The Company was incorporated in the Cayman Islands and is exempted from income tax.

No Hong Kong profit tax was provided for as there was no estimated assessable profit of the Group's Hong Kong subsidiary that was subject to Hong Kong profit tax during the reporting period.

Under the Law of the PRC of Enterprise Income tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiary is 25% during the reporting period, except for Hua Shanghai.

Hua Shanghai has been certified as a "High and New Technology Enterprise" by the Science and Technology Committee of Shanghai and relevant authorities on December 14, 2022 for a term of three years from 2022 to 2024, and registered with the PRC tax authorities for enjoying a reduced 15% EIT rate. Accordingly, the profits derived by Hua Shanghai is subject to 15% EIT rate for the year 2022. The qualification as a High and New Technology Enterprise will be subject to review by the PRC tax authorities every three years.

The subsidiary incorporated in the United States are subject to Federal and State Income taxes: the effective combined income tax rate is 21% for the year ended December 31, 2022.

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended December 31	
	2022	**2021**
	RMB'000	**RMB'000**
Loss before tax	203,507	325,734
Income tax credit calculated at 25%	(50,877)	(81,434)
Tax effect of income not taxable for tax purpose	(8,951)	(295)
Tax effect of expenses that are not deductible for tax purpose	17,811	18,911
Effect of research and development expenses that are additionally deducted	(17,012)	(26,846)
Effect of other deductible temporary differences not recognized	95,102	1,240
Utilization of deductible temporary differences previously not recognized	(2,340)	–
Utilization of tax losses previously not recognized	(36,561)	–
Effect of tax losses not recognized	2,828	88,424
Income tax expenses recognized in profit or loss	–	–

11. Income tax expense (Continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	As of December 31,	
	2022	2021
	RMB'000	RMB'000
Deferred tax assets	4,083	–
Deferred tax liabilities	(4,083)	–
	–	–

At the end of the reporting period, the Group has deductible temporary differences of RMB 685,874,000 (2021: RMB 314,826,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has unused tax losses of approximately RMB1,466,262,000 (2021: RMB1,584,355,000) available for offset against future profits. A deferred tax asset has been recognized in respect of approximately RMB27,223,000 (2021: nil) of such losses. No deferred tax asset has been recognized in respect of the remaining approximately RMB1,439,039,000 (2021: RMB1,584,355,000) due to the unpredictability of future profit streams.

The unrecognized tax losses will be carried forward and expire in years as follows:

	As of December 31	
	2022	2021
	RMB'000	RMB'000
2022	–	203,120
2023	–	439,116
2024	–	493,907
2025	–	75,949
2026	793	360,190
2027	85,146	–
2028	439,116	–
2029	493,907	–
2030	75,949	–
2031	321,616	–
2032	986	–
Indefinite	21,526	12,073
	1,439,039	1,584,355

12. License agreement

In December 2011, the Group entered into a research, development and commercialization agreement ("GKA Agreement") with Hoffman-La Roche Inc., and F. Hoffman-La Roche AG (collectively referenced as "Roche") under which Roche granted the Group an exclusive license of patent rights, know-how and regulatory filings with respect to a compound which is a glucokinase activator to research, develop and commercialize products ("Licensed Product") in the field of diabetes in the licensed territory ("Licensed Territory"). Pursuant to the GKA Agreement, the Group made US$2,000,000 non-refundable upfront payment to Roche in 2012.

In 2017, the Group made US$1,000,000 milestone payment to Roche upon the commencement of clinical trial Phase III in the PRC (excluding Hong Kong and Macau) for the Licensed Product.

In 2021, the Group made US$1,000,000 milestone payment to Roche upon New Drug Application ("NDA") filing in the PRC (excluding Hong Kong and Macau) to the National Medical Products Administration.

In 2022, the Group made US$3,000,000 milestone payments to Roche upon the achievement of development of the Licensed Product through new drug approval in the PRC (excluding Hong Kong and Macau).

The Group is further obligated to make US$33,000,000 milestone payments upon the achievement of development of the Licensed Product through new drug approval in the Licensed Territory other than the PRC (excluding Hong Kong and Macau). Upon commercialization, the Group is contingently obligated to make US$15,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$500,000,000 and US$40,000,000 milestone payments for the first time when the territory-wide calendar year net sales exceed US$1,000,000,000. The Group is also obligated to make royalty payments at the applicable incremental royalty rate based on sales of the Licensed Product.

13. Directors' and chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company for the service provided to the Group during the reporting period are as follows:

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2022						
Executive directors						
Dr. Li CHEN*	–	5,047	6,018	153	11,412	22,630
Mr. George Chien Cheng LIN	–	3,445	2,323	15	251	6,034
Non-executive directors						
Mr. Robert T. NELSEN	–	–	–	–	–	–
Dr. Lian Yong CHEN (Note i)	–	–	–	–	–	–
Ms. Wei ZHAO (Note ii)	356	–	–	–	–	356
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK (Note iii)	495	–	–	–	–	495
Mr. William Robert KELLER	540	–	–	–	–	540
Mr. Junling LIU	450	–	–	–	–	450
Mr. Yiu Wa Alec TSUI	450	–	–	–	–	450
	2,291	8,492	8,341	168	11,663	30,955

13. Directors' and chief executive's emoluments (Continued)

	Fees RMB'000	Salaries and other benefits RMB'000	Performance based bonus RMB'000	Retirement benefit scheme contributions RMB'000	Share-based payment RMB'000	Total RMB'000
For the year ended December 31, 2021						
Executive directors						
Dr. Li CHEN*	–	4,646	5,424	139	13,647	23,856
Mr. George Chien Cheng LIN	–	3,382	1,626	15	2,063	7,086
Non-executive directors						
Mr. Robert T. NELSEN	–	–	–	–	–	–
Dr. Lian Yong CHEN	–	–	–	–	–	–
Independent non-executive directors						
Mr. Walter Teh-Ming KWAUK	540	–	–	–	–	540
Mr. William Robert KELLER	540	–	–	–	–	540
Mr. Junling LIU	450	–	–	–	–	450
Mr. Yiu Wa Alec TSUI	450	–	–	–	–	450
	1,980	8,028	7,050	154	15,710	32,922

* Chief Executive Officer

Notes:

(i) Dr. Lian Yong CHEN has tendered his resignation from the office of a non-executive director and as a member of the board's remuneration committee on March 16, 2022 with immediate effect.

(ii) Ms. Wei ZHAO was appointed as a non-executive director with effect from March 16, 2022.

(iii) Mr. Walter Teh-Ming KWAUK was an independent non-executive director until November 24, 2022 on which day he passed away.

The executive directors' emoluments shown above were for their service in connection with the management of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

None of the directors of the Company has waived any emoluments during the reporting period.

13. Directors' and chief executive's emoluments (Continued)

Certain directors of the Company were granted share options and restricted stock units in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 29.

During the year, there were no loans, quasi-loans or other dealings in favor of the directors, their controlled bodies corporate and connected entities (2021: nil).

14. Five highest paid employees

The five highest paid individuals of the Group included two directors of the Company (2021: two), details of whose remuneration are set out in Note 13 above. Details of the remuneration for the remaining three highest paid employees (2021: three) are as follows:

	Year ended December 31	
	2022	**2021**
	RMB'000	**RMB'000**
Salaries and other benefits	7,287	7,626
Retirement benefit scheme contributions	458	416
Performance based bonus	3,519	3,832
Share-based payment	4,158	2,781
	15,422	14,655

The number of these employees (including directors) whose remuneration fell within the following bands is as follows:

	Year ended December 31	
	2022	**2021**
	No. of employees	**No. of employees**
Hong Kong Dollars ("HK$")		
HK$5,000,001 to HK$5,500,000	1	2
HK$6,000,001 to HK$6,500,000	1	–
HK$6,500,001 to HK$7,000,000	2	1
HK$8,000,001 to HK$8,500,000	–	1
HK$25,500,001 to HK$26,000,000	1	–
HK$28,000,001 to HK$28,500,000	–	1

Certain non-directors highest paid employees were granted share options in respect of their services to the Group. Details of the share-based payment transactions are set out in Note 29.

15. Loss per share

The calculation of the basic and diluted loss per share attributable to the owners of the Company is based on the following data:

Loss figures are calculated as follows:

	Year ended December 31	
	2022	**2021**
	RMB'000	**RMB'000**
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	(203,507)	(325,734)

Number of Shares:

	Year ended December 31	
	2022	**2021**
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	966,730,201	957,488,541

The computation of basic loss per share for the years ended December 31, 2022 and 2021 respectively excluded the unvested restricted stock units of the Company. Details of these restricted stock units are set out in Note 29.

The computation of diluted loss per share for the year ended December 31, 2022 and 2021 did not assume the exercise of share options and vesting of restricted stock units since their assumed exercise would result in a decrease in loss per share.

16. Dividends

No dividend was paid or declared by the Company during the years ended December 31, 2022 and 2021.

17. Plant and equipment

	Motor vehicles RMB'000	Experimental equipment RMB'000	Furniture fixtures and equipment RMB'000	Leasehold improvement RMB'000	Construction in progress ("CIP") RMB'000	Total RMB'000
Cost						
At January 1, 2021	1,334	6,026	12,880	39,257	850	60,347
Additions	–	163	1,666	226	18,679	20,734
Transfer from CIP	–	–	35	576	(611)	–
Disposals	–	–	(497)	–	–	(497)
At December 31, 2021	1,334	6,189	14,084	40,059	18,918	80,584
Additions	–	6	369	575	3,124	4,074
Acquired on acquisition of a subsidiary	–	684	51	2,696	–	3,431
Transfer from CIP	–	742	–	–	(742)	–
At December 31, 2022	1,334	7,621	14,504	43,330	21,300	88,089
Accumulated depreciation						
At January 1, 2021	917	878	5,816	3,395	–	11,006
Charge for the year	152	839	3,015	7,978	–	11,984
Disposals	–	–	(348)	–	–	(348)
At December 31, 2021	1,069	1,717	8,483	11,373	–	22,642
Charge for the year	114	954	2,633	7,891	–	11,592
At December 31, 2022	1,183	2,671	11,116	19,264	–	34,234
Carrying amount						
At December 31, 2022	151	4,950	3,388	24,066	21,300	53,855
At December 31, 2021	265	4,472	5,601	28,686	18,918	57,942

The above items of plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Motor vehicles	4 years
Experimental equipment	3-7 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvement	Over the shorter of the lease term or five years

18. Right-of-use assets

	Leasehold lands RMB'000	Leasehold buildings RMB'000	Total RMB'000
As of December 31, 2022			
Carrying amount	39,162	46,691	85,853
As of December 31, 2021			
Carrying amount	39,968	58,690	98,658
For the year ended December 31, 2022			
Depreciation charge	806	19,002	19,808
Capitalized in construction in progress	(806)	–	(806)
	–	19,002	19,002
For the year ended December 31, 2021			
Depreciation charge	336	18,853	19,189
Capitalized in construction in progress	(336)	–	(336)
	–	18,853	18,853

	Year ended December 31	
	2022 RMB'000	2021 RMB'000
Expense relating to short-term leases (Note (a))	767	1,316
Total cash outflow for leases (Note (b))	19,127	58,103
Additions to right-of-use assets	7,003	44,357
Decrease in right-of-use assets due to early termination	–	(687)

Notes:

(a) The Group regularly entered into short-term leases for motor vehicles and apartments. As of December 31, 2022, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

(b) Amount includes payments of leasehold lands, principal and interest portion of lease liabilities and short-term leases.

For both years, the Group leases various offices, apartments and vehicles for its operations. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

18. Right-of-use assets (Continued)

Restrictions or covenants on leases

Lease liabilities of RMB63,659,000 are recognized with related right-of-use assets of RMB46,691,000 as of December 31, 2022 (2021: Lease liabilities of RMB71,528,000 are recognized with related right-of-use assets of RMB58,690,000). The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Rent concessions

During the year ended December 31, 2021, lessors of the certain office building provided rent concessions to the Group. These rent concessions incurred as a direct consequence of Covid-19 pandemic and met of all of the conditions in IFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. In 2022, the effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of nil (2021: RMB345,000) were recognized as negative variable lease payments.

19. Intangible assets

	Intellectual property (Note 12) RMB'000	Software RMB'000	Knowhow RMB'000	Total RMB'000
Cost				
As of January 1, 2021	–	3,867	–	3,867
Additions	6,391	–	–	6,391
As of December 31, 2021	6,391	3,867	–	10,258
Additions	21,530	1,379	–	22,909
Acquired on acquisition of a subsidiary	–	–	1,200	1,200
As of December 31, 2022	27,921	5,246	1,200	34,367
Amortization				
As of January 1, 2021	–	480	–	480
Charge for the year	–	752	–	752
As of December 31, 2021	–	1,232	–	1,232
Charge for the year	698	475	10	1,183
As of December 31, 2022	698	1,707	10	2,415
Carrying amount				
As of December 31, 2022	27,223	3,539	1,190	31,952
As of December 31, 2021	6,391	2,635	–	9,026

19. Intangible assets (Continued)

The above items of intangible assets have finite useful lives. Such intangible assets are amortized on a straight-line basis over the following periods since they are available for use:

Intellectual property	10 years
Software	8-10 years
Knowhow	10 years

20. Inventories

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Raw materials and consumables	1,470	–
Work in progress	368	–
Finished goods	77	–
	1,915	–

21. Trade and other receivables

	As of December 31, 2022 RMB'000	2021 RMB'000
Trade receivables	11,121	–
Prepayments for research and development services	3,969	14,303
Prepayment for raw materials and manufacture services	16,542	–
Utility and rental deposits	5,490	5,271
– non-current	4,887	4,609
– current	603	662
Value add tax ("VAT") recoverable	1,638	24,942
– non-current	1,133	24,942
– current	505	–
Interest receivables	871	52
Other receivables for considerations of options exercised	744	359
Others	7,267	9,936
– non-current	430	646
– current	6,837	9,290
Receivables arising from exclusive promotion rights (Note 26)	400,000	–
	447,642	54,863
Analysis as		
– non-current	6,450	30,197
– current	441,192	24,666
	447,642	54,863

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables, presented based on invoice date:

	As of December 31, 2022 RMB'000	2021 RMB'000
0-60 days	10,982	–
61-90 days	139	–
	11,121	–

21. Trade and other receivables (Continued)

As at December 31, 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB139,000 (2021: nil) which are past due, out of which nil (2021: nil) is past due over 90 days as at reporting date. The Group maintains adequate credit policy to access the credit quality of the customers and closely monitored to minimize any credit risk associated with the trade debtors. The Group's customers have strong financial capacity.

Details of impairment assessment of trade and other receivables are set out in Note 34.

22. Bank balances and cash/pledged bank deposits

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of six months or less. The short term bank deposits carry interests at market rates which ranged from 0.001% to 4.03% as of December 31, 2022 (2021: 0.001% to 1.95%) per annum.

Pledged bank deposits are for the performance guarantees to the Management Committee of Lingang New Area, Shanghai Pilot Free Trade Zone, China to secure commencement and completion of the factory construction and launch of production.

Deposits amounting to RMB4,696,000 (2021: RMB4,696,000) carry fixed interest rate of 1.50% and have been pledged to secure commencement of the factory construction. These deposits will be released within 10 working days upon the commencement of the factory construction. Deposits amounting to RMB1,565,000 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and have been pledged to secure completion of the factory construction. These deposits will be released within 10 working days upon the completion of the factory construction, if such completion is before May 13, 2024. The remaining deposits amounting to RMB1,565,000 (2021: RMB1,565,000) carry fixed interest rate of 2.75% and have been pledged to secure production of the factory. These deposits will be released within 10 working days upon the launch of production, if such launch is before November 12, 2024.

Bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
US$	196,872	362,793
HK$	43,944	40,487
Taiwan Dollars ("TWD")	3	3

23. Trade and other payables

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Trade payables	20,982	23,785
Other payables	2,553	4,071
Accrued leasehold improvement expenditure	1,468	1,604
Construction expenditure payables	9,828	10,982
Payroll and bonus payables	38,342	32,149
Others	5,906	7,147
Interest Payable	32	–
	79,111	79,738

The average credit period on purchases of goods/services ranges up to 30 days.

The ageing analysis of the trade payables presented based on the invoice date at the end of reporting period is as follows:

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Uninvoiced or within 30 days	20,792	23,785
31 to 60 days	190	–
	20,982	23,785

Analysis of trade and other payables denominated in currency other than the functional currencies of the relevant group entities is set out below:

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
US$	45	339

24. Borrowings

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Unsecured bank loans	33,923	–

In November 2022, the Group entered into a short-term loan agreement with a PRC bank which provided a loan facility amounted to RMB100,000,000. As at December 31, 2022, the Group has drawn down RMB28,923,000 with a fixed interest rate of 3.60%, which will be due within one year after the first drawn down date. As at December 31, 2022, the Group undertook the short-term loan amounting to RMB5,000,000 with a fixed interest rate of 4.35%, of which will be due within one year due to acquisition of a subsidiary disclosed in Note 31.

25. Lease liabilities

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Lease liabilities payable:		
Within one year	21,490	13,296
Within a period of more than one year but not more than two years	22,961	19,020
Within a period of more than two years but not more than five years	19,208	39,212
	63,659	71,528
Less: Amount due for settlement with 12 months shown under current liabilities	(21,490)	(13,296)
Amount due for settlement after 12 months shown under non-current liabilities	42,169	58,232

The incremental borrowing rates applied to lease liabilities range from 4.89% to 5.34% (2021: from 4.89% to 5.34%).

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	HK$ RMB'000
As of December 31, 2022	664
As of December 31, 2021	262

26. Contract liabilities

	As of December 31, 2022 RMB'000	2021 RMB'000
Advance from a customer for exclusive promotion rights	649,551	283,019
Analysis as		
– non-current	606,248	283,019
– current	43,303	–
	649,551	283,019

On August 17, 2020, the Group entered into an exclusive promotion service agreement with an independent third party under which the Group granted the exclusive promotion rights on dorzagliatin. Pursuant to the agreement, the Group is entitled to an upfront payment and additional milestone payments, while the counterparty receives the exclusive rights to commercialize the product in China and will receive tiered service fee based on the net sales. In August 2020, the Group received the non-refundable upfront payment, amounting to RMB300,000,000. The VAT-excluded amount was recognized in contract liabilities as RMB283,019,000 and amortized upon NDA approval within the agreed exclusive promotion period. In October 2022, the Group was further entitled to an aggregate milestone payment of RMB400,000,000 upon the receipt of dorzagliatin approval and commercialization. The VAT-excluded amount was recognized in contract liabilities as RMB377,358,000 and amortized upon NDA approval within the agreed exclusive promotion period.

27. Deferred income

	As of December 31, 2022 RMB'000	2021 RMB'000
Government grants received		
R&D activities related grants (Note i)	2,250	18,937
Assets-related grants (Note ii)	13,423	–
	15,673	18,937
Less: current liabilities	(10,559)	(13,850)
Non-current liabilities	5,114	5,087

27. Deferred income (Continued)

Notes:

i: The deferred income represents the government grants received from the local government to support the research and development activities of the Group. The grants will be recognized in profit or loss as other income upon the Group complying with the conditions attached to the grants and the government acknowledged acceptance.

ii: The asset-related grants amounting to RMB20,000,000 are the subsidies received from the government during the current reporting period. The amount is for the purpose of compensation for leasehold improvement, furniture, fixture and equipment purchased by the Group in prior years. Amortisation of RMB6,577,000 was recognized in profit or loss during the current reporting period and the remaining balance will be recognized in profit or loss over the remaining useful lives of the corresponding assets.

28. Share capital

The details of the changes of the Company's authorized and issued and fully paid ordinary shares during the year ended December 31, 2022 and 2021 are set out as below:

	Authorized Number of shares	US$
Ordinary shares of US$0.001 each		
As of January 1, 2021, December 31, 2021 and December 31, 2022	2,000,000,000	2,000,000

	Issued and fully paid Number of shares	US$	Shown in the consolidated statement of financial position as RMB'000
Ordinary shares of US$0.001 each			
As of January 1, 2021	1,054,893,800	1,054,894	7,209
Issue of shares (Note (b))	243,461	243	2
As of December 31, 2021	1,055,137,261	1,055,137	7,211
Issue of shares (Note (e))	451,500	452	3
As of December 31, 2022	1,055,588,761	1,055,589	7,214

28. Share capital (Continued)

The details of the treasury shares held in trust are set out as below:

	Number of treasury shares	US$	Shown in the consolidated statement of financial position as RMB'000
Treasury shares held in trust as of January 1, 2021	100,910,741	100,910	690
Options exercised to purchase ordinary shares under the trust (Note (a))	(7,467,117)	(7,467)	(51)
Restricted stock units vested under the trust (Note (c))	(1,855,752)	(1,856)	(13)
Treasury shares held in trust as of December 31, 2021	91,587,872	91,587	626
Options exercised to purchase ordinary shares under the trust (Note (d))	(4,718,067)	(4,718)	(32)
Restricted stock units vested under the trust (Note (f))	(1,391,781)	(1,392)	(10)
Treasury shares held in trust as of December 31, 2022	85,478,024	85,477	584

As of December 31, 2022 and 2021, shares are held in trust including 85,478,024 and 90,196,091 shares for outstanding options (including forfeited and lapsed shares of 457,206 and 943,360 due to the resignation of certain employees in 2022 and 2021 which were originally entitled to these employees, respectively) and nil and 1,391,781 shares for unvested restricted stock units and are disclosed separately in treasury shares since the Company has control over the Nominee in 2022 and 2021, respectively.

Notes:

(a) During the year ended December 31, 2021, several employees exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 7,467,117 ordinary shares of the Company at the average exercise price of HK$1.55 per share for an aggregate consideration equivalent to RMB9,729,000.

(b) During the year ended December 31, 2021, several employees exercised their right, evidenced by corresponding option agreements under the Company's Post-IPO Share Incentive Scheme, to subscribe 243,461 ordinary shares of the Company at the average exercise price of HK$3.37 per share for an aggregate consideration equivalent to RMB692,000.

(c) During the year ended December 31, 2021, 1,855,752 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US$0.001 each.

(d) During the year ended December 31, 2022, several employees and consultants exercised their right, evidenced by corresponding option agreements under the Company's Pre-IPO Share Incentive Scheme, to subscribe 4,718,067 ordinary shares of the Company at the average exercise price of HK$2.43 per share for an aggregate consideration equivalent to RMB9,970,000.

(e) During the year ended December 31, 2022, several employees exercised their right, evidenced by corresponding option agreements under the Company's Post-IPO Share Incentive Scheme, to subscribe 451,500 ordinary shares of the Company at the average exercise price of HK$3.62 per share for an aggregate consideration equivalent to RMB1,416,000.

(f) During the year ended December 31, 2022, 1,391,781 restricted stock units granted to Mr. George Chien Cheng Lin were vested at a par value of US$0.001 each.

29. Share-based payment transactions

On August 26, 2018, the Company adopted the pre-IPO share incentive scheme (the "Pre-IPO Share Incentive Scheme") and established an employee trust to administer the scheme. A total of 7,800,000 ordinary shares of the Company, representing all the Company's shares underlying the Pre-IPO Scheme (defined as below) and the restricted stock units granted under the Pre-IPO Share Incentive Scheme, were issued to, the Nominee, to hold such shares to satisfy the options and restricted stock units granted upon exercise/vesting. No further Company's shares will be allotted and issued to the Nominee for the purpose of the Pre-IPO Share Incentive Scheme (other than pursuant to the capitalization issue, rights issue, sub-division or consolidation of shares in accordance with the Pre-IPO Share Incentive Scheme), and no further option or award will be granted under the Pre-IPO Share Incentive Scheme.

The Company also conditionally adopted a post-IPO share option scheme (the "Post-IPO Scheme") on August 26, 2018, which became effective on the Listing Date.

The history of the issuance of the share option schemes, restricted stock units under the Pre-IPO Share Incentive Scheme and Post-IPO Scheme is set out below.

Equity-settled share option scheme of the Company

The Company's Pre-IPO share option scheme (the "Pre-IPO Scheme") was adopted pursuant to a resolution passed on March 5, 2015 for the primary purpose of providing incentives to directors, eligible employees and individual consultants who render services to the Group.

The Company's Post-IPO Scheme was adopted by the resolutions in writing of all the shareholders passed on August 26, 2018 for the primary purpose of providing incentives to directors of the Company eligible employees and individual consultants who render services to the Group.

Under the Pre-IPO Scheme and Post-IPO Scheme, the directors of the Company may grant options to eligible employees, including the directors of the Company, to subscribe for shares of the Company. The fair value of the services provided by employees are measured at the fair value of options at the grant date. Additionally, the Company may, from time to time, grant share options to individual consultants for settlement in respect of research and development advisory services provided to the Group. The fair value of the services from individual consultants is determined by the fair value of the services received on the services receipt date.

The directors of the Company approved up to 117,000,000 shares of the Company in which options may be granted under the Pre-IPO Scheme and approved up to 105,191,330 shares of the Company in which options may be granted under the Post-IPO Scheme.

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

(1) Details of specific categories of options under the Pre-IPO Scheme are as follows:

Category	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	December 4, 2014 ~ August 26, 2018	11,421,725	US$0.07 ~ 0.49
Mr. George Chien Cheng LIN	April 3, 2018	25,592,405	US$0.47
Employees	March 25, 2013 ~ August 26, 2018	38,615,793	US$0.07 ~ 0.47
Individual consultants	September 12, 2013 ~ May 11, 2018	6,147,000	US$0.07 ~ 0.47

(2) Details of specific categories of options under the Post- IPO Scheme are as follows:

Category	Date of grant	Number of options	Exercise price per share
Directors:			
Dr. Li CHEN	March 8, 2019 ~ March 17, 2022	20,079,000	HK$4.984~8.866
Mr. George Chien Cheng LIN	March 8, 2019	300,000	HK$8.866
Employees	September 28, 2018 ~ December 1, 2022	23,529,822	HK$3.00~ 8.866
Individual consultants	March 8, 2019	200,000	HK$8.866

(3) Options granted under the Pre-IPO Scheme and the Post-IPO Scheme shall have a contractual term of 10 years and generally vest over a four year period, with 25% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 75% vesting subsequently in 36 equal monthly instalments except for the options granted to non-employees individual consultants on September 12, 2013 and March 15, 2016. The options granted to individual consultants on September 12, 2013 have a contractual term of 10 years and generally vest over a three year period, with 33% of total options vesting on the anniversary date one year after the vesting commencement date and the remaining 67% vesting in 24 substantially equal monthly instalments. The options granted to individual consultants on March 15, 2016 have a contractual term of 10 years and vest in 12 equal monthly instalments. The vesting commencement date of 10,519,300 shares of options granted to Dr. Li CHEN on June 25, 2019 was subject to the positive HMM0301 Phase III results as determined in the directors of the Company's sole discretion (without the participation of the chief executive officer). On November 11, 2019, the directors of the Company approved the 10,519,300 shares of options granted to Dr. Li CHEN should commence the vesting period on November 11, 2019 based on the positive HMM0301 Phase III topline trial results being announced by the Company.

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2022:

Category	Option type	Outstanding as of January 1, 2022	Granted During year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2022
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	2014	200,000	–	–	–	–	200,000
	2016	1,500,000	–	–	–	–	1,500,000
	2017	1,500,000	–	–	–	–	1,500,000
	2018	8,221,725	–	–	–	–	8,221,725
	Post-IPO Scheme						
	2019	12,079,000	–	–	–	–	12,079,000
	2021	3,000,000	–	–	–	–	3,000,000
	2022	–	5,000,000	–	–	–	5,000,000
		26,500,725	5,000,000	–	–	–	31,500,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	2018	25,592,405	–	–	–	–	25,592,405
	Post-IPO Scheme						
	2019	300,000	–	–	–	–	300,000
		25,892,405	–	–	–	–	25,892,405
	Total directors	52,393,130	5,000,000	–	–	–	57,393,130

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2022	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2022
Category 2: Employees	**Pre-IPO Scheme**						
	2013	3,729,000	–	(75,000)	–	–	3,654,000
	2014	3,880,500	–	(150,000)	–	–	3,730,500
	2016	7,325,000	–	(450,000)	–	–	6,875,000
	2017	5,689,500	–	(685,500)	–	–	5,004,000
	2018	23,137,066	–	(3,327,567)	(236,875)	(220,331)	19,352,293
	Post-IPO Scheme						
	2018	575,000	–	–	(62,490)	(437,510)	75,000
	2019	5,998,643	–	–	(151,034)	(918,152)	4,929,457
	2020	8,150,653	–	(451,500)	(246,863)	(233,930)	7,218,360
	2021	7,087,005	–	–	(1,001,253)	(478,747)	5,607,005
	2022	–	6,200,000	–	(500,000)	–	5,700,000
	Total employees	65,572,367	6,200,000	(5,139,567)	(2,198,515)	(2,288,670)	62,145,615
Category 3: Individual consultants	**Pre-IPO Scheme**						
	2013	1,550,000	–	–	–	–	1,550,000
	2014	150,000	–	–	–	–	150,000
	2016	3,352,000	–	(30,000)	–	–	3,322,000
	2018	1,125,000	–	–	–	–	1,125,000
	Post-IPO Scheme						
	2019	200,000	–	–	–	–	200,000
	Total individual consultants	6,377,000	–	(30,000)	–	–	6,347,000
	Total all categories	124,342,497	11,200,000	(5,169,567)	(2,198,515)	(2,288,670)	125,885,745
	Exercisable at the beginning and end of the year	99,421,338					106,031,812
	Weighted average exercise price (HK$)	3.81	3.46	2.52	4.47	6.56	3.77

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Set out below are details of the movements of the outstanding options granted under the Pre-IPO Scheme and Post-IPO Scheme during the year ended December 31, 2021:

Category	Option type	Outstanding as of January 1, 2021	Granted During year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2021
Category 1: Director							
Dr. Li CHEN	**Pre-IPO Scheme**						
	2014	700,000	–	(500,000)	–	–	200,000
	2016	1,500,000	–	–	–	–	1,500,000
	2017	1,500,000	–	–	–	–	1,500,000
	2018	8,221,725	–	–	–	–	8,221,725
	Post-IPO Scheme						
	2019	12,079,000	–	–	–	–	12,079,000
	2021	–	3,000,000	–	–	–	3,000,000
		24,000,725	3,000,000	(500,000)	–	–	26,500,725
Mr. George Chien Cheng LIN	**Pre-IPO Scheme**						
	2018	25,592,405	–	–	–	–	25,592,405
	Post-IPO Scheme						
	2019	300,000	–	–	–	–	300,000
		25,892,405	–	–	–	–	25,892,405
	Total directors	49,893,130	3,000,000	(500,000)	–	–	52,393,130

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

Category	Option type	Outstanding as of January 1, 2021	Granted during year	Exercised during year	Forfeited during year	Lapsed during year	Outstanding as of December 31, 2021
Category 2: Employees	**Pre-IPO Scheme**						
	2013	3,908,000	–	(179,000)	–	–	3,729,000
	2014	4,480,000	–	(599,500)	–	–	3,880,500
	2016	7,625,000	–	(300,000)	–	–	7,325,000
	2017	6,613,766	–	(924,266)	–	–	5,689,500
	2018	29,044,777	–	(4,964,351)	(942,589)	(771)	23,137,066
	Post-IPO Scheme						
	2018	575,000	–	–	–	–	575,000
	2019	7,706,351	–	–	(731,582)	(976,126)	5,998,643
	2020	9,905,843	–	(243,461)	(1,510,393)	(1,336)	8,150,653
	2021	–	7,900,000	–	(812,995)	–	7,087,005
	Total employees	69,858,737	7,900,000	(7,210,578)	(3,997,559)	(978,233)	65,572,367
Category 3: Individual consultants	**Pre-IPO Scheme**						
	2013	1,550,000	–	–	–	–	1,550,000
	2014	150,000	–	–	–	–	150,000
	2016	3,352,000	–	–	–	–	3,352,000
	2018	1,125,000	–	–	–	–	1,125,000
	Post-IPO Scheme						
	2019	200,000	–	–	–	–	200,000
	Total individual consultants	6,377,000	–	–	–	–	6,377,000
	Total all categories	126,128,867	10,900,000	(7,710,578)	(3,997,559)	(978,233)	124,342,497
	Exercisable at the beginning and end of the year	84,050,356					99,421,338
	Weighted average exercise price (HK$)	3.65	5.00	1.79	4.57	8.85	3.81

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

These fair values were calculated using the Black-Scholes pricing model. These fair values of the options at grant dates and corresponding inputs into the model were as follows:

	May 15&17, 2019	June 25, 2019	September 19, 2019	January 3, 2020	March 24, 2020	March 25, 2020	April 12, 2020	April 13, 2020	April 14, 2020
Grant date option fair value per share	HK$3.96	HK$3.96~ HK$4.16	HK$4.30	HK$2.86	HK$1.86	HK$1.92	HK$1.88	HK$1.89	HK$1.83
Grant date share price	HK$7.01	HK$6.96	HK$6.85	HK$4.98	HK$3.15	HK$3.23	HK$2.99	HK$2.99	HK$3.05
Exercise price	HK$8.866	HK$8.866	HK$6.80	HK$6.64	HK$3.62	HK$3.62	HK$3.02	HK$3.00	HK$3.62
Expected volatility	68.40%	70.10%~ 71.90%	70.00%	69.47%	69.60%	69.67%	71.65%	71.81%	71.95%
Expected life	5.9 years	5.8 years~ 6.2 years	6.1 years	6.01 years	6.07 years	6.01 years	6.07 years	6.06 years	6.04 years
Risk-free rate	1.56%	1.43%	1.33%	1.67%	0.84%	0.75%	0.69%	0.69%	0.66%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%

	April 14, 2020	May 15, 2020	June 15, 2020	September 1, 2020	January 7, 2021	March 22, 2021	May 06, 2021	August 30, 2021	September 23, 2021
Grant date option fair value per share	HK$1.83	HK$2.97	HK$3.47	HK$3.77	HK$3.29	HK$3.08	HK$3.02	HK$3.34	HK$3.70
Grant date share price	HK$3.05	HK$4.45	HK$4.97	HK$6.05	HK$5.22	HK$4.83	HK$4.75	HK$4.56	HK$5.05
Exercise price	HK$3.62	HK$3.62	HK$3.62	HK$7.18	HK$5.58	HK$4.98	HK$4.89	HK$4.56	HK$5.05
Expected volatility	71.95%	72.67%	74.76%	75.80%	73.86%	73.28%	73.12%	88.79%	88.48%
Expected life	6.04 years	6 years	5.96 years	6.06 years	6.08 years	6.08 years	6.08 years	6.08 years	6.08 years
Risk-free rate	0.66%	0.36%	0.39%	0.39%	0.47%	0.94%	0.84%	0.82%	0.88%
Expected dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%

29. Share-based payment transactions (Continued)

Equity-settled share option scheme of the Company (Continued)

	March 17, 2022	June 24, 2022	December 1, 2022
Grant date option fair value per share	HK$2.42	HK$2.78	HK$2.41
Grant date share price	HK$3.40	HK$3.95	HK$3.47
Exercise price	HK$3.40	HK$3.95	HK$3.47
Expected volatility	83.29%	80.00%	77.10%
Expected life	6.08 years	6.08 years	6.08 years
Risk-free rate	1.93%	2.82%	3.57%
Expected dividend yield	0%	0%	0%

Expected volatility was determined by using the historical volatility of the comparable companies and the effect of difference in leverage between the Company and the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of behavioral considerations. The Group recognized the total expense of RMB21,068,000 and RMB31,634,000 for the years ended December 31, 2022 and 2021, respectively, in relation to share options granted by the Company.

Restricted stock units of the Company

Restricted stock units

In November 2017, Mr. George Chien Cheng LIN entered into an employee agreement including equity incentives of options and restricted stock units. Pursuant to the agreement, an aggregate of 7,422,975 shares of the Company have been granted to Mr. George Chien Cheng LIN under the Pre-IPO Share Incentive Scheme. Such shares were vested after a qualified IPO is achieved in 48 monthly instalments, subject to the grantee's continued employment through the applicable vesting date. The grant date fair value of the restricted stock units of the Company was US$0.24 per share which was determined by the fair value of ordinary shares on the grant date.

The number of unvested restricted stock units was nil and 1,391,781 as of December 31, 2022 and 2021, respectively, and was disclosed in treasury shares held in trust.

The Group recognized RMB208,000 and RMB1,061,000 of share-based payment expense in relation to the grants of the above restricted stock units for the year ended December 31, 2022 and 2021, respectively.

30. Related party transactions

Other than as disclosed elsewhere in these consolidated financial statements, the Group has following transactions and balances with related parties:

Relationships	Nature of balances/transactions	As of/Year ended 31/12/2022 RMB'000	As of/Year ended 31/12/2021 RMB'000
Entity in which a director has significant influence	Trade sales	1,609	–
	Amounts due from related parties (Note)	1,822	–

Note: As of December 31, 2022, the aging of amounts due from related parties is within 60 days based on invoice date.

Compensation of key management personnel

The remuneration of key management personnel of the Group, who are the directors of the Company during the reporting period, were as follows:

	Year ended December 31, 2022 RMB'000	Year ended December 31, 2021 RMB'000
Short term benefits	16,833	15,078
Post-employment benefits	168	154
Share-based payment	11,663	15,710
	28,664	30,942

31. Acquisition of a subsidiary

On December 2, 2022, the Group acquired 100% interest in Nanjing AscendRare. Nanjing AscendRare is principally engaged in the development of innovative medicines business and was acquired with the objective of improving the Group's capability in research and development. The acquisition has been accounted for as acquisition of business using the acquisition method.

Consideration transferred

	RMB'000
Bank balance and cash	1,025
	1,025

Acquisition-related costs amounting to RMB259,000 have been excluded from the consideration transferred and have been recognized as an expense in the current year, within the "other expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

Assets acquired and liabilities recognized at the date of acquisition

	RMB'000
Plant and equipment	3,431
Right-of-use assets	58
Intangible assets	1,200
Deferred tax assets	433
Inventory	20
Trade and other receivables	1,635
Bank balance and cash	319
Borrowings	(5,000)
Trade and other payables	(638)
Deferred tax liabilities	(433)
	1,025

The receivables acquired (which principally comprised trade and other receivables) with a fair value of RMB1,635,000 at the date of acquisition had gross contractual amounts of RMB1,635,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to nil.

31. Acquisition of a subsidiary (Continued)

Goodwill arising on acquisition

	RMB'000
Consideration transferred	1,025
Less: recognized amounts of net assets acquired	(1,025)
	–

Net cash outflows arising on acquisition

	RMB'000
Consideration paid in cash	1,025
Less: bank balances and cash acquired	(319)
	706

Impact of acquisition on the results of the Group

Included in the loss for the year is RMB521,000 attributable to the additional business generated by Nanjing AscendRare. No revenue for the year was contributed by Nanjing AscendRare.

Had the acquisition of Nanjing AscendRare been completed on January 1, 2022, revenue for the year of the Group from continuing operations would have been RMB18,279,000, and loss for the year from continuing operations would have been RMB203,955,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2022, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Nanjing AscendRare been acquired at the beginning of the current year, the directors of the Company calculated depreciation of plant and equipment based on the recognized amounts of plant and equipment at the date of the acquisition as well as the amortization of intangible assets based on the recognized amounts of intangible assets at the date of the acquisition.

32. Capital commitments

	Year ended December 31,	
	2022	2021
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of construction contracted for but not provided in the consolidated financial statements	1,107	4,381
	1,107	4,381

33. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to investors through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of existing debt.

34. Financial instruments

(a) Categories of financial instruments

	As of December 31,	
	2022	**2021**
	RMB'000	**RMB'000**
Financial assets		
Amortized cost (including cash and cash equivalents/pledged bank deposits)	919,592	688,746
Financial liabilities		
Amortized cost	72,899	27,856

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include trade and other receivables, bank balances and cash, pledged bank deposits, trade and other payables, and borrowings. Details of these financial assets and liabilities are disclosed in respective notes.

The risks associated with these financial assets and liabilities include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

Certain bank balances and cash, trade and other receivables, trade and other payables are denominated in foreign currencies of respective group entities which are exposed to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

34. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are mainly as follows:

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Assets		
US$	197,856	363,036
HK$	44,999	41,132

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US$ and HK$, the foreign currency with which the Group may have a material exposure. No sensitivity analysis has been disclosed for the TWD denominated assets as the impact on profit or loss is immaterial. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of the reporting period for a 5% change in foreign currency rate. A negative number below indicates an increase in loss where RMB strengthens 5% against US$ and HK$. For a 5% weakening of RMB against US$ and HK$, there would be an equal and opposite impact on loss for the year.

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Impact on profit or loss		
US$	(9,893)	(18,134)
HK$	(2,250)	(2,057)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

34. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is primarily exposed to fair value interest rate risk in relation to fixed-rate bank borrowings, lease liabilities, pledged bank deposits and bank balances. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. The directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant, therefore no sensitivity analysis on such risk has been prepared.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, bank balances and pledged bank deposits.

In order to minimize credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk gradings to categorize exposures according to their degree of risk of default. Management uses publicly available financial information and the Group's own historical repayment records to rate other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread among approved counterparties.

34. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ amounts due from related parties	Other financial assets/other items
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit- impaired	12m ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit- impaired	12m ECL
Doubtful	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit- impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

34. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Notes	External credit rating	Internal credit rating	12m or lifetime ECL	Year ended December 31 2022 Gross carrying amount RMB'000	2021 Gross carrying amount RMB'000
Financial assets at amortized cost						
Trade receivables and amounts due from related parties arising from contracts with customers	21	N/A	Low risk (Note i)	Lifetime ECL	12,943	–
Other receivables	21	N/A	Low risk (Note ii)	12m ECL	408,191	5,682
Bank balances and cash	22	A1-A3	N/A(Note iii)	12m ECL	490,632	675,238
Pledged bank deposits	22	A1-A3	N/A(Note iii)	12m ECL	7,826	7,826

34. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Credit risk (Continued)

Notes:

(i) Trade receivables and amounts due from related parties arising from contracts with customers

The Group has concentration of credit risk as 42.35% and 82.68% of the total trade receivables and amounts due from related parties were due from the Group's largest customer and the five largest customers respectively (2021: nil). In order to minimize the credit risk with customers, the management of the Group has delegated its finance team responsible for determination of credit limits and credit approvals. Before accepting any new customers, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts.

In addition, the Group has performs impairment assessment under the ECL model on trade balances individually, based on the general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forward-looking information that is available without undue cost or effort at the end of each year.

According to individual assessment of the management, since all of the trade receivables and amounts due from related parties balances are due from reputable pharmaceutical distributors which have low risk of default and usually settled within credit period. The exposure to credit risk for the balance is assessed within lifetime ECL, in the opinion of the management, the impairment loss for the trade receivables from the customers is immaterial.

(ii) Other receivables

For the purpose of impairment assessment for other receivables, the loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for these financial assets, the directors of the Company have taken into account the financial positions of the counterparties in estimating the probability of default of each of the other receivables occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the 12m ECL allowance is insignificant.

(iii) Bank balances and pledged bank deposits

The credit risk on bank balances and pledged bank deposits is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

34. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities and lease liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Within 1 year or on demand RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
As of December 31, 2022							
Trade and other payables	N/A	38,976	–	–	–	38,976	38,976
Borrowings	3.70%	34,902	–	–	–	34,902	33,923
Lease liabilities	5.25%	24,171	24,510	19,736	–	68,417	63,659
As of December 31, 2021							
Trade and other payables	N/A	27,856	–	–	–	27,856	27,856
Lease liabilities	5.25%	16,669	21,524	41,198	–	79,391	71,528

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

There are no financial assets and liabilities measured at fair value as of December 31, 2022 and 2021.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amounts of the Group's financial assets and financial liabilities measured at amortized cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

35. Retirement benefit plans

The employees of the Group's subsidiary in the PRC are members of the state-sponsored retirement benefit scheme organized by the relevant local government authority in the PRC. The subsidiary is required to contribute, based on a certain percentage of the payroll costs of its employees, to the retirement benefit scheme and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The Group contributions to the retirement benefit scheme are expensed as incurred and not reduced by contribution forfeited by those employees who leave the plan. The total amount provided by the Group to the scheme in the PRC and charged to profit or loss are RMB11,466,000 for the year ended December 31, 2022 (2021: RMB11,162,000).

36. Reconciliation of assets and liabilities arising from financing activities

The table below details changes in the Group's assets and liabilities arising from financing activities, including both cash and non-cash changes. Assets and liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000 (Note 24)	Interest Payable RMB'000 (Note 23)	Lease liabilities RMB'000 (Note 25)	Other receivables for considerations of options exercised RMB'000 (Note 21)	Total RMB'000
As of January 1, 2021	–	–	80,715	(287)	80,428
Financing cash flows	–	–	(16,483)	10,349	(6,134)
Non-cash changes					
New leases entered	–	–	4,053	–	4,053
Interest expenses	–	–	3,950	–	3,950
Termination of lease arrangement	–	–	(707)	–	(707)
Exercise of options by employees	–	–	–	(10,421)	(10,421)
As of December 31, 2021	–	–	71,528	(359)	71,169
Financing cash flows	28,923	(88)	(18,360)	11,001	21,476
Non-cash changes					
New leases entered	–	–	6,944	–	6,944
Acquired on acquisition of a subsidiary	5,000	–	–	–	5,000
Interest expenses	–	120	3,547	–	3,667
Exercise of options by employees	–	–	–	(11,386)	(11,386)
As of December 31, 2022	33,923	32	63,659	(744)	96,870

37. Particulars of subsidiaries of the company

Details of the subsidiaries directly and indirectly held by the Company at the end of the reporting period are set out below.

Name of company	Place of incorporation/ establishment/ operation and nature of the legal entity	Issued and fully paid share capital/ Registered capital	Attributable equity interest held by the Company 2022	2021	Principal activities
Directly held					
Hua Medicine Technology (Hong Kong) Limited ("Hua HK") 華領醫藥技術(香港)有限公司 (formerly known as Hua Medicine Limited)	Hong Kong Limited liability company	Registered capital of US$209,546,243.54	100%	100%	Investment holding company
Hua Medicine USA Inc	The United States Limited Liability company	Registered capital of US$3,760,000.00	100%	100%	Development of innovative medicines
Indirectly held					
Hua Shanghai (Note (b)) 華領醫藥技術(上海)有限公司	The PRC Limited liability company	Registered capital of US$114,718,839.00 and paid-in capital of US$114,718,839.00	100%	100%	Development of innovative medicines
Indirectly held					
Hua Biotechnology (Note (b)) 上海華領生物科技有限公司	The PRC Limited liability company	Registered capital of RMB70,000,000 and paid-in capital of RMB60,000,000	100%	100%	Commercialization of innovative medicines
Indirectly held					
Nanjing AscendRare (Note (b)) 南京盛德瑞爾醫藥科技有限公司 (Note (a))	The PRC Limited liability company	Registered capital of RMB2,500,000 and paid-in capital of RMB1,025,000	100%	N/A	Development of innovative medicines

Notes:

(a) Hua Shanghai has acquired by 100% equity interest in Ascendrare Pharmaceuticals from its original shareholders in December, 2022.

(b) The English names are for identification purpose only.

None of the subsidiaries had issued any debt securities at the end of the year.

38. Information of financial position of the company and movements in the company's reserves

The statement of financial position of the Company is as follows:

	As of December 31, 2022 RMB'000	As of December 31, 2021 RMB'000
Non-current Asset		
Investments in subsidiaries	1,860,360	1,843,466
Current Assets		
Other receivables	3,153	2,089
Amounts due from a subsidiary	6,252	3,665
Bank balances and cash	190,854	275,265
	200,259	281,019
Current Liabilities		
Trade and other payables	8,287	2,604
Amounts due to a subsidiary	6,557	91,019
	14,844	93,623
Net Current Assets	185,415	187,396
Total Assets Less Current Liabilities	2,045,775	2,030,862
Net Assets	2,045,775	2,030,862
Capital and Reserves		
Share capital	7,214	7,211
Reserves	2,038,561	2,023,651
Total Equity	2,045,775	2,030,862

38. Information of financial position of the company and movements in the company's reserves (Continued)

The movements in the Company's reserves of the Company for the year ended December 31, 2022 and 2021 are as follows:

	Share premium RMB'000	Share-based payment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As of January 1, 2021	5,899,838	206,680	(4,080,057)	2,026,461
Loss and total comprehensive expense for the year	–	–	(45,924)	(45,924)
Options exercised to purchase ordinary shares under the trust	10,419	–	–	10,419
Recognition of equity-settled payment for subsidiary	–	32,695	–	32,695
As of December 31, 2021	5,910,257	239,375	(4,125,981)	2,023,651
Loss and total comprehensive expense for the year	–	–	(17,749)	(17,749)
Options exercised to purchase ordinary shares under the trust	11,383	–	–	11,383
Recognition of equity-settled payment for subsidiary	–	21,276	–	21,276
As of December 31, 2022	5,921,640	260,651	(4,143,730)	2,038,561

FIVE YEAR FINANCIAL SUMMARY

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE EXPENSE

	For the year ended 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Revenue	–	–	–	–	**17,599**
Cost of sales	–	–	–	–	**(9,910)**
Other income	10,355	29,574	15,859	11,871	**41,511**
Other gains and losses	63,778	16,275	(41,827)	(10,373)	**26,026**
Administrative expenses	(100,398)	(146,584)	(140,084)	(134,835)	**(129,931)**
Finance cost	(3,534)	(907)	(4,396)	(3,950)	**(3,667)**
Selling expenses	–	–	–	–	**(15,348)**
Other expenses	(38,918)	(1,724)	(1,724)	(1,612)	**(259)**
Research and Development expenses	(269,065)	(321,904)	(220,962)	(186,835)	**(129,528)**
Loss on changes in fair value of financial liabilities at fair value through profit or loss ("FVTPL")	(3,266,216)	–	–	–	**–**
Other comprehensive income (expense)					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	–	–	(453)	454	**94**
Loss and total comprehensive expense for the year	(3,603,998)	(425,270)	(393,587)	(325,280)	**(203,413)**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	For the year ended 31 December				
	2018	2019	2020	2021	**2022**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Current assets	1,474,510	1,120,452	1,045,277	704,600	**940,257**
Inventories	–	–	–	–	**1,915**
Trade and other receivables	24,337	14,852	13,187	24,666	**441,192**
Amounts due from related parties	–	–	–	–	**1,822**
Prepayments to related parties	6,863	–	–	–	**–**
Pledged bank deposits	–	–	–	4,696	**4,696**
Bank balances and cash	1,443,310	1,105,600	1,032,090	675,238	**490,632**
Current liabilities	77,633	108,786	106,547	106,884	**188,386**
Trade and other payables	76,033	88,317	80,794	79,738	**79,111**
Borrowings	–	–	–	–	**33,923**
Lease liabilities	–	12,019	11,503	13,296	**21,490**
Contract liabilities	–	–	–	–	**43,303**
Deferred income	1,600	8,450	14,250	13,850	**10,559**
Net current assets	1,396,877	1,011,666	938,730	597,716	**751,871**
Non-current assets	15,739	134,161	153,244	198,953	**181,240**
Non-current liabilities	9,128	85,207	359,479	346,338	**653,531**
Net assets	1,403,488	1,060,620	732,495	450,331	**279,580**
Total equity	1,403,488	1,060,620	732,495	450,331	**279,580**

DEFINITIONS

In this annual report, the following expressions have the meanings set out below unless the context requires otherwise.

"Articles of Association"	the memorandum and articles of association of the Company
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors of the Company
"Company"	Hua Medicine (華領醫藥), an exempt limited liability company incorporated under the laws of the Cayman Islands on November 10, 2009 and whose Shares are listed on the Stock Exchange
"CG Code"	the Corporate Governance Code as set out in Appendix 14 to the Listing Rules
"CMC"	chemistry, manufacturing and control
"CMO"	a contract manufacturing organization, which provides support to the pharmaceutical industry in the form of manufacturing services outsourced on a contract basis
"CRO"	a contract research organization, which provides support to the pharmaceutical industry in the form of research services outsourced on a contract basis
"Director(s)"	the director(s) of the Company
"DPP-IV"	an enzyme that rapidly degrades GLP-1, thereby reducing the normal effect of GLP-1 in enhancing the secretion of insulin. DPP-IV inhibitors have been successfully developed as orally administered anti-diabetic therapies and are approved in both China and the United States, among other countries
"first-in-class"	drugs that are approved as a new class of therapy with novel mechanism of action for treating a medical condition
"GLP-1"	glucagon-like peptide-1, a peptide hormone with the ability to decrease blood glucose levels in a glucose-dependent manner by enhancing the secretion of insulin. GLP-1 agonists have been successfully developed as injectable anti-diabetic therapies and are approved in both China and the United States, among other countries
"glucose homeostasis"	an intricate physiological process within the human body that regulates blood glucose levels within an acceptable range or threshold. This process is dependent on the balance of insulin (which normally facilitates uptake of glucose after meal), glucagon (which facilitates the production of glucose by the body when glucose levels are low), and other hormones
"Group"	the Company and its subsidiaries

"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HK IPO"	the global offering of the Shares, comprising the Hong Kong public offering of 10,476,000 Shares and the international offering of 94,280,000 Shares and 2,980,500 Shares pursuant to the partial exercise of the over-allotment option granted by the Company
"Hua HK"	Hua Medicine Technology (Hong Kong) Limited (華領醫藥技術(香港)有限公司), formerly known as Hua Medicine Limited (華醫藥有限公司), a limited liability company incorporated under the laws of Hong Kong on August 12, 2010, being a wholly-owned subsidiary of the Company
"Hua Lingang"	Shanghai Huasheng Inc. (上海華領生物科技有限公司), a limited liability company incorporated under the laws of the PRC on February 03, 2021, being an indirect wholly owned subsidiary of the Company
"Hua Shanghai"	Hua Medicine (Shanghai) Ltd. (華領醫藥技術(上海)有限公司), a limited liability company incorporated under the laws of the PRC on June 22, 2011, being an indirect wholly-owned subsidiary of the Company
"Hua USA"	Hua Medicine USA Inc. (華領醫藥美國有限公司), a limited liability company incorporated under the laws of USA on April 9, 2020, being an indirect wholly-owned subsidiary of the Company
"insulin"	a hormone produced by the β-cells in the pancreas that is critical in promoting the absorption of glucose from the blood into the liver, skeletal muscle and adipose cells (or fat), among other cells
"Listing"	listing of our Shares on the Stock Exchange
"Listing Date"	September 14, 2018, being the date on which the Shares were listed on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"mGLUR5"	metabotropic glutamate receptor subtype 5
"monotherapy"	the use of one type of treatment alone to treat a certain disease or condition
"Model Code"	the Model Code for the Securities Transactions by Directors of Listed Issue's contained in Appendix 10 to the Listing Rules
"NDA"	new drug application
"NMPA"	National Medical Products Administration (國家藥品監督管理局), and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理總局)
"Nomination Committee"	the nomination committee of the Board

"PRC"	the People's Republic of China, excluding, for the purposes of this report, the Hong Kong Special Administrative Region of the People's Republic of China, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Pre-IPO Share Incentive Scheme"	the share incentive scheme approved and adopted by the Company on March 25, 2013 as amended from time to time, for the benefit of any director, employee, adviser or consultant of the Company or any of its subsidiaries
"Post-IPO Share Option Scheme"	the post-IPO share option scheme approved and adopted by our Company on August 26, 2018 for the benefit of any director, employee, adviser or consultant of the Company or any of our subsidiaries; a summary of the principal terms is set forth in "Appendix IV – Statutory and General Information – D. Share Incentive Schemes – 2. Post-IPO Share Option Scheme" of the Prospectus
"Prospectus"	the prospectus issued by the Company on August 31, 2018 in connection with the Hong Kong public offering of the Shares
"R&D"	research and development
"Remuneration Committee"	the remuneration committee of the Board
"Reporting Period"	the year ended December 31, 2022
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGLT-2"	Sodium-glucose co-transporter-2
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	ordinary share(s) with nominal value of US$0.001 each in the share capital of the Company
"SMO"	Site management organizations
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"U.S."	the United States of America