荣昌生物

榮昌生物製藥(煙台)股份有限公司
RemeGen Co., Ltd.*

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code: 9995

ANNUAL REPORT 2022

*For identification purpose only

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS

Mr. Wang Weidong (王威東) *(Chairman)*
Dr. Fang Jianmin (房健民)
Dr. He Ruyi (何如意)
Mr. Lin Jian (林健)

NON-EXECUTIVE DIRECTORS

Dr. Wang Liqiang (王荔強)
Dr. Su Xiaodi (蘇曉迪)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hao Xianjing (郝先經)
Dr. Ma Lan (馬蘭)
Mr. Chen Yunjin (陳雲金)
(appointment effective from May 5, 2022)
Ms. Yu Shanshan (于珊珊)
(resignation effective from May 5, 2022)

SUPERVISORS

Mr. Ren Guangke (任廣科) *(Chairman)*
Mr. Li Yupeng (李宇鵬)
Mr. Li Zhuanglin (李壯林)

AUDIT COMMITTEE

Mr. Hao Xianjing (郝先經) *(Chairman)*
Dr. Wang Liqiang (王荔強)
Mr. Chen Yunjin (陳雲金)
(appointment effective from May 5, 2022)
Ms. Yu Shanshan (于珊珊)
(resignation effective from May 5, 2022)

REMUNERATION AND APPRAISAL COMMITTEE

Mr. Chen Yunjin (陳雲金) *(Chairman)*
(appointment effective from May 5, 2022)
Mr. Hao Xianjing (郝先經)
Mr. Lin Jian (林健)
Ms. Yu Shanshan (于珊珊)
(resignation effective from May 5, 2022)

NOMINATION COMMITTEE

Mr. Wang Weidong (王威東) *(Chairman)*
Mr. Hao Xianjing (郝先經)
Dr. Ma Lan (馬蘭)

STRATEGY COMMITTEE

Dr. Fang Jianmin (房健民) *(Chairman)*
Mr. Wang Weidong (王威東)
Dr. He Ruyi (何如意)
Dr. Wang Liqiang (王荔強)
Dr. Su Xiaodi (蘇曉迪)
Dr. Ma Lan (馬蘭)

JOINT COMPANY SECRETARIES

Mr. Li Jia (李嘉)
Ms. Tam Pak Yu, Vivien (譚栢如)

AUTHORIZED REPRESENTATIVES

Dr. Fang Jianmin (房健民)
Ms. Tam Pak Yu, Vivien (譚栢如)

AUDITOR

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As to PRC law:
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Chaoyang District
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Corporate Information

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

58 Middle Beijing Road
Yantai Development Zone
Yantai Area of Shandong Pilot Free Trade Zone
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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PRINCIPAL BANKERS

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77 Changjiang Road
Yantai Economic and Technological Development Area
Yantai, Shandong Province
PRC

Yantai Bank Development Zone branch
161 Changjiang Road
Yantai Economic and Technological Development Area
Yantai, Shandong Province
PRC

Qingdao Bank Yantai Development Zone Technological branch
108 Hengda • Haixin Garden
Yantai Economic and Technological Development Area
Yantai, Shandong Province
PRC

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STOCK CODES

Stock code of H Shares: 9995
Stock code of A Shares: 688331

COMPANY WEBSITE

www.remegen.com

Chairman's Statement

Dear Shareholders,

Thank you for your continuous support to RemeGen. On behalf of the Board, I am pleased to present this annual report of the Group for the year ended December 31, 2022.

RemeGen is a fully-integrated biopharmaceutical company committed to the discovery, development and commercialization of innovative and differentiated biologics for the treatment of autoimmune, oncology and ophthalmic diseases. Since our inception in 2008, we have built fully integrated, end-to-end therapeutics development capabilities encompassing all key biologic drug development functionalities.

Our goal has always been to address the unmet medical needs of patients in both China and globally. We are very pleased to bring two of our products to the market in China since 2020. In 2022, more than 23,000 patients used our drugs to treat their diseases, improved their physical conditions and extended their lives.

In December 2021, telitacicept for the treatment of systemic lupus erythematosus (SLE) indications was added to the new National Reimbursement Drug List (NRDL). As of December 31, 2022, we have built a sales force of 639 people in the autoimmune specialty and the team covers 1,876 hospitals in China. In 2022, the sales of telitacicept grew rapidly as a result of its clinical superiority vs other treatment options and the inclusion in the NRDL. We will continue to expand the sales force and increase our city and hospitals coverage to increase market penetration.

Furthermore, we continued to make progress in various other label expansion programs for other indications of telitacicept and expand clinical applications. We have completed three Phase II clinical studies in China for IgA nephropathy, Sjögren's syndrome and myasthenia gravis, all of which have achieved positive results. Last but not least, we will continue to push forward with our global Phase III study for SLE as well as a US Phase II study for IgA nephropathy.

In December 2021, disitamab vedotin for the treatment of locally advanced or metastatic gastric cancer (including gastroesophageal junction (GEJ) carcinoma) (GC) indications was included in the new NRDL. At the end of 2022, disitamab vedotin for the treatment of HER2 expressing locally advanced or metastatic urothelial carcinoma (UC) indications was also added in the updated NRDL. As of December 31, 2022, we have established a sales team of 520 people in oncology specialty and the team covers 1,419 hospitals. The product's unique clinical advantages and inclusion in the NRDL led to its significant sales increase in 2022.

Chairman's Statement

Moreover, we have made good progress in our development programs for other indications of disitamab vedotin and expanded its clinical application. For breast cancer, our two current Phase III clinical studies in China for the treatment of patients with HER2-overexpressing breast cancer with liver metastases and patients with HER2 low-expressing breast cancer are going smoothly. Besides, we proceeded with clinical trials for diseases such as non-small cell lung cancer (NSCLC) and biliary tract cancer (BTC) and continued to recruit patients for the trials. We also initiated a number of earlier stage and exploratory clinical studies for other cancer types such as lung cancer. In the global front, we worked very closely with our partner Seagen in conducting a clinical study in urothelial cancer. We are also planning to initiate additional studies for other cancer types.

The Company successfully completed the issue of A shares and started trading on the Shanghai Stock Exchange on March 31, 2022.

In 2022, we made great achievements despite macro and industry headwinds. Looking ahead, we are expected to carry the momentum forward in both China and globally in 2023. We are well positioned to accelerate our growth and deliver great returns to our Shareholders while develop first-in-class and best-in-class products to help patients with unmet medical needs.

RemeGen Co., Ltd.
Mr. Wang Weidong
Chairman and Executive Director

March 29, 2023

Management Discussion and Analysis

OVERVIEW

We are a fully-integrated biopharmaceutical company committed to the discovery, development and commercialization of innovative and differentiated biologics for the treatment of autoimmune, oncology and ophthalmic diseases with unmet medical needs in China and globally. Our vision is to become a leading player in the global biopharmaceutical industry. We are one of the few Chinese biotechnology enterprises that have two commercialized products. Since our inception in 2008, we have been dedicated to the research and development of biologics with novel targets, innovative design and breakthrough potential to address global unmet clinical needs. Through more than ten years of efforts, we have built fully-integrated, end-to-end therapeutics development capabilities encompassing all the key biologic drug development functionalities, including discovery, pre-clinical pharmacology, process and quality development, clinical development, and manufacturing in compliance with global good manufacturing practice (GMP). Leveraging our strong research and development platforms, we have discovered and developed a robust pipeline of more than ten drug candidates. Among our drug candidates, seven are in clinical development stage targeting over 20 indications. Two of our commercialization-stage drugs, telitacicept (RC18, brand name: 泰爱®) and disitamab vedotin (RC48, brand name: 爱地希®), are in clinical trials targeting eighteen indications in China and the United States.

PRODUCT PIPELINE

The following chart illustrates our product pipeline and summarises the development status of our clinical-stage drug candidates and selected IND-enabling stage candidates as of December 31, 2022:

Status (Clinical Sites Indicated on Status Bar): Pre-clinic. | IND | Ph I | Ph II | Pivotal/Ph III | NDA | Launched

	Drug Candidates	Target	Modality	Indication	Status	
Autoimmune Diseases	Telitacicept (RC18)	BLyS/ APRIL	Fusion Protein	Systemic Lupus Erythematosus	China	
				Systemic Lupus Erythematosus	Global	
				Children Systemic Lupus Erythematosus	China	
				Lupus Nephratis	China	
				Neuromyelitis Optica Spectrum Disorder	China	
				Rheumatoid Arthritis	China	
				IgA Nephritis	China	
				IgA Nephritis	the U. S.	
				Sjogren's Syndrome	China	
				Multiple Sclerosis	China	
				Myasthenia Gravis	China	
Oncology	Disitamab Vedotin (RC48)	HER2	ADC	HER2-Expressing Gastric Cancer	China	
				HER2-Expressing Urothelial Cancer	China	
				HER2-Expressing perioperative MIBC with combination of PD-1	China	
				HER2-Expressing Urothelial Cancer with the combination of PD-1 for line 1 patients	China	
				Bladder Instillation combined with Gemcitabine for NMIBC	China	
				HER2-Expressing Urothelial Cancer	Global	*Cooperation with Seagen*
				HER2-Expressing Urothelial Cancer with the combination of PD-1 for first line patients	Global	*Cooperation with Seagen*
				HER2-Expressing Gastric Cancer	the U. S.	*Cooperation with Seagen*
				HER2-Low-Expressing Breast Cancer	China	
				HER2 Positive Breast Cancer with Liver Metastasis	China	
				HER2 Low-to Non-Expressing Urothelial Cancer	China	
				HER2-Expressing Gynecology Malignant Tumor	China	
				HER2-Expressing Biliary Tract Carcinoma	China	
				HER2-Expressing Non-Small-Cell Lung Cancer	China	
				HER2-Expressing Melanoma	China	
				Combination with RC98 PD-L1 for Gastric Cancer	China	
	RC88	Mesothelin	ADC	Mesothelioma, Bile Duct Carcinoma, Pancreatic Cancer, Ovarian Carcinoma, Lung Adenocarcinoma and other Solid Tumours	China	
	RC98	PD-L1	mAb	Advanced Malignant Solid Tumors	China	
	RC108	c-MET	ADC	Multiple Malignant Solid Tumors	China	
	RC118	Claudin18.2	ADC	Multiple Malignant Solid Tumors	Australia	
				Multiple Malignant Solid Tumors	China	
	RC138	Confidential	HiBody	Multiple Solid Tumors	China	
	RC148	Confidential	HiBody	Multiple Solid Tumors	China	
	RC158	Confidential	HiBody	Multiple Solid Tumors	China	
	RC168	Confidential	ADC	Multiple Solid Tumors	China	
	RC178	Confidential	ADC	Multiple Solid Tumors	China	
	RC188	Confidential	ADC	Multiple Solid Tumors	China	
	RC198	Confidential	Fusion Protein	Multiple Solid Tumors	China	
Ophthalmology	RC28	VEGF/FGF	Fusion Protein	Wet Age-Related Macular Degeneration	China	
				Diabetic macular edema	China	
				Diabetic retinopathy	China	
	RC218	Confidential	HiBody	Ophthalmopathy	China	
	RC228	Confidential	HiBody	Ophthalmopathy	China	

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended December 31, 2022 and up to the date of this report, the Group has made the following significant progress:

Telitacicept (RC18 , brand name: 泰爱®)

— Telitacicept is our proprietary novel fusion protein for treating autoimmune diseases. It is constructed with the extracellular domain of the human transmembrane activator and calcium modulator and cyclophilin ligand interactor (TACI) receptor and the fragment crystallizable (Fc) domain of human immunoglobulin G (IgG). Telitacicept targets two cell-signaling molecules critical for B-lymphocyte development: B-cell lymphocyte stimulator (BLyS) and a proliferation inducing ligand (APRIL), which allows it to effectively reduce B-cell mediated autoimmune responses that are implicated in several autoimmune diseases.

— We are currently evaluating telitacicept in late-stage clinical trials in order to explore its potential to address eight autoimmune diseases, in an attempt to address the significant unmet or underserved medical needs in this therapeutic area.

o **Systemic lupus erythematosus (SLE)**

- *China*: Telitacicept for the treatment of moderate to severe SLE showing unsatisfactory response to standard therapy was granted the conditional marketing approval from the NMPA on March 9, 2021. Based on the completed Phase IIb registrational trial in China, we have initiated a Phase III confirmatory clinical trial in China in July 2019. We completed the trial in the third quarter of 2022 and obtained positive results. The clinical findings were presented at the American College of Rheumatology (ACR) 2022 Annual Meeting.

- *China*: The application for investigational new drug (IND) for telitacicept for the treatment of childhood systemic lupus erythematosus (cSLE) obtained the implied approval for a clinical trial from the CDE in April 2022.

- *Global*: The FDA approved the IND application for Phase II trial on telitacicept in August 2019. We held an end-of-Phase II meeting with the FDA in January 2020 at which the FDA reviewed the drug candidate's positive data from our trials in China and discussed the design for the Phase III clinical trial. Based on this meeting, the FDA allowed us to conduct the Phase III clinical study on telitacicept for the treatment of SLE in the United States. In April 2020, the FDA granted fast track designation to telitacicept, which could expedite the review and potential approval process with the FDA. We initiated the international, multi-center Phase III clinical study in the United States in the first half of 2022 and received approval from the European Union and CDE in September 2022, respectively. Global patient enrollment is currently underway.

o **Lupus Nephritis (LN)**

- *China*: The IND application for a Phase II trial on telitacicept for the treatment of active lupus nephritis obtained the implied approval from the CDE in September 2022.

- **Immunoglobulin A Nephropathy (IgAN)**

  - *China*: We completed a randomized, double-blind and placebo-controlled Phase II clinical trial to evaluate the efficacy and safety of telitacicept in IgAN patients, with positive results achieved. In September 2022, we reached a consensus with CDE on the protocol for a Phase III clinical trial on telitacicept for the treatment of IgAN.

  - *United States*: Telitacicept was approved by the FDA to conduct a Phase II clinical trial for the treatment of IgAN indications in the United States in December 2020. The planned total enrollment was approximately 30 patients. We enrolled 14 patients in the United States as of December 31, 2022.

- **Primary Sjögren's syndrome (pSS)**

  - *China*: We completed a Phase II clinical trial in China for primary Sjögren's syndrome (pSS) with positive results. We communicated with the CDE regarding the protocol for a Phase III clinical trial on telitacicept for the treatment of pSS in June 2022 and reached consensus with the CDE in August 2022. Currently, we have initiated the clinical study.

  - *United States*: We communicated with the FDA regarding the use of telitacicept for the treatment of pSS patients in November 2022, and the FDA gave us permission to conduct an international, multi-center Phase III clinical trial in the United States.

- **Rheumatoid arthritis (RA)**

  We are conducting a multi-center, double-blind, placebo-controlled Phase III clinical trial in China. We finished patient enrollment at the end of 2021 and completed the the follow-up of the final subject at the end of 2022.

- **Myasthenia gravis (MG)**

  - *China*: We completed a randomized, open-label Phase II clinical trial in China in the first quarter of 2022 and obtained positive results. We received breakthrough therapy designation to telitacicept from the CDE for the treatment of gMG in November 2022.

  - *United States:* The FDA granted orphan drug designation to telitacicept for the treatment of gMG in October 2022.

- **Neuromyelitis optica spectrum disorder (NMOSD)**

  We are conducting a randomized, double-blind and placebo-controlled Phase III clinical trial in China to evaluate the efficacy and safety of telitacicept for the treatment of NMOSD. We initiated the Phase III clinical trial in September 2017 and enrolled the first patient in January 2018. We enrolled 149 patients in this trial as of December 31, 2022.

- **Other indications**

  In addition to the indications described above, we are also evaluating telitacicept for other autoimmune diseases, namely multiple sclerosis (MS). We enrolled 8 patients in Phase II clinical trial on MS as of December 31, 2022.

— Leveraging our experience in developing telitacicept for SLE globally, we will continuously explore the global path of approval and commercialization for the treatment of other autoimmune diseases.

— **Warning under Rule 18A.08(3) of the Listing Rules:** There is no assurance that telitacicept (RC18, brand name: 爱地希®) (for the treatment of other indications) will ultimately be successfully developed and marketed by the Company. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares of the Company.

Disitamab vedotin (RC48, brand name: 爱地希®)

— Disitamab vedotin is our leading antibody-drug conjugate (ADC) product candidate and is the first ADC in China to have received IND approval for clinical trials. Disitamab vedotin is a novel ADC independently developed by us to treat human epidermal growth factor receptor 2 (HER2)-expressing (including low-expressing) solid tumours. Disitamab vedotin is currently being studied in multiple late-stage clinical trials in China across a variety of solid tumour types. In clinical trials in China, disitamab vedotin has demonstrated promising efficacy in patients with HER2-expressing advanced or metastatic gastric cancer (GC) and urothelial cancer (UC), and has also proved its potential in treatment for HER2-expressing (including low-expressing) breast cancer (BC).

— We have been developing disitamab vedotin for a variety of HER2-expressing cancer types. Currently, we strategically focus on clinical studies on disitamab vedotin for the treatment of GC, UC and BC in China, which suggest particularly significant unmet medical needs. We are also exploring the efficacy of disitamab vedotin in other prevalent cancer types with HER2 expression, such as non-small cell lung cancer (NSCLC), biliary tract cancer (BTC), gynecologic malignancies and advanced melanoma.

- **GC**

  - Disitamab vedotin received conditional marketing approval from the NMPA on June 9, 2021 and was included in the updated NRDL in December of the same year. Based on the completed Phase II clinical trial in China, we initiated a Phase III confirmatory clinical trial in China in October 2020, with a planned total enrollment of 351 patients. We enrolled 130 patients in the Phase III confirmatory clinical trial as of December 31, 2022.

  - Moreover, we are exploring the clinical probability of combining disitamab vedotin with RC98 (PD-L1 antibody) for the treatment of HER2-expressing locally advanced or metastatic gastric cancer (including gastroesophageal junction adenocarcinoma). Our IND application was approved by the CDE in April 2022. The clinical trial kicked off in August 2022. One patient was enrolled in the study as of December 31, 2022.

- We are exploring the clinical probability of combining disitamab vedotin with PD-1 and chemotherapy or with PD-1 and Herceptin as first-line therapy for HER2-expressing locally advanced or metastatic gastric cancer (including gastroesophageal junction adenocarcinoma). Our IND application for Phase II/III trials was submitted to the CDE in December 2022.

o **UC**

- We completed a Phase II clinical trial on disitamab vedotin in patients with HER2-overexpressing (IHC 2+ or IHC 3+) UC in China. Based on the positive clinical results of this Phase II clinical trial and after communicating with the NMPA, we initiated a multi-center, single-arm, open-label Phase II registrational clinical trial. In December 2020, we received the breakthrough therapy designation from the NMPA for the treatment of UC. In September 2021, we were granted fast track designation by the NMPA for the treatment of UC. In December 2021, we received marketing approval for this indication. The drug was included in the updated NRDL in January 2023.

- In addition, in view of the promising efficacy of disitamab vedotin in patients with HER2-low-expressing UC, we initiated a single-centre, single-arm, open-label Phase II clinical study in June 2019 to evaluate the efficacy and safety of disitamab vedotin in HER2-negative (IHC 1+ or IHC 0) locally advanced or metastatic UC. Approximately 18 patients were enrolled in this trial. Patient enrollment was completed in July 2021. We further presented the latest advances in the clinical study at the American Society of Clinical Oncology (ASCO) Annual Meeting in June 2022.

- We are now exploring the clinical potential of disitamab vedotin in combination with anti-PD-1 antibody for the treatment of HER2-expressing UC. The IND application for a Phase II clinical trial on disitamab vedotin in combination with toripalimab injection (brand name: 拓益®) for the treatment of perioperative muscle invasive bladder cancer (MIBC) was approved by the NMPA in February 2022. At present, we are carrying out this clinical trial in China. We enrolled 9 patients in the trial as of December 31, 2022.

- We are conducting a multi-center, randomized and controlled Phase III clinical trial in China to compare and evaluate the efficacy of disitamab vedotin in combination with toripalimab injection (brand name: 拓益®) and gemcitabine in combination with cisplatin/carboplatin for the treatment of patients with HER2-expressing locally advanced or metastatic UC without prior systemic chemotherapy. We plan to enroll 452 patients in the trial. We enrolled 67 patients in the trial as of December 31, 2022.

o **BC**

- On June 28, 2021, the NMPA granted us the breakthrough therapy designation for disitamab vedotin in the treatment of patients with HER2-positive advanced breast cancer with liver metastases who had previously received trastuzumab and taxane therapy. We are conducting the Phase III clinical trial in China. As of December 31, 2022, we enrolled 104 patients in this trial.

- As we have observed preliminary efficacy of disitamab vedotin in patients with low-level HER2 expression, we have initiated the Phase III clinical trial in patients with HER2 low-expressing (IHC 2+ and FISH–) BC. As of December 31, 2022, we enrolled 279 patients in this trial.

Management Discussion and Analysis

- **NSCLC**

  We are conducting an open-label Phase Ib trial in China to evaluate disitamab vedotin as monotherapy for the treatment of HER2-overexpressing (IHC 2+ or IHC 3+) or HER2-mutant NSCLC. We enrolled 37 patients as of December 31, 2022.

- **BTC**

  We are conducting a multi-center, single-arm and open-label Phase II trial in China to evaluate disitamab vedotin as monotherapy in the patients with HER2-overexpressing (IHC 2+ or IHC 3+) BTC post to the failure of first-line chemotherapy. We enrolled 28 patients in this trial as of December 31, 2022.

- **Gynecologic malignancies**

  At the end of 2021, we conducted an open, multi-cohort and multi-center phase II clinical study in China on disitamab vedotin for the treatment of patients with HER2-expressing gynecologic malignancies, who were allocated to four cohorts of cervical cancer, ovarian epithelial cancer, fallopian tube cancer and primary peritoneal cancer, endometrial cancer and other gynecological malignancies, in a bid to evaluate the efficacy of disitamab vedotin in treatment of patients with HER2-expressing gynecologic malignancies. 60 patients were enrolled as of December 31, 2022.

- **Advanced melanoma**

  In May 2022, we conducted a single-arm, open and single-centre Phase IIa clinical study in China to evaluate the efficacy of disitamab vedotin in the treatment of patients with HER2-expressing advanced melanoma (except for primary uveal melanoma) who have failed standard therapy. As of December 31, 2022, we enrolled 2 patients in this trial.

— Moreover, we are exploring the clinical probability of combining disitamab vedotin with RC98 (PD-L1 antibody) for the treatment of HER2-expressing locally advanced or metastatic solid tumours. Our IND application related thereto was approved by the CDE in June 2022.

— In August 2021, we entered into an exclusive worldwide license agreement with Seagen Inc. ("Seagen") to develop and commercialize disitamab vedotin. Pursuant to the license agreement, Seagen has been granted an exclusive license to develop and commercialize disitamab vedotin in global regions excluding Asia (Japan and Singapore excluded). We received an upfront payment of US$200 million in October 2021. Under the agreement, we will receive additional milestone payments of up to USD2.4 billion thereafter and the royalties amounting to a high single-digit to mid-teens of future cumulative net sales as Seagen subsequently continues global development and commercialization of disitamab vedotin.

- **UC**

  Seagen conducted an international, multi-center, open-label Phase II pivotal clinical trial in the United States in the first half of 2022 to evaluate the efficacy of disitamab vedotin in patients with HER2-expressing UC after the failure of first-line chemotherapy.

— **Warning under Rule 18A.08(3) of the Listing Rules:** There is no assurance that disitamab vedotin (RC48, brand name: 爱地希®) (for the treatment of other indications) will ultimately be successfully developed and marketed by the Company. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

RC28

— RC28 is an innovative fusion protein targeting both vascular endothelial growth factor (VEGF) and fibroblast growth factor (FGF). We are evaluating, and plan to evaluate, RC28 in clinical studies for several ophthalmic diseases, including wet age-related macular degeneration (wAMD), diabetic macular edema (DME) and diabetic retinopathy (DR). In the Phase I clinical trial, no safety concerns were detected for up to 2.0 mg injection of RC28 in wAMD patients.

o **wAMD**

Currently, we are conducting an open-label, single-arm Phase Ib dose-expansion trial to evaluate the efficacy and safety of RC28 in the patients with wAMD. As of December 31, 2021, we completed patient enrollment with 37 patients in this trial. The recent research results on the indication were presented at the 38th World Ophthalmology Congress (WOC 2022) in September 2022.

o **DME**

We are currently conducting a multi-center, randomized, active-controlled Phase II clinical trial in China. As of December 31, 2022, we completed patient enrollment. We are now in the stage of follow-up and accumulation of clinical data.

o **DR**

We are currently conducting a multi-center, randomized, active-controlled Phase II clinical trial in China. As of December 31, 2022, we enrolled 89 patients in this trial.

— **Warning under Rule 18A.08(3) of the Listing Rules:** There is no assurance that the RC28 will ultimately be successfully developed and marketed by the Company. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the Shares of the Company.

Other Clinical-stage Drug Candidates

— RC88 is a novel mesothelin-targeting ADC we developed for the treatment of solid tumours. It is currently in a Phase I clinical trial in patients with multiple advanced solid tumours. We completed patient enrollment as of December 31, 2022. Data scrubbing and patient development are underway.

— RC98 is an innovative PD-L1 monoclonal antibody we developed for the treatment of solid tumours. We obtained the IND approval for RC98 from the NMPA in July 2019 and we have initiated a Phase I clinical trial in patients with multiple advanced solid tumours, including but not limited to lung cancer and urothelial cancer. We completed patient enrollment as of December 31, 2022. A patient development trial is being underway.

Management Discussion and Analysis

— RC108 is our third ADC product developed in-house that has entered clinical studies. It targets c-Met-positive advanced solid tumours. c-Met is a receptor tyrosine kinase that, after binding a ligand, hepatocyte growth factor, activates a wide range of different cellular signaling pathways, including those involved in proliferation, motility, migration and invasion. It is a well-characterized oncogene that is associated with poor prognosis in many solid tumour types. We obtained clinical trial approval from the NMPA in November 2020 and have now started a Phase I clinical trial on c-Met positive advanced solid tumours in China . We enrolled 18 patients as of December 31, 2022. In addition, the FDA granted clinical trial approval in December 2022 to RC108 for the treatment of patients with c-Met-positive solid tumours.

— RC118 is our fourth ADC drug that has entered into clinical study, and it targets Claudin 18.2-positive locally advanced unresectable or metastatic malignant solid tumours. It is made by conjugating the recombinant humanised anti-Claudin18.2 monoclonal antibody and the small molecule microtubule inhibitor Monomethyl Auristatin E (MMAE) (a potent microtubule binding agent with its half-maximal inhibitory concentration (IC_{50}) in the subnanomolar range, as toxin payloads) with each other via cathepsin-cleavable linkers, and it has optimised drug-to-antibody ratio.

- *Australia:* We received the ethics approval to commence a Phase I clinical trial on the ADC RC118 from Australia's Human Research Ethics Committee in July 2021. Currently, we are conducting a Phase I clinical trial in patients with Claudin18.2-positive locally advanced unresectable or metastatic malignant solid tumours in Australia. The clinical study site in Australia was officially launched in November 2021. As of December 31, 2022, dose escalation of three dose levels had been completed.

- *China:* In September 2021, the Phase I clinical trial license for RC118 was obtained from the NMPA. We are conducting a Phase I clinical trial in patients with Claudin18.2-positive locally advanced unresectable or metastatic malignant solid tumours in China. As of December 31, 2022, we enrolled 12 patients in this trial.

- *United States:* In December 2022, the FDA granted two orphan drug designations for RC118 for the treatment of patients with gastric cancer (including gastroesophageal junction adenocarcinoma) and pancreatic cancer.

— **Warning under Rule 18A.08(3) of the Listing Rules:** There is no assurance that the RC88, RC98, RC108, RC118, RC138, RC148, RC158, RC168, RC178, RC188, RC198, RC218 or RC228 will ultimately be successfully developed and marketed by the Company. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

Commercialization of Product Portfolio

We have established our sales and marketing department dedicated to the commercialization of our pipeline products. According to the indications of our products, we have established two independent sales teams in the areas of autoimmune diseases and oncology, respectively.

As of December 31, 2022, our commercialization team for autoimmune diseases had 639 members with rich experience in the commercialization of autoimmune therapeutic drugs.

As the world's first innovative dual-target biologics agent for the treatment of SLE, telitacicept was approved for marketing by the NMPA in March 2021 and has entered into sales. This product for the treatment of SLE was included in the updated NRDL in December 2021. In 2022, the commercialization team has covered 1,876 hospitals nationwide. As of December 31, 2022, the commercialization team for autoimmune diseases had been admitted to 495 hospitals and 1,015 direct-to-patient (DTP) pharmacies.

As of December 31, 2022, our commercialization team for oncology diseases had 520 members with rich experience in the commercialization of oncology therapeutic drugs. Disitamab vedotin was approved for marketing in June 2021, and has entered into sales in July 2021. This product for the treatment of HER2-expressing locally advanced or metastatic gastric cancer (GC) was included in the updated NRDL in December 2021. In 2022, the commercialization has covered 1,419 hospitals nationwide. As of December 31, 2022, the commercialization team for autoimmune diseases had been admitted to 472 hospitals.

Leveraging the expertise and industry connections of our teams, and the greatly improved accessibility of the two Core Products following their inclusion into the NRDL, we market the products primarily through a physician-targeted marketing strategy, focusing on direct and interactive communication with key opinion leaders and physicians in the respective therapeutic areas and further market penetration to promote the differentiated positioning and promotion of our products. In addition, we will utilize the existing clinical data to expand the promotion in the departments with approved indications and carry out extensive promotion work in departments with other indications.

KEY EVENTS AFTER THE REPORTING PERIOD

— Disitamab vedotin for the treatment of patients with HER2-expressing locally advanced or metastatic UC was included in the updated NRDL in January 2023. The new price took effect from March 1, 2023.

— The FDA approved the IND application for the Phase III clinical trial on telitacicept for the treatment of gMG and granted fast-track designation to the drug in January 2023.

— The Company officially initiated a Phase III clinical trial on RC28-E injection for the treatment of wAMD in China in January 2023.

— In January 2023, the Company entered into a cooperation agreement on clinical development of drug combination with Shanghai Allist Pharmaceuticals Co., Ltd. (stock code: 688578.SH), pursuant to which the parties will cooperate on clinical studies on the development of combinations consisting of RC108, an ADC targeting cellular-mesenchymal epithelial transition factor (c-Met) of the Company, and furmonertinib mesilate tablets (brand name: 艾弗沙®), a tyrosine kinase inhibitor (TKI).

— In February 2023, the CDE officially approved the IND application for a Phase Ib/II clinical trial on a combination of disitamab vedotin (RC48, brand name: 爱地希®) and pyrotinib maleate tablets (brand name: 艾瑞妮®) for the treatment of patients with locally advanced or metastatic non-small cell lung cancer with HER2 mutations.

— In March 2023, the CDE approved a range of IND applications for disitamab vedotin (RC48, brand name: 爱地希®) including:

- disitamab vedotin (RC48, brand name: 爱地希®) in combination with toripalimab injection (brand name: 拓益®) or letrozole as neoadjuvant therapies for patients with HR-positive, HER2 low-expressing breast cancer;

- a phase II clinical trial on disitamab vedotin (RC48, brand name: 爱地希®) with pertuzumab (brand name: Perjeta®) in combination with or without toripalimab injection (brand name: 拓益®) as a neoadjuvant therapy for patients with HER2-positive breast cancer;

- a phase II study on disitamab vedotin (RC48, brand name: 爱地希®) or in combination with toripalimab injection (brand name: 拓益®) or sequential chemotherapy as a neoadjuvant therapy for patients with HR-negative, HER2 low-expressing breast cancer;

- disitamab vedotin (RC48, brand name: 爱地希®) in combination with toripalimab injection (brand name: 拓益®) and chemotherapy or trastuzumab for injection (Herceptin) as a first-line therapy for patients with HER2-expressing locally advanced or metastatic gastric cancer (including GEJ carcinoma).

— In March 2023, the CDE approved an IND application for the Phase I/IIa clinical trial on RC88 for Injection, the Company's product, in combination with toripalimab injection (brand name: 拓益®) for patients with advanced malignant solid tumors.

FUTURE DEVELOPMENT

The Company is committed to becoming China's leading and world-class biopharmaceutical company to discover, develop, manufacture and commercialize first-in-class and best-in-class biopharmaceuticals in the major therapeutic areas including autoimmune diseases, oncology and ophthalmology, so as to create clinical value, maximise shareholder benefits and provide patients with high-quality drugs to address unmet significant clinical needs worldwide.

Looking forward to 2023, we will endeavour to commercialize telitacicept and disitamab vedotin and actively expand the market in China. At the same time, we will continuously accelerate the application and clinical trials for the expansion of the indications for products in the pipeline.

On the international front, we will further step up our efforts for expansion in the international market, and quickly advance and initiate clinical studies of our Core Products in the international market. We are conducting an international multi-center Phase III clinical trial on telitacicept for the treatment of SLE indications and a phase II clinical trial for the treatment of IgAN in the United States. With regard to disitamab vedotin, we will continuously work with Seagen to support its global clinical trials.

FINANCIAL REVIEW

Revenue

The Group's revenue fell to RMB767.8 million in 2022 from RMB1,423.9 million in 2021. The Company granted Seagen an exclusive license to develop and commercialize disitamab vedotin in countries outside the RemeGen Territory in 2021, received an upfront payment of US$200 million from Seagen and recognised the revenue. Despite the Company received no revenue in this regard in 2022, the sales revenue from telitacicept and disitamab vedotin saw fast growth in 2022 as the two drugs were included in the NRDL at the end of 2021 and smooth progress of commercialization.

Other Income and Gains

The Group's other income and gains primarily consist of interest income, government grants, exchange gain and wealth management income.

Our other income and gains increased from RMB186.0 million in 2021 to RMB232.5 million in 2022, primarily due to an increase of RMB18.2 million in interest income and an increase of RMB12.1 million in wealth management income from the proceeds raised in A Share Offering, an increase of RMB13.2 million in exchange gain, and a total increase of RMB3.0 million in others.

Selling and Distribution Expenses

The Group's selling and distribution expenses mainly consist of employee benefits expenses and market development expenses.

Our selling and distribution expenses increased from RMB263.0 million in 2021 to RMB440.7 million in 2022, primarily due to the fact that telitacicept and disitamab vedotin became commercially available following the conditional marketing approval from the NMPA in March 2021 and June 2021 respectively, and were included in the NRDL at the end of 2021, resulting in a growth of sales volume and a significant increase in sales force and thus a rise in personnel costs, market development costs, academic promotion costs, etc.

Administrative Expenses

The Group's administrative expenses mainly consist of employee benefits expenses, consulting service expenses, general office expenses, depreciation and amortisation expenses, and other administrative expenses.

Our administrative expenses increased from RMB219.8 million in 2021 to RMB272.5 million in 2022, primarily due to an increase in employee expenses and depreciation of phase IV antibody building after being transferred to fixed asset.

Management Discussion and Analysis

Research and Development Expenses

The Group's research and development expenses consist of employee benefits expenses, expenses for procuring raw materials used in the research and development, clinical trial expenses for our drug candidates, testing expenses for preclinical programs, depreciation and amortization expenses, utilities used for research and development activities, and other research and development expenses. Our research and development expenses increased from RMB711.0 million in 2021 to RMB982.1 million in 2022. The following table sets forth the components of our research and development expenses for the years indicated.

	Year ended 31 December			
	2022		2021	
	RMB'000	**%**	RMB'000	%
Employee benefits expenses	**321,728**	**32.8**	218,288	30.7
Raw material expenses	**163,448**	**16.6**	144,533	20.3
Clinical trial expenses	**235,283**	**24.0**	121,250	17.1
Testing expenses	**86,031**	**8.8**	57,982	8.2
Depreciation and amortisation expenses	**99,271**	**10.1**	84,259	11.9
Utilities	**19,594**	**2.0**	17,681	2.5
Others	**56,725**	**5.7**	66,980	9.3
Total	**982,080**	**100.0**	710,973	100.0

(i) Employee benefits expenses increased by RMB103.4 million, mainly due to an increase in the number of research and development employees and an increase in staff salary levels and share-base payment expense;

(ii) Raw material expenses increased by RMB18.9 million, mainly due to the continuous development of drug candidates;

(iii) Clinical trial expenses increased by RMB114.0 million, mainly due to the continuous clinical development of drug candidates;

(iv) Testing expenses increased by RMB28.0 million, mainly due to the continuous development of drug candidates;

(v) Depreciation and amortisation expenses increased by RMB15.0 million, mainly due to an increase in depreciation expenses as a result of new purchases of research and development equipment due to the continuous development of drug candidates;

(vi) Other expenses decreased by RMB8.2 million.

Impairment Losses on Financial Assets, Net

The Group's net impairment losses on financial assets mainly consist of the impairment losses in relation to other receivables and receivables. We recorded the net impairment loss on financial assets of RMB0.3 million for the year ended December 31, 2021 and the net impairment loss on financial assets of RMB11.1 million for the year ended December 31, 2022. The rise in provision of impairment losses is primarily due to the fact that telitacicept and disitamab vedotin became commercially available following the conditional marketing approval from the NMPA in March 2021 and June 2021 respectively, and were included in the NRDL at the end of 2021, resulting in an increase in sales volume and trade receivables from product sales.

Management Discussion and Analysis

Other Expenses

The Group's other expenses primarily consist of (i) rental related expenses relating to the leases of our facilities to related parties; (ii) expenses incurred for sales of materials; (iii) losses from changes in foreign currency exchange rates; and (iv) other expenses, including our donation to charity organisations and the donation expenditure of telitacicept and disitamab vedotin. Our other expenses fell from RMB67.0 million in 2021 to RMB16.0 million in 2022, mainly due to a decrease of RMB25.5 million in exchange losses and a total decline of RMB27.1 million in others, such as donation expenditure of telitacicept and disitamab vedotin.

Finance Costs

The Group's finance costs mainly consist of interest on lease liabilities. Our financial costs increased from RMB5.3 million in 2021 to RMB6.8 million in 2022.

Income Tax Expenses

For the years ended 31 December 2021 and 2022, the Group's income tax expenses were nil.

Profit/(loss) for the Year

Based on the factors described above, the Group recorded a profit of RMB276.3 million in 2021 and a loss of RMB998.8 million in 2022.

Liquidity and Financial Resources

Our primary use of cash is to fund research and development expenses. As of December 31, 2022, our net cash used in operating activities was RMB1,263.7 million. Our cash and cash equivalents rose from RMB1,756.8 million as of December 31, 2021 to RMB2,069.2 million as of December 31, 2022, primarily due to an increase in the proceeds raised from A Share Offering.

Loans and Gearing Ratio

As of December 31, 2022, the Group's interest-bearing bank and other borrowings were nil.

The gearing ratio is calculated using the Group's total liabilities divided by its total assets. As of December 31, 2022, the Group's gearing ratio was 17.3% (December 31, 2021: 17.1%).

Significant Investments, Material Acquisitions and Disposal

The Group did not have any significant investments or material acquisitions or disposals of subsidiaries, associates and joint ventures for the year ended December 31, 2022.

Capital Commitments

As of the years ended December 31, 2021 and 2022, the Group had capital commitments contracted for but not yet provided of RMB523.4 million and RMB467.0 million respectively, primarily in connection with (i) contracts entered into with contractors for the construction of our new manufacturing facilities; and (ii) contracts entered into with suppliers for the purchase of equipment.

Contingent Liabilities

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

Foreign Exchange Exposure

Our financial statements are expressed in RMB, but certain of our cash and cash equivalents and time deposits and other assets are denominated in foreign currencies, and are exposed to foreign currency risk. We currently do not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Employees and Remuneration

As of December 31, 2022, the Group had a total of 3,332 employees. The total remuneration cost for 2022 was RMB810.7 million, as compared to RMB459.0 million for 2021, primarily due to an increase in the number of employees, an increase in their salaries and an increase in share-based compensation.

To maintain the quality, knowledge and skill levels of our workforce, the Group provides continuing education and training programs, including internal and external training, for our employees to improve their technical, professional or management skills. The Group also provides training programs to our employees from time to time to ensure their awareness and compliance with our policies and procedures in various aspects.

We provide various incentives and benefits to our employees. We offer competitive salaries, bonuses and share-based compensation to our employees, especially key employees. We have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident funds for our employees in accordance with applicable PRC laws.

USE OF PROCEEDS FROM LISTING OF H SHARES AND A SHARES

H SHARES OFFERING

The Company's H Shares were listed on the Stock Exchange on November 9, 2020 with a total of 88,017,500 offer shares (including the H Shares issued as a result of the full exercise of the over-allotment option) issued and the net proceeds raised from the Listing of H Shares (including the exercise of the over-allotment option) were approximately HK$4,444.2 million (equivalent to approximately RMB3,784.5 million). Save as disclosed in this report, there was no change in the intended use of net proceeds as previously disclosed in the Prospectus, and the Company will gradually utilize the residual amount of the net proceeds in accordance with such intended purposes based on actual business needs.

As at December 31, 2022, approximately RMB3,148.80 million of the net proceeds of the Listing of H Shares had been utilized as follows:

	Allocation of net proceeds from Listing of H Shares (RMB million)	**Adjusted allocation of net proceeds from Listing of H Shares[(1)]** (RMB million)	**Utilized amount as at December 31, 2021** (RMB million)	**Utilized amount during the Reporting Period** (RMB million)	**Utilized amount as at December 31, 2022** (RMB million)	**Unutilized amount as at December 31, 2022[(2)]** (RMB million)
Clinical trials of telitacicept (RC18)	567.68	567.68	242.04	112.56	**354.60**	**213.08**
Clinical trials of disitamab vedotin (RC48)	567.68	567.68	246.16	84.83	**330.99**	**236.69**
Clinical trials of RC28	189.22	189.22	105.65	30.87	**136.52**	**52.70**
Development of RC88 and RC98, as well as early-stage drug discovery and development	567.68	567.68	504.48	37.07	**541.55**	**26.13**
Construction of new manufacturing facility to expand commercial manufacturing capacity	946.13	946.13	796.54	47.47	**844.01**	**102.12**
Repayment of the borrowings from RC Pharma	567.68	485.85	485.85	–	**485.85**	**–**
General corporate and working capital purposes	378.45	460.28	450.00	5.28	**455.28**	**5.00**
Total	3,784.52	3,784.52	2,830.72	318.08	**3,148.80**	**635.72**

Notes:

(1) As the Company had used RMB485.85 million to fully repay the borrowings from RC Pharma, in order to enhance the efficiency and effectiveness of the use of capital and to take into account the market conditions and the Company's business needs, the Company intends to use the remaining RMB81.83 million of the proceeds from the Listing of H Shares originally used to repay the borrowings from RC Pharma for general corporate and working capital.

(2) All remaining unutilized net proceeds is expected to be fully utilized by December 31, 2023. The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

A SHARES OFFERING

As approved by the China Securities Regulatory Commission, the Company issued 54,426,301 new A Shares at the issue price of RMB48.00 per A Share and all of the then existing domestic shares and unlisted foreign shares were converted into A Shares. The A Shares were listed on the Sci-Tech Board on March 31, 2022. The gross proceeds amounted to approximately RMB2,612.4 million. After deducting issuance expenses of RMB106.5 million in accordance with the related requirements, the net proceeds amounted to approximately RMB2,505.9 million. The net proceeds raised from the A Share Offering have been used and will be used in accordance with the intended uses disclosed in the Company's A Share prospectus dated March 28, 2022.

As at December 31, 2022, approximately RMB1,368.89 million of the net proceeds of the A Share Offering had been utilized as follows:

	Allocation of net proceeds from A Share Offering (RMB million)	**Utilized amount as at December 31, 2022** (RMB million)	**Unutilized amount as at December 31, 2022** (RMB million)
Industrialization of Biologics	977.76	**580.27**	**397.49**
Research and Development of Anticancer Antibodies	430.00	**127.55**	**302.45**
Research and Development of Antibodies Targeting Autoimmune and Ophthalmic Diseases	220.00	**64.15**	**155.85**
Working Capital	878.18	**596.92**	**281.26**
Total	2,505.94	**1,368.89**	**1,137.05**

Note:

All remaining unutilized net proceeds is expected to be fully utilized by December 31, 2024. The expected timeline for utilizing the remaining proceeds is based on the best estimation of the future market conditions made by the Group. It will be subject to change based on the current and future development of market conditions.

Biographies of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Mr. Wang Weidong (王威東), aged 63, was appointed as a Director on October 30, 2013 and redesignated as an executive Director on May 22, 2020, and has been the chairman of our Board since June 21, 2019. Mr. Wang is primarily responsible for the overall management, business and strategy of our Group. He founded RC Pharma in March 1993 and has served as its chairman and legal representative since its establishment, accumulating more than 27 years of experience in the pharmaceutical industry.

Mr. Wang obtained his bachelor's degree in Chinese medicine manufacturing at the Heilongjiang School of Commerce (黑龍江商學院) (currently known as Harbin University of Commerce (哈爾濱商業大學)) in July 1982. He is currently serving a deputy on the 14th National People's Congress in the PRC.

Mr. Wang has served as a deputy to the 14th National People's Congress (第十四屆全國人大代表) since January 2023 and his awards and recognitions include "Outstanding Builder of Socialism with Chinese Characteristics in Non-State-Owned Sector in Shandong Province" (山東省非公有制經濟人士優秀中國特色社會主義事業建設者) jointly awarded by Shandong Provincial United Front Work Department (山東省委統戰部), Shandong Provincial Federation of Industry and Commerce (山東省工商業聯合會), Shandong Provincial Department of Industry and Information Technology (山東省工業和信息化廳), Shandong Provincial Department of Human Resources and Social Security (山東省人力資源和社會保障廳) and Shandong Provincial Department of Market Regulation (山東省市場監管局) in July 2019, "2019 YEDA Distinguished Personnel" (煙台開發區功勳人物) awarded by the YEDA Management Committee Office (煙台開發區工委管委) in February 2020, and "Entrepreneurs With Outstanding Contribution" (紮根煙台開發區創業二十年特殊貢獻企業家) awarded by the YEDA Management Committee Office (煙台開發區工委管委) in February 2020 for his 20-year deep-rooted entrepreneurship contribution in YEDA.

Dr. Fang Jianmin (房健民), aged 60, was appointed as our Director, chief executive officer and chief scientific officer on October 16, 2008, and redesignated as an executive Director on May 22, 2020. Dr. Fang is a co-founder of our Company and is primarily responsible for the overall management, business and strategy of our Group. Since inception, Dr. Fang has been the key driving force in our innovation and overseen our new drug research and development from discovery, target validation, CMC development, to clinical studies. He possesses more than 20 years of experience in the research and development of biopharmaceuticals. Dr. Fang also serves as director of RemeGen Medical Research (Shanghai) Co., Ltd., RemeGen Biosciences, Inc. and RemeGen Hong Kong Limited, our wholly-owned subsidiaries.

Dr. Fang obtained his doctorate degree in Biology from Dalhousie University in Canada in May 1998 and was a post-doctoral fellow focusing on cancer research at the Department of Surgery, Harvard Medical School/Boston Children's Hospital from 1997 to 2000.

Biographies of Directors, Supervisors and Senior Management

Dr. Fang was recognized as a Taishan Scholar (泰山學者) by the Shandong Provincial People's Government (山東省人民政府) in March 2010. He has been a member of the scientific expert committee of the National Major Scientific and Technological Project for "Major Drug Innovations" of China ("重大新藥創制"國家科技重大專項總體專家組) since December 2012 which overseen the nation's drug innovation strategy. Dr. Fang is a professor of molecular medicine at School of Life Science and Technology at Tongji University in Shanghai, PRC. He is member of the Board of Directors of Chinese Pharmaceutical Association (中國藥學會), vice chairman of Antibody Drug Division at China Medicinal Biotechnology Association (中國醫藥生物技術協會"單克隆抗體專業委員會") and vice chairman of Drug Innovation Division at Chinese Pharmaceutical Innovation Research and Development Association (中國醫藥創新促進會藥物研發專業委員會). He is the inventor of conbercept and owns more than 40 patents.

Dr. He Ruyi (何如意), aged 61, was appointed as a Director on May 11, 2020 and redesignated as an executive Director on May 22, 2020 and appointed as the chief medical officer and head of clinical research of our Company on May 11, 2020 and is primarily responsible for the management of the clinical needs, medical support, clinical pharmacology, registrational compliance, drug safety, clinical researches and statistics of our Group. Dr. He possesses more than 33 years of experience in medical and pharmaceutical industries in the PRC and the U.S. and nearly 20 years of unique policy-making and managerial experience at the FDA in the U.S. and the NMPA in China. He has been the chief scientist of healthcare and medicine (醫藥健康首席科學家) at SDIC Fund Management Co., Ltd. (國投招商投資管理有限公司) to advise on investment decisions in the healthcare and medicine field since October 2018. From July 2016 to October 2018, he was the chief scientist at the Center for Drug Evaluation, the China Food and Drug Administration (currently known as the National Medical and Pharmaceutical Administration) (國家食品藥品監督管理總局藥品審評中心), where he was responsible for improving its drug evaluation and approval process and supervising assessments related to the safety, effectiveness and quality of innovative drugs. He served in various capacities from medical officer to medical team leader and the acting deputy director in the Center for Drug Evaluation and Research at the Food and Drug Administration in the U.S. from 1999 to 2016. Dr. He was a doctor of internal medicine at Howard University Hospital and Affiliated Hospitals in Washington, District of Columbia, the U.S. between June 1996 and June 1999, and a visiting fellow at the National Institutes of Health in the U.S. between March 1988 and June 1996. He served as a doctor of internal medicine at the First Hospital of China Medical University (中國醫科大學附屬第一醫院) from July 1986 to March 1988.

Dr. He obtained his bachelor's and master's degrees in medicine from China Medical University (中國醫科大學) in August 1983 and July 1986, respectively, and a certification of postgraduate medical education in internal medicine from Howard University in the U.S. in June 1997. He is certified as a diplomate in internal medicine by the American Board of Internal Medicine and licensed to practise medicine and surgery in West Virginia, the U.S. since 1999 and 2015, respectively. Dr. He has served as the independent director of Suzhou Zelgen Biopharmaceuticals Co., Ltd. (蘇州澤璟生物製藥股份有限公司), a company listed on the Science and Technology Innovation Board of the Shanghai Stock Exchange (stock code: 688266), since February 2019.

Dr. He's awards and recognitions include a Serotonin (5-HT) Receptor Against Class — AC team excellence award by the Center for Drug Evaluation and Research of the Food and Drug Administration in the U.S. in September 2012, FDA group recognitions awarded by the Food and Drug Administration in the U.S. in July and October 2013, and a leveraging collaboration award from the Food and Drug Administration in the U.S. in September 2014. Dr. He was also recognized for his outstanding service of more than 25 years in developing scientific education training activities for staff in Center for Drug Evaluation and Research of the Food and Drug Administration in the U.S. in May 2015.

Mr. Lin Jian (林健), aged 67, was appointed as a Director on July 4, 2008 and redesignated as an executive Director on May 22, 2020. He has more than 35 years of experience in the pharmaceutical industry and is primarily responsible for the overall management, business and strategy of our Group. Mr. Lin served as the chairman of our Board from July 2008 to June 2019 and was responsible for our strategic planning and development of our Group. He is also director of Ruimeijing (Beijing) Pharmaceutical Technology Co., Ltd. and RemeGen Biosciences, Inc., our wholly-owned subsidiaries.

Mr. Lin obtained his bachelor's degree in Chinese medicine manufacturing from the Heilongjiang School of Commerce (黑龍江商學院) (currently known as Harbin University of Commerce (哈爾濱商業大學)) in January 1982.

Non-Executive Directors

Dr. Wang Liqiang (王荔強), aged 52, was appointed as a Director on May 11, 2020 and redesignated as a non-executive Director on May 22, 2020. Dr. Wang has more than 26 years of experience in the pharmaceutical industry and is primarily responsible for supervising the management of our Board. Since December 2012, Dr. Wang has served as the president of RC Pharma. Since November 2012, Dr. Wang has served as the chairman of the board and the president of RC Pharmaceutical (Zibo) Co, Ltd. (榮昌製藥（淄博）有限公司), a subsidiary of RC Pharma. Since December 2014, he has served as the chairman of the board and the general manager of Yantai Lida Medicine Co., Ltd. (煙台立達醫藥有限公司), a subsidiary of RC Pharma. Since February 2020, he has served as the chairman of the board and the president of Yantai Yeda International Biomedical Innovation Incubation Center Co., Ltd. (煙台業達國際生物醫藥創新孵化中心有限公司), a subsidiary of RC Pharma. Dr. Wang was also appointed as the vice chairman (副會長) of the PRC Chinese Medicine Association of Anorectal Studies (中國中醫藥研究促進會肛腸分會) in October 2019 and a member of the 3rd Council of the Pharmaceutical Chamber of Commerce of All-China Federation of Industry and Commerce (中華全國工商業聯合會醫藥業商會第三屆理事會) in August 2019.

Dr. Wang obtained his doctorate degree in business administration at the United Business Institute in Belgium in November 2019. His awards and recognitions include top 10 emerging figures in the pharmaceutical industry in the PRC (中國醫藥行業十大新銳人物) awarded by the All-China Federation of Industry and Commerce (中華全國工商業聯合會醫藥業商會) in June 2019, 70th establishment anniversary of the PRC — Distinguished figure in the pharmaceutical industry (建國70周年 • 醫藥產業功勳人物) awarded by Organizing Committee of Assessment Results of Chinese Brand Influence (中國品牌影響力評價成果發佈活動組委會) in May 2019, 2017 Star Entrepreneur (2017年度明星企業家) awarded by the Management Committee of Zibo National New & Hi-tech Industrial Development Zone (淄博高新區管委會) in February 2018 and 2015 top 100 innovative individuals in PRC enterprises (2015年度中國企業百名創新人物) awarded by the Cultural Management Professional Committee of the China Culture Administration Association (中國文化管理協會企業文化管理專業委員會) in November 2015.

Dr. Su Xiaodi (蘇曉迪), aged 36, was appointed as a Director on May 11, 2020 and redesignated as a non-executive Director on May 22, 2020. She has around 6 years of experience in management consulting and investments in the biomedical industry, and is primarily responsible for supervising the management of our Board. She is currently an executive director at Lilly Asia Ventures. Prior to joining our Group, she was a life science specialist at L.E.K. Consulting from September 2015 to November 2017, where she led and supported more than 15 projects focusing on pharmaceutical and medtech sectors.

Biographies of Directors, Supervisors and Senior Management

Dr. Su obtained her bachelor's degree in biology from Fudan University in Shanghai, the PRC in July 2008 and her doctoral degree in immunology and microbial pathogenesis (免疫與微生物病原學) from Cornell University in the United States in May 2014. From June 2014 to March 2015, she was a post-doctoral fellow at Hospital for Special Surgery in New York, the United States.

Independent non-executive Directors

Mr. Chen Yunjin (陳雲金), aged 37, was appointed as an independent non-executive Director on May 5, 2022. Mr. Chen graduated from Huaqiao University (華僑大學) in the PRC and obtained a bachelor's degree in law in June 2009. Mr. Chen graduated from the Chinese University of Hong Kong in Hong Kong and obtained a master degree in common law in December 2010. Mr. Chen obtained the legal professional qualification in March 2010 and the lawyer qualification from the Department of Justice of the PRC in October 2012. Mr. Chen further obtained the qualification of fund practitioner from the Asset Management Association of China (中國證券投資基金業協會) in June 2021. Mr. Chen has been the executive director of Hold Cheng International Co., Ltd. (合成國際有限公司) since August 2020. He has been an executive director and the general counsel of Dao Sheng International Financial Leasing Co., Ltd. (道生國際融資租賃股份有限公司) since September 2015. Mr. Chen served as a legal officer of Chevalier International Holdings Limited (香港其士國際集團有限公司), a company listed on the Stock Exchange (stock code: 25), from July 2015 to December 2016. He served as the legal supervisor of SOCAM Development Limited (香港瑞安建業有限公司), a company listed on the Stock Exchange (stock code: 983), from January 2014 to June 2015. He served as the legal director (法務主任) of Korea Samsung Electronics (HK) Limited (韓國三星電子（香港）國際有限公司) from April 2012 to January 2014. He had also been a lawyer in Hunan Renhe (Zhuhai) Law Firm (湖南人和（珠海）律師事務所) from October 2012 to January 2014. He had also worked at the Hong Kong office of Gibson Dunn & Crutcher from August 2010 to April 2012.

Mr. Hao Xianjing (郝先經), aged 57, was appointed as an independent Director on May 11, 2020 and redesignated as an independent non-executive Director on May 22, 2020. He is responsible for providing independent advice and judgment to our Board. Mr. Hao has more than 19 years of experience in accounting, auditing, and financial reporting. Mr. Hao has worked at ShineWing Certified Public Accountants (信永中和會計師事務所) since October 2009 and is currently the general manager of the branch office in Jinan.

Mr. Hao was an independent director at Tianguang Zhongmao Co., Ltd. (天廣中茂股份有限公司), which is listed on the Shenzhen Stock Exchange (stock code: 002509) from September 2019 to July 2020. He served as an independent director of Inspur Electronic Information Industry Co., Ltd. (浪潮電子信息產業股份有限公司) and AVCON Information Technology Co., Ltd. (華平信息技術股份有限公司), both of which are listed on the Shenzhen Stock Exchange (stock codes: 000977.SZ and 300074.SZ, respectively) from May 2008 to April 2014 and June 2018 to June 2021, respectively.

Mr. Hao graduated from Shandong University of Finance (山東財政學院) (currently known as Shandong University of Finance and Economics (山東財經大學)) in the PRC with a bachelor's degree in finance in July 1989. He received a master's degree in economics from Liaoning University (遼寧大學) in the PRC in July 1996. Mr. Hao has been a member of the Chinese Institute of Certified Public Accountants (中國註冊會計師協會) since June 1995 and a member of the China Certified Tax Agents Association (中國註冊稅務師協會) since December 2000.

Biographies of Directors, Supervisors and Senior Management

Dr. Ma Lan (馬蘭), aged 64, was appointed as an independent non-executive Director on June 1, 2021. Dr. Ma received her PhD degree from the University of North Carolina in 1990 and conducted post-doctoral research at the University of North Carolina from 1991 to 1993 and at the Bayer Pharmaceutical Research Center from 1993 to 1995. She has been the Director of the Center for Pharmacological Research at Fudan University since November 2003, and the Director of the Institute of Brain Science at Fudan University since July 2008, and was elected as an academician of the Chinese Academy of Sciences in November 2019.

SUPERVISORS

Mr. Ren Guangke (任廣科), aged 49, was appointed as a Supervisor on May 11, 2020, and is primarily responsible for the supervision of the performance of the Directors and members of the senior management in performing their duties to the Company. Mr. Ren has around 23 years of experience in the legal field. He joined our Company on May 25, 2019 and is primarily responsible for intellectual property matters and legal affairs of our Company. Prior to joining our Company, Mr. Ren served as the deputy general manager (副總經理) and manager of the intellectual property legal affairs department (知識產權及法務部) of RC Pharma from June 2017 to April 2019 and a president (庭長) of Shandong Yantai Intermediate People's Court (煙台市中級人民法院) to preside over and decide cases from February 2014 to May 2017.

Mr. Ren obtained his bachelor's degree in physics from Yantai University (煙台大學) in the PRC in June 1996.

Mr. Li Yupeng (李宇鵬), aged 40, was appointed as a Supervisor on May 11, 2020, and is primarily responsible for the supervision of the performance of the Directors and members of the senior management in performing their duties to the Company. Mr. Li has around 9 years of experience in the investment management and has been the vice-president (副總裁) of SDIC Venture Capital Management Co., Ltd. (國投創業投資管理有限公司) since December 2016 and is primarily responsible for overseeing biomedical investments of our Company.

Mr. Li obtained his bachelor's degree in computer engineering from Beijing Institute of Technology (北京理工大學) in the PRC in July 2006 and his master's degree in finance from the Chinese Academy of Fiscal Sciences (中國財政研究院) in the PRC in July 2011.

Mr. Li Zhuanglin (李壯林), aged 48, was appointed as a Supervisor on May 11, 2020, and is primarily responsible for the supervision of the performance of the Directors and members of the senior management in performing their duties to the Company. Mr. Li has around 15 years of experience in the biomedical manufacturing field. He has been the deputy general manager (副總經理) of our Company since July 2011 and May 2019, respectively, and is primarily responsible for overseeing the commercialization and manufacturing center (商業化製造中心) of our Group. Prior to joining our Group, he was the deputy general manager (副總經理) of Shandong Simcere Pharmaceutical Co., Ltd. (山東先聲生物製藥有限公司) and supervised its manufacturing and engineering departments.

Mr. Li obtained his bachelor's degree in microbiology (微生物學) from Yantai University (煙台大學) in the PRC in July 1997 and his master's degree in biochemistry and molecular biology (生物化學與分子生物學) and his doctoral degree in microbiology (微生物學) from Shandong University (山東大學) in the PRC in December 2006 and June 2011, respectively.

Biographies of Directors, Supervisors and Senior Management

Other Disclosure Pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules

Mr. Wang Weidong serves as a deputy on the 14th National People's Congress in the PRC.

Dr. Su Xiaode serves as an executive director at Lilly Asia Ventures.

Save as disclosed above, there is no change of information of each Director and Supervisor that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules.

SENIOR MANAGEMENT

Dr. Fang Jianmin (房健民), see "— Directors — Executive Directors" for details.

Dr. Fu Daotian (傅道田), aged 60, was appointed as the president of our Company on September 2, 2019 and is primarily responsible for operational management of the new drug pre-clinical research and development, processes development, quality control, pharmaceutical production of our Group. Dr. Fu possesses more than 25 years of experience in research and development of biopharmaceuticals in the PRC and the U.S. Prior to joining our Group, he was the vice president and executive director of Livzon Pharmaceutical Group Inc. ("Livzon Pharmaceutical"), a company listed on the Stock Exchange (stock code: 1513) and in the PRC (SZSE: 000513) from March and June 2014, respectively to September 2019, where he was responsible for the strategic planning and development of research and development in biotech industry. He was the general manager of Livzon MABPharm Inc., a subsidiary of Livzon Pharmaceutical from March 2012 to September 2019, where he supervised its overall management and operation. At Livzon, he led the biologics development efforts with one successful BLA submission and multiple programs in clinical development. Dr. Fu returned to China after spending 28 years training and working in the biopharmaceutical industry in the United States. Dr. Fu had served as Vice President, Research at Genzyme Corp., one of the top five global biotech companies and was later acquired by Sanofi, a company listed on Nasdaq (stock code: SNY). At Genzyme Corp., Dr. Fu was responsible for CMC development of clinical stage programs, and was directly involved in global launching of five major biologics and clinical development of multiple research and development programs.

Dr. Fu was a guest processor of Sun Yat-Sen University (中山大學) in the PRC from 2015 to 2018, and has been an external graduate advisor of China Pharmaceutical University (中國藥科大學) in the PRC and a member of the Professional Teaching Guidance Sub-Committee under the Tertiary Education Pharmacy Teaching Guidance Committee (高等學校藥學類專業教學指導委員會) commissioned by the Ministry of Education in the PRC.

Dr. Fu obtained his bachelor's degree in biology from Shandong University in the PRC in July 1983 and his doctorate degree in biochemistry from Iowa State University, the U.S. in May 1990.

Dr. He Ruyi (何如意), see "— Directors — Executive Directors" for details.

Biographies of Directors, Supervisors and Senior Management

Mr. Wen Qingkai (溫慶凱), aged 56, was appointed as the board secretary of our Company on May 11, 2020 and is primarily responsible for overseeing financing activities, internal control and securities and listing matters of our Group. Mr. Wen has more than 16 years of experience in capital operation and corporate governance. He also currently serves as a supervisor of Heyuan Aidisi Biomedical Technology Co., Ltd. (煙台市和元艾迪斯生物醫藥科技有限公司), an investee of our Company and is responsible for supervising its board, business and operational matters. From February 2004 to May 2019, he served as the vice president (副總裁) in RC Pharma, and was responsible for its corporate management, internal control and information technology matters. He has been appointed as a director at Yantai MabPlex International Biomedical Co., Ltd. since November 2019. Mr. Wen obtained his bachelor's degree in physics at Yangzhou University in the PRC in June 1990 and master's degree in philosophy of science and technology at Zhejiang University in the PRC in May 1995.

Mr. Li Jia (李嘉), aged 42, was appointed as the chief financial officer and joint company secretary of our Company on May 11, 2020 and is primarily responsible for overseeing the overall financial management and corporate development of our Group.

Mr. Li possesses more than 15 years of experience in investment banking and corporate finance. Prior to joining our Group, he was an executive director of Goldman Sachs, focusing on transactions in the healthcare space, the board secretary and assistant to the chairman of Hilong Holdings Ltd., a company listed on the Stock Exchange (stock code: 1623), and various investment banking positions at Morgan Stanley, China Renaissance, and Barclays Capital in Asia and the United States.

Mr. Li obtained his bachelor's degree in business administration and a master's degree in accountancy from University of Wisconsin-Madison in Madison, the United States in August 2003 and August 2004, respectively, and a master's degree in business administration from University of Chicago in Illinois, the United States in June 2009.

JOINT COMPANY SECRETARIES

Mr. Li Jia (李嘉), see "— Senior Management" for details.

Ms. Tam Pak Yu, Vivien (譚栢如), was appointed as a joint company secretary of our Company on May 11, 2020. Ms. Tam serves as a manager of SWCS Corporate Services Group (Hong Kong) Limited (方圓企業服務集團（香港）有限公司), a professional services provider specializing in corporate services, and has over seven years of experience in corporate secretarial field. Ms. Tam has been admitted as an associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute of the United Kingdom in 2018.

Ms. Tam obtained a bachelor's degree in China Studies from Hong Kong Baptist University in 2014 and a master's degree in Professional Accounting and Corporate Governance from City University of Hong Kong in 2017.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability. The Company has adopted the code provisions stated in the CG Code. The Company is committed to the view that the Board should include a balanced composition of executive Directors and independent non-executive Directors so that there is a strong independent element on the Board, which can effectively exercise independent judgment.

The Group is committed to achieving high standards of corporate governance with a view to safeguarding the interests of the Shareholders as a whole. The Company had complied with the code provisions of the CG Code during the year ended December 31, 2022.

THE BOARD OF DIRECTORS

Board composition

As at December 31, 2022, the Board consists of four executive Directors, namely Mr. Wang Weidong, Dr. Fang Jianmin, Dr. He Ruyi and Mr. Lin Jian, two non-executive Directors, namely Dr. Wang Liqiang and Dr. Su Xiaodi, and three independent non-executive Directors, namely Mr. Chen Yunjin, Mr. Hao Xianjing and Dr. Ma Lan. Their biographical details are set out in the "Biographies of directors, supervisors and senior management" section of this report. The overall management and supervision of the Company's operation and the function of formulating overall business strategies were vested in the Board. There are no financial, business, family or other material relationships among members of the Board.

During the year ended December 31, 2022, the Board has at all times met the requirements of Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise. The three independent non-executive Directors represent one-third of the Board, complying with the requirement under Rule 3.10A of the Listing Rules whereby independent non-executive directors of a listed issuer must represent at least one-third of the board. The Board believes there is sufficient independence element in the Board to safeguard the interest of Shareholders.

Chairman and chief executive officer

Code provision C.2.1 of part 2 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

During the Reporting Period, in line with the recommendations under the Listing Rules, the roles and functions of the chairman of the Board and the chief executive officer of the Company were taken up by different individuals, and their respective duties were clearly defined.

As of the end of the Reporting Period, Mr. Wang Weidong held the position of chairman of the Board, responsible for providing leadership to the Board and ensuring the Board working effectively, and Dr. Fang Jianmin held the position of chief executive officer of the Company, responsible for the daily operation and management of the Company.

Directors' responsibilities

The Board takes the responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitor the performance of the senior executives. The Directors have to make decisions objectively in the interests of the Company.

Liability insurance for Directors, Supervisors and senior management of the Company is maintained by the Company with appropriate coverage for certain legal liabilities which may arise in the course of performing their duties.

Delegation by the Board

The management, consisting of executive Directors along with other senior executives, is delegated with responsibilities for implementing the strategy and direction as adopted by the Board from time to time, and conducting the day-to-day management and operations of the Group. Executive Directors and senior executives meet regularly to review the performance of the businesses of the Group as a whole, co-ordinate overall resources and make financial and operational decisions. The Board also gives clear directions as to their powers of management including circumstances where management should report back, and will review the delegation arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

Directors' responsibilities for financial statements

The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner. The Directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the consolidated financial statements of the Group on a going concern basis.

Independent non-executive Directors

The independent non-executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision. The functions of independent non-executive Directors include bringing an impartial view and judgement on issues of the Company's strategies, performance and control; and scrutinizing the Company's performance and monitoring performance reporting.

All independent non-executive Directors possess extensive academic, professional and industry expertise and management experience and have made positive contributions to the development of the Company through providing their professional advice to the Board.

Mr. Hao Xianjing is appointed as independent non-executive Directors for a term of three years from May 11, 2020. Dr. Ma Lan and Mr. Chen Yunjin are appointed as independent non-executive Directors for a term commencing of the date of her/his appointment (June 1, 2021 and May 5, 2022, respectively) until the end of the first session of the Board.

Corporate Governance Report

Confirmation of independence

The independence of the independent non-executive Directors has been assessed in accordance with the applicable Listing Rules and each of the independent non-executive Directors has provided an annual written confirmation of independence to the Company pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and are independent.

Board diversity policy

Our Company seeks to enhance the effectiveness of the Board and to maintain high standards of corporate governance by adopting a board diversity policy. Pursuant to this policy, we intend to achieve board diversity through the consideration of a number of factors at the selection of candidates to the Board, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decisions of Board appointments will be based on merit and the contribution which the selected candidates will bring to the Board.

Our Board consists of seven male members and two female members with two Directors of 40 years old or below, three Directors of 51 to 60 years old and four Directors over 60 years old. Our Company has reviewed the membership, structure and composition of the Board, and is of the opinion that the structure of the Board is reasonable, and the experiences and skills of the Directors in various aspects and fields can enable our Company to maintain high standard of operation.

In terms of gender diversity, female representation reached approximately 22% and 56% at Board level and in the Group respectively where all senior management roles were performed by male at present. The Board is satisfied with and determines to maintain the current gender diversity level. The Group is committed to upholding and embracing employees with different backgrounds, culture and gender and will continue to enhance gender diversity through equitable hiring practices, policies and awareness raising events and training for all employees. For details, please refer to the 2022 Environmental, Social and Governance Report of the Company.

Our Nomination Committee continues to monitor and evaluate the implementation of the board diversity policy from time to time to ensure its continued effectiveness and we will disclose in our corporate governance report about the implementation of the board diversity policy, including any measurable objectives set for implementing the board diversity policy and the progress on achieving these objectives on an annual basis. We will also continue to take steps to promote gender diversity at all levels of our Company.

Appointment and re-election of Directors

Pursuant to the requirements of the Articles of Association, Directors (including non-executive Directors) shall be elected at the general meeting with a term of three years for each session. Directors shall be eligible for re-election on the expiry of each term. The Company has implemented a set of effective procedures for appointment of new Directors. The nomination of new Directors shall be first deliberated by the Nomination Committee and then submitted to the Board, subject to approval by election at the general meeting.

Each of the executive Directors, non-executive Directors, independent non-executive Directors and Supervisors has entered into a service contract or a letter of appointment with the Company with a specific term. Such term is subject to his retirement and re-election at the general meeting of the Company in accordance with the Articles of Association.

Save as disclosed above, the Company did not sign any relevant unexpired service contract which is not terminable within a year without payment of any compensation, other than statutory compensation.

Compensation of Directors, Supervisors and senior management

The emoluments of the Directors, Supervisors and senior management of the Group are decided by the Board with reference to the recommendation given by the Remuneration and Appraisal Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

Details of the Directors' and Supervisors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 8 and 9 to financial statements on pages 122 to 126 of this annual report. Details of the Executive Directors' and highest paid individuals' emoluments are set out in notes 8 and 9 to financial statement on pages 122 to 126 of this annual report.

For the Reporting Period, no emoluments were paid by the Group to any Director, Supervisors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors or Supervisors has waived any emoluments for the year ended December 31, 2022.

Except as disclosed above, no other payments have been made or are payable, for the year ended December 31, 2022, by our Group to or on behalf of any of the Directors.

Directors' training and professional development

Every newly appointed Director has been given a comprehensive, formal and tailored induction on appointment. Subsequently, the Directors will receive updates on the Listing Rules, legal and other regulatory requirements and the latest development of the Group's business and are encouraged to participate in continuous professional development to develop their knowledge and skills.

According to the records provided by the Directors and maintained by the Company, the training received by the Directors during the year ended December 31, 2022 is summarised as follows:

	Types of training	
Name of Director	**Reading materials/ articles(1)**	**Attending in-house briefings/seminars/ workshops/forums/ conferences(2)**
Mr. Wang Weidong	✓	✓
Dr. Fang Jianmin	✓	✓
Dr. He Ruyi	✓	✓
Mr. Lin Jian	✓	✓
Dr. Wang Liqiang	✓	✓
Dr. Su Xiaodi	✓	✓
Mr. Chen Yunjin(3)	✓	✓
Mr. Hao Xianjing	✓	✓
Dr. Ma Lan	✓	✓
Ms. Yu Shanshan(4)	✓	✓

Corporate Governance Report

Notes:

(1) Materials/articles, newspapers and journals on updates on relevant statutory and regulatory requirements.

(2) In-house briefings/seminars/workshops/forums/conferences related to topics including developments on the financial and economic environment, business and market changes, director's power and duties under the regulatory requirements, and their responsibilities and continuing obligations.

(3) Appointed with effect from May 5, 2022.

(4) Resigned with effect from May 5, 2022.

Board meetings

Pursuant to Code Provision C.5.1 of part 2 of the CG Code, the Company has adopted the practice of holding Board meetings for at least four times a year at approximately quarterly intervals. Notice of not less than fourteen days are given for all regular Board meetings to provide all Directors with an opportunity to attend and include matters in the agenda for a regular meeting in accordance with Code Provision C.5.3 of part 2 of the CG Code.

All Directors are provided with agenda and relevant information in advance before a Board meeting. They have access to the senior management and the joint company secretaries of the Company at all times and, upon reasonable request, may seek independent professional advice at the Company's expense.

Minutes of Board meetings are kept by the secretary to the Board with copies circulated to all Directors for information and records. Minutes of Board meetings and committee meetings record sufficient detail of the matters considered by the Board and the committees and the decisions reached, including any concerns raised by the Directors. Draft minutes of Board meetings and committee meetings are sent to the Directors for comments within a reasonable time after the date on which a meeting is held. The minutes of the Board meetings are open for inspection by Directors.

The attendance records of each Director at the Board meetings and general meetings of the Company during the year ended December 31, 2022 are set out below:

Name of Director	Attendance/ Number of Board Meetings	Attendance/ Number of General Meetings and Class Meetings
Mr. Wang Weidong	12/12	5/5
Dr. Fang Jianmin	12/12	5/5
Dr. He Ruyi	12/12	5/5
Mr. Lin Jian	12/12	5/5
Dr. Wang Liqiang	12/12	5/5
Dr. Su Xiaodi	12/12	5/5
Mr. Hao Xianjing	12/12	5/5
Dr. Ma Lan	12/12	5/5
Mr. Chen Yunjin(1)	6/6	4/4
Ms. Yu Shanshan(2)	6/6	1/1

Notes:

(1) Appointed with effect from May 5, 2022.

(2) Resigned with effect from May 5, 2022.

Nomination policy

The primary responsibilities of the nomination committee are to consider and recommend to the Board suitable and qualified candidates of Directors and to review the structure, size and composition of the Board and the board diversity policy adopted by the Company on a regular basis.

The nomination committee utilizes various methods for identifying candidates for directorship, including recommendations from Board members, management, and professional search firms. In addition, the nomination committee will consider candidates for directorship properly submitted by the Shareholders. The evaluation of candidates for directorship by the nomination committee may include, without limitation, review of resume and job history, personal interviews, verification of professional and personal references and performance of background checks. The Board will consider the recommendations of the nomination committee and is responsible for designating the candidates for directorship to be considered by the Shareholders for their election at the general meeting of the Company, or appointing the suitable candidate to act as Director to fill the Board vacancies or as an addition to the Board members, subject to compliance of the constitutional documents of the Company. All appointments of Director should be confirmed by letter of appointment and/or service contract setting out the key terms and conditions of the appointment of Directors.

The nomination committee should consider the following qualifications as a minimum to be required for a candidate in recommending to the Board to be a potential new Director, or the continued service of existing Director:

- the highest personal and professional ethics and integrity;
- proven achievement and competence in the nominee's field and the ability to exercise sound business judgment;
- skills that are complementary to those of the existing Board;
- the ability to assist and support management and make significant contributions to the Company's success;
- an understanding of the fiduciary responsibilities that is required for a member of the Board and the commitment of time and energy necessary to diligently carry out those responsibilities;
- independence: the candidates for independent non-executive directorship should meet the "independence" criteria as required under the Listing Rules and the composition of the Board is in conformity with the provisions of the Listing Rules.

The nomination committee may also consider such other factors as it may deem are in the best interests of the Company and the Shareholders as a whole.

Board Independence

There are established mechanisms that independent views and inputs are available to the Board. The Board currently comprises three independent non-executive Directors and being one-third of the Board, which meets with the independent requirements under the Listing Rules. In assessing suitability of the potential candidates of independent non-executive Directors, the nomination committee will review their qualification, skills, knowledge, independent views and having regard to the nomination policy and the board diversity policy of the Company. Nomination committee also assessed the time commitment devoted by and independence of independent non-executive Directors annually. External independent professional advice is also available to all Directors (including independent non-executive Directors) whenever deemed necessary. During the Year, the Board reviewed and considered the implementation of above mechanisms were effective.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code as the guidelines for the Directors' and Supervisors' dealings in the securities of the Company since the Listing and, upon specific enquiries of all the Directors and Supervisors, each of them has confirmed that he or she complied with all applicable code provisions under the Model Code during the year ended December 31, 2022.

As required by the Company, relevant officers and employees of the Company are also bound by the Model Code, which prohibits them to deal in securities of the Company at any time when he/she possesses insider information in relation to those securities. No incident of non-compliance of the Model Code by the relevant officers and employees was noted by the Company.

REMUNERATION PAYABLE TO MEMBERS OF SENIOR MANAGEMENT

Pursuant to Code Provision E.1.5 of part 2 of the CG Code, the annual remuneration of members of the senior management (other than Directors) by band for the year ended December 31, 2022 is set out below:

	Number of members of senior management
Nil to RMB1,000,000	0
RMB1,000,001 to RMB1,500,000	0
RMB1,500,001 to RMB2,000,000	1
RMB2,000,001 to RMB2,500,000	0
RMB2,500,001 to RMB3,000,000	0
RMB3,000,001 to RMB3,500,000	0
Over RMB3,500,001	2

DIVIDEND POLICY

No dividends have been declared or paid by entities comprising the Group. The Company currently expects to retain all future earnings for use in operation and expansion of the Group's business, and does not have any dividend policy to declare or pay any dividends in the foreseeable future. The declaration and payment of any dividends in the future will be determined by the Board and subject to the Articles of Association and the PRC Company Law, and will depend on a number of factors, including the successful commercialization of the drugs of the Company as well as the Group's earnings, capital requirements, overall financial condition and contractual restrictions. No dividend shall be declared or payable except out of profits and reserves lawfully available for distribution. As confirmed by the Company's legal advisor as to PRC laws, according to the PRC law, any future net profit that the Company make will have to be first applied to make up for our historically accumulated losses, after which the Company will be obliged to allocate 10% of the net profit to statutory common reserve fund until such fund has reached more than 50% of the registered capital. The Company will therefore only be able to declare dividends after (i) all historically accumulated losses have been made up for; and (ii) sufficient net profit has been allocated to the statutory common reserve fund as described above.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties including:

- to develop and review the Company's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code).

The Board had performed the above duties during the year ended December 31, 2022.

BOARD COMMITTEES

The Board has established four committees with specific written terms of reference to oversee particular aspects of the Group's affairs.

Corporate Governance Report

Audit Committee

The Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of part 2 of the CG Code as set out in Appendix 14 of the Listing Rules. The Audit Committee consists of Mr. Hao Xianjing, Mr. Chen Yunjin and Dr. Wang Liqiang. The chairman of the Audit Committee is Mr. Hao Xianjing and is our independent non-executive Director with the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The main duties of the Audit Committee include but are not limited to: (i) monitoring and evaluating the work of the external auditor; (ii) supervising the implementation of the internal audit system of the Company; (iii) being responsible for the communications among the management level of the Company, the internal and external audit; (iv) reviewing and commenting on the financial reports of our Company; (v) examining the financial reporting system, risk management and internal control systems of our Company; (vi) making recommendations to our Company on the appointment, re-appointment and removal of the external auditor; (vii) performing daily management duties and implementing control on connected transactions; and (viii) performing such other duties determined by the Board.

The Audit Committee held five meetings during the year December 31, 2022 and its main work included the review and approval of the recommendations to the Board on:

- the audited annual results and financial report for the year ended December 31, 2021;
- the unaudited interim results and financial report for the six months ended June 30, 2022;
- the risk management and internal control systems and internal audit function; and
- re-appointment of the auditor.

The attendance records of the Audit Committee meetings are set out below:

Name of Committee Member	Attendance/ Number of Meeting(s)
Mr. Hao Xianjing	5/5
Dr. Wang Liqiang	5/5
Mr. Chen Yunjin[(1)]	3/3
Ms. Yu Shanshan[(2)]	2/2

Notes:

(1) Appointed with effect from May 5, 2022.

(2) Resigned with effect from May 5,2022.

Remuneration and Appraisal Committee

The Company has established a remuneration and appraisal committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph E.1 of part 2 of the CG Code. The Remuneration and Appraisal Committee consists of Mr. Chen Yunjin, Mr. Hao Xianjing and Mr. Lin Jian, and is chaired by Mr. Chen Yunjin. The main duties of the Remuneration and Appraisal Committee include but are not limited to: (i) formulating remuneration policies for Directors and senior management in accordance with the respective scope, responsibilities and significance of Directors and senior management and remuneration levels of similar positions in other enterprises within the same industry; (ii) making recommendations to the Board on the establishment of a formal and transparent procedure for developing remuneration policies; (iii) monitoring the implementation of remuneration system of our Company for the Directors and senior management; (iv) assessing the fulfilment of duties of Directors and senior management of our Company and appraising their annual performance; determining or making recommendations to the Board, with delegated responsibility, the remuneration packages of individual Directors and senior management; (v) reviewing and approving compensation payable to Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (vi) reviewing and managing the share schemes of our Company, including determining the scope of the eligible participants and conditions of a grant and auditing the exercise conditions and reviewing/approving other relevant matters as mentioned in the Chapter 17 of the Listing Rules; and (vii) performing such other duties determined by the Board. The Remuneration and Appraisal Committee adopted the second model described in code provision E.1.2(c) of part 2 of the CG code.

The Remuneration and Appraisal Committee held four meetings during the year December 31, 2022 and its main work included the review and approval of the recommendations to the Board on:

- the remuneration policy and structure of the Company, the remuneration packages (including grants under share schemes of the Company) of the Directors and senior management of the Company;
- the remuneration of the new independent non-executive Director of the Company;
- the performance of executive Directors;
- the terms of executive Directors' service contracts; and
- matters relating to share schemes of the Company.

The attendance records of the Remuneration and Appraisal Committee meetings are set out below:

Name of Committee Member	Attendance/ Number of Meeting(s)
Mr. Lin Jian	4/4
Mr. Hao Xianjing	4/4
Mr. Chen Yunjin(1)	1/1
Ms. Yu Shanshan(2)	3/3

Notes:

(1) Appointed with effect from May 5, 2022.

(2) Resigned with effect from May 5,2022.

Nomination Committee

The Company has established a nomination committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and paragraph B.3 of part 2 of the CG Code. The Nomination Committee consists of Mr. Wang Weidong, Mr. Hao Xianjing and Dr. Ma Lan, and is chaired by Mr. Wang Weidong. The main duties of the Nomination Committee include but are not limited to: (i) making recommendation to the Board on its size and composition to complement the Company's business operation and shareholding structure; (ii) reviewing and making recommendations to the selection standard and procedure of Directors and senior management; (iii) identifying individuals suitably qualified to become Directors and senior management and selecting or making recommendations to the board on the selection of individuals nominated for directorships or senior management positions; (iv) reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement our Company's corporate strategy; (v) assessing the independence of independent non-executive Directors; and (vi) performing such other duties determined by the Board.

The Board has adopted a board diversity policy, please refer to "Board diversity policy" on page 32 of this annual report for more details. When a vacancy in the Board arises, the Nomination Committee will then identify suitable candidates and convene a meeting to discuss and vote on the nomination of directors and make recommendation to the Board on the candidate(s) for directorship. Please refer to "Nomination policy" on page 35 of this annual report for more details.

The Nomination Committee held three meetings during the year December 31, 2022 and its main work included the review and approval of the recommendations to the Board on:

- the existing structure of the Board, Directors' performance, diversity of the Board, and independence of the independent non-executive Directors; and

- appointment of the new independent non-executive Director.

The attendance records of the Nomination Committee meetings are set out below:

Name of Committee Member	Attendance/ Number of Meeting(s)
Mr. Wang Weidong	3/3
Mr. Hao Xianjing	3/3
Dr. Ma Lan	3/3

Strategy Committee

The Company has established a strategy committee, which consists of Dr. Fang Jianmin, Mr. Wang Weidong, Dr. He Ruyi, Dr. Su Xiaodi, Dr. Wang Liqiang and Dr. Ma Lan and is chaired by Dr. Fang Jianmin. The main duties of the Strategy Committee include but are not limited to: (i) researching and recommending on long-term development strategy of our Company; (ii) researching and recommending on significant investment and financing plans of our Company; (iii) researching and recommending on major capital operation and asset management project, and annual financial budget plan of our Company; (iv) researching and recommending on significant matters relating to the development of our Company; (v) monitoring the above matters and assessing, examining and recommending on significant changes; and (vi) performing such other duties determined by the Board.

The Strategy Committee did not hold any meetings during the year December 31, 2022.

SUPERVISORY COMMITTEE

The Supervisory Committee is a supervisory agency of the Company which is responsible for the supervision of the Board and its members and senior management such as the general manager and deputy general manager so as to prevent them from the misuse of authority and infringement upon lawful rights of the Shareholders, the Company and the Company's employees. The number of members and the composition of the Supervisory Committee are in line with the provisions and requirements of the laws, regulations and the Articles. During the Reporting Period, the Supervisory Committee was comprised of three Supervisors, of whom one was an employee representative Supervisor democratically elected by our employees. The background and biographical details of the Supervisors are set out in the section headed "Biographies of directors, supervisors and senior management" in this annual report.

FINANCIAL REPORTING SYSTEM, RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Financial reporting system

The Directors acknowledge their responsibility for preparing the consolidated financial statements for the year ended December 31, 2022 which give a true and fair view of the affairs of the Company and the Group and of the Group's financial performance and cash flows. The Directors also acknowledge their responsibilities to ensure that the consolidated financial statements of the Group are published in a timely manner.

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

Risk management

The Company is exposed to various risks in its business operations and the Company recognizes that risk management is critical to its success. Please refer to the "Principal Risks and Uncertainties" section of this report for a discussion of various operational risks and uncertainties faced by the Company. The Company has adopted a series of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with the Company's strategic objectives on an on-going basis. Risks identified by management will be analyzed on the basis of likelihood and impact, and will be properly followed up and mitigated and rectified by the Group and reported to the Directors. Our Audit Committee, and ultimately the Directors supervise the implementation of the Company's risk management policies. The Directors and the senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control. The Company has adopted and will continue to adopt, among other things, the following risk management measures:

- The Audit Committee will oversee and manage the overall risks associated with the Company's business operations, including (i) reviewing and approving the risk management policy to ensure that it is consistent with the Company's corporate objectives; (ii) reviewing and approving the Company's corporate risk tolerance; (iii) monitoring the most significant risks associated with the Company's business operation and the management's handling of such risks; (iv) reviewing the Company's corporate risk in the light of the Company's corporate risk tolerance; and (v) monitoring and ensuring the appropriate application of the risk management framework across the Group.

- The Board will be responsible for (i) formulating the risk management policy and reviewing major risk management issues of the Company; (ii) providing guidance on the risk management approach to the relevant departments in the Company; (iii) reviewing the relevant departments' report on key risks and providing feedbacks; (iv) supervising the implementation of the Company's risk management measures by the relevant departments; and (v) reporting to the Audit Committee on the Company's material risks.

- The relevant departments in the Company, including but not limited to the finance department, the legal department and the human resources department, are responsible for implementing the Company's risk management policy and carrying out the Company's day-to-day risk management practice. In order to formalize risk management across the Group and set a common level of transparency and risk management performance, the relevant departments will (i) gather information about the risks relating to their operation or function; (ii) conduct risk assessments, which include the identification, prioritization, measurement and categorization of all key risks that could potentially affect their objectives; (iii) prepare a risk management report annually for the chief executive officer's review; (iv) continuously monitor the key risks relating to their operation or function; (v) implement appropriate risk responses where necessary; and (vi) develop and maintain an appropriate mechanism to facilitate the application of the Company's risk management framework.

Internal control system

The Board is responsible for the risk management and internal control systems of the Group and for reviewing their effectiveness at least annually, and the Audit Committee assists the Board in fulfilling its oversight and corporate governance roles in the Group's financial, operational, compliance and risk management. The risk management and internal control systems of the Group are designed to manage rather than eliminate risks of failure to achieve business objectives, and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Company has an internal audit function in place, which is responsible for independently reviewing the adequacy and effectiveness of the risk management and internal control system of the Company, and reporting the results to the Audit Committee. Internal control supervisor of the Company is responsible for coordinating the internal control, sorting out and improving the business process and management mechanism, and carrying out the effectiveness evaluation of internal control. In addition to the internal control and internal audit functions, all employees are liable for risk management and internal control within their business scope. Each department shall actively cooperate with the internal control and internal review, report to the management on the important development of the department's business and the implementation of policies and strategies established by the Company, and identify, evaluate and manage major risks in time.

The Company has established risk management and internal control management to build general risk management internal control environment. At present, the Company has built an internal control process framework covering procurement, sales, human resources and compensation management, marketing and promotion management, tax management, capital management, information security and intellectual property rights, financial reporting and disclosure and other business processes and carry out risk assessment regularly to ensure risk management and internal control being in operation effectively.

The Audit Committee has made an annual review and was satisfied as to the implementation and effectiveness of the Group's risk management and internal control procedures. There were no matters of material concerns relating to financial, operational or compliance controls. The Board is satisfied with the adequacy of the risk management and internal control procedures of the Group during the Reporting Period.

Handling of inside information

The Company has adopted an inside information policy in accordance with the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") and the Listing Rules to ensure confidentiality when handling inside information and the publication of relevant disclosures to the public as soon as practicable. Under this policy, the Company disseminates information to specified persons on a need-to-know basis, and requires all employees who have access to the inside information to maintain strict confidentiality of the inside information until it is announced. The policy also sets out the scope of inside information and the procedures and precautionary measures for reporting or leakage of inside information of the Group.

Corporate Governance Report

AUDITOR'S REMUNERATION

The Company appointed Ernst & Young, certified public accountants, as the external auditor for the year ended December 31, 2022. The work scope and reporting responsibilities of Ernst & Young are set out in the "Independent Auditor's Report" on pages 76 to 81 of this report. For the year ended December 31, 2022, the remunerations paid or payable to Ernst & Young and its related entities in respect of audit services and non-audit services are as follows:

Service Category	Fees Paid/Payable (RMB million)
Audit services	
— Annual Audit Service	2.48
Non-audit services	
— Environment, social and governance report reporting service	0.22
Total	2.70

The Audit Committee was satisfied that the non-audit services in 2022 did not affect the independence of the auditor.

JOINT COMPANY SECRETARIES

Directors have access to the services of the joint company secretary to ensure that the Board procedures are followed. The joint company secretaries of the Company are Mr. Li Jia and Ms. Tam Pak Yu, Vivien. Mr. Li is the primary contact person of Ms. Tam in the Company. In compliance with Rule 3.29 of the Listing Rules, Mr. Li and Ms. Tam have undertaken no less than 15 hours of relevant professional training during the year of 2022. The biographies of Mr. Li and Ms. Tam are set out in the "Biographies of directors, supervisors and senior management" section on page 29 of this report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholder(s) to Convene an Extraordinary General Meeting ("EGM")

Shareholders requesting the convening of an EGM shall proceed in accordance with the procedures set forth below.

Any Shareholder individually or jointly holding over 10% of the Shares is/are entitled to request in writing the Board to convene an EGM. The Board shall, in accordance with the laws, administrative regulations and the Articles of Association, furnish a written reply to such shareholder(s) stating its agreement or disagreement to the convening of the EGM within 10 days after having received such requisition.

In the event that the Board agrees to convene an EGM, a notice for convening such meeting shall be given within 5 days after the relevant Board resolution is passed and consent of the relevant shareholder(s) shall be obtained in case of any changes to the original requisition in the notice.

In the event that the Board disagrees to convene an EGM or does not furnish any reply within 10 days after having received such requisition, the Board is deemed to be unable or unwilling to perform the duty of convening a general meeting, in which case Shareholder(s) individually or jointly holding more than 10% of the Shares may propose in writing for the Supervisory Committee to convene the EGM.

In the event that the Supervisory Committee agrees to convene an EGM, a notice for convening such meeting shall be given within 5 days after having received such requisition and consent of the relevant Shareholder(s) shall be obtained in case of any changes to the original proposal in the notice.

In the event that the Supervisory Committee fails to serve any notice of an EGM within the prescribed period, the Supervisory Committee is deemed not to convene and preside over such meeting, in which case the Shareholder(s) individually or jointly holding more than 10% of the shares of the Company for more than 90 consecutive days may convene and preside over such a meeting by himself/themselves.

Where a general meeting is convened by the Supervisory Committee or Shareholders on its/their own, the expenses necessary for the general meeting shall be borne by the Company and shall be deducted from the monies payable by the Company to the defaulting Directors.

Procedures for Shareholder(s) to Put Forward Proposals at a General Meeting

When the Company convenes a general meeting, Shareholders individually or jointly holding 3% or more of the total voting shares of the Company are entitled to propose new resolutions in writing to the Company and submit them to the convener 10 days before the meeting. The convener of the Shareholders' general meeting shall issue a supplementary notice of the Shareholders' general meeting to other Shareholders within two days upon the receipt of such proposal and notify them of the contents of such proposals.

Procedures for Directing Shareholders' Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's headquarters and principal place of business in China at 58 Middle Beijing Road, Yantai Development Zone, Yantai Area of Shandong Pilot Free Trade Zone, PRC. Shareholders may also make enquiries with the Board at the general meetings of the Company.

COMMUNICATIONS WITH SHAREHOLDERS

The Company continuously attaches great importance to maintaining and developing investor relations for a long time, enhances transparency of the corporate information by promptly and effectively releasing the corporate information to the public, which has established effective channels for the Company to communicate with investors.

The Company publishes its announcements, financial information and other relevant information on the website at www.remegen.com, as a channel to facilitate effective communication.

The Board welcomes Shareholders' views and encourages them to attend general meetings to convey any concerns they might have to the Board or the management. Chairman of the Board and the chairman of all committees (or their proxy) will attend the annual general meeting and other general meetings. At the general meetings, all shareholders attending the meeting may make enquiries to the Directors and other management in respect of matters relevant to the resolutions. The Company has published detailed contact methods through its website, notices of the general meeting, circulars to the shareholders and annual reports for shareholders to express their views or make enquiries.

Corporate Governance Report

The Company also made use of various communication channels, including company website, press releases, media interviews and Wechat Official Account, etc. to keep Shareholders, investors and other stakeholders of latest developments of the Group. The Company would respond to the queries from investment sector via its investor mailbox (ir@remegen.cn) in timely manner and hold investor conferences/roadshows and analyst conferences from time to time when circumstance arises and as appropriate.

During the year, the Board reviewed and considered the implementation of shareholders' communication policy was effective taking into account the aforesaid variety of existing channels for communication and participation.

INVESTOR RELATIONS

The Company considers it crucial to provide investors with accurate information in a timely manner and maintains communication with investors through effective communication channels, with an aim to enhance mutual understanding between investors and the Company and to improve the transparency of the Company's information disclosure.

In accordance with the Listing Rules, the Company shall duly disseminate its corporate information via various channels, including regular reports, announcements and company website.

CONSTITUTIONAL DOCUMENTS

To reflect the changes in the total issued share capital of the Company after the completion of the A Share Offering, the Company made amendments to the relevant terms in relation to the registered capital and the structure of share capital of the Company in the Articles of Association pursuant to the authorization granted by the 2021 second extraordinary general meeting, 2021 first class meeting of H shareholders and 2021 first class meeting of domestic shareholders and unlisted foreign shareholders on June 1, 2021, and further authorization granted by the Board. The above amendments have come effect from April 2022. For the details of the above amendments, please refer to the circular of the Company dated May 14, 2021.

Save as disclosed above, there had been no change to the Company's constitutional documents during the year ended December 31, 2022. The Company's Articles of Association is available on the Company's website and the Stock Exchange's website.

Directors' Report

The Board is pleased to present the annual report together with the audited consolidated financial statements of the Group for the year ended December 31, 2022.

PRINCIPAL ACTIVITIES

The Company is a fully integrated biopharmaceutical company committed to the discovery, development and commercialization of innovative and differentiated biologics for the treatment of autoimmune, oncology and ophthalmic diseases with unmet medical needs in China and globally.

The activities and particulars of the Company's principal subsidiaries are shown under note 1 to financial statements. An analysis of the Group's revenue and operating profit for the year by principal activities is set out in the section headed "Management Discussion and Analysis" in this annual report and notes 5 and 7 to financial statements.

RESULTS

The results of the Group for the year ended December 31, 2022 are set out in the section headed "Chairman's Statement" of this report and the consolidated statements of profit or loss and other comprehensive income of the Group on pages 82 to 83 of this report.

BUSINESS REVIEW

A fair review of the business of the Group as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including an analysis of the Group's financial performance, an indication of likely future developments in the Group's business and the Group's key relationships with its stakeholders who have a significant impact on the Group and on which the Group's success depends, is set out in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of this Directors' report. Events affecting the Company that have occurred since the end of the financial year is set out in the section headed "Key Events After The Reporting Period" in this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

The following list is a summary of certain principal risks and uncertainties facing the Group, some of which are beyond its control.

Risks relating to our financial position and need for additional capital

- We have incurred significant net losses since inception, and expect to continue to incur net losses for the foreseeable future and we may not be able to generate sufficient revenue to achieve or maintain profitability. Potential investors may lose substantially all their investments in us given the high risks involved in our business.

Directors' Report

- We have a limited operating history, particularly as a standalone company, and have limited experience in manufacturing and sales and marketing of drugs, which may make it difficult to evaluate our current business and predict our future performance.

- Historically, we have been funding our operations primarily through equity financing and debt financing, of which a substantial portion was borrowings from RC Pharma. We will need to obtain additional financing to fund our operations, and financing may not be available on terms acceptable to us, or at all. If we are unable to obtain sufficient financing, we may be unable to complete the development and commercialization of our drug candidates.

- The performance and value of our investments in equity investments are subject to uncertainties and fluctuation.

Risks relating to our business

- Our business and financial prospects depend substantially on the success of our clinical stage and pre-clinical stage drug candidates. If we are unable to successfully complete their clinical development, obtain their regulatory approvals or achieve their commercialization, or if we experience significant delays in doing any of the foregoing, our business will be materially harmed.

- If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

- Clinical drug development involves a lengthy and expensive process with an uncertain outcome.

- All material aspects of the research, development, manufacturing and commercialization of our drug candidates are heavily regulated.

- The regulatory approval processes of the NMPA, FDA, EMA and other comparable regulatory authorities are lengthy, time-consuming and inherently unpredictable. If we are unable to obtain without undue delay any regulatory approval for our drug candidates in our targeted markets, our business may be substantially harmed.

- Adverse events caused by our drug candidates could interrupt, delay or halt clinical trials, delay or prevent regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following any regulatory approval.

- Any delays in completing and receiving regulatory approvals for our manufacturing facilities, or any disruption of our current facilities or in the development of new facilities, could reduce or restrict our production capacity or our ability to develop or sell products, which could have a material and adverse effect on our business, financial condition and results of operations.

- If we are unable to meet the increasing demand for our existing drug candidates and future drug products by ensuring that we have adequate manufacturing capacity, or if we are unable to successfully manage our anticipated growth or to precisely anticipate market demand, our business could suffer.

- Our drug candidates, once approved, may fail to achieve the degree of market acceptance by physicians, patients, third-party payers and others in the medical community that would be necessary for their commercial success.

- We have limited experience in commercialization of drugs. If we are unable to build or maintain sufficient sales and marketing capabilities, either by ourselves or through third parties, we may not be able to successfully create or increase market awareness of our products or sell our products, which will materially affect our ability to generate product sales revenue.

- We face substantial competition and our competitors may discover, develop or commercialize competing drugs faster or more successfully than we do.

- Third parties may initiate legal proceedings alleging that we are infringing, misappropriating or otherwise violating their intellectual property rights, the outcome of which would be uncertain, and we may be subject to substantial costs and liability, or be prevented from using technologies incorporated in our drug candidates or future drugs, or delay the commercialization of our drug candidates in certain jurisdictions, as a result of such litigation or other proceedings relating to patent or other intellectual property rights.

- If we are unable to obtain and maintain adequate patent and other intellectual property protection for our drug candidates throughout the world, or if the scope of such intellectual property rights obtained is not sufficiently broad, third parties could develop and commercialize products and technologies similar or identical to ours and compete directly against us, and our ability to successfully develop and commercialize any of our drug candidates or technologies would be materially adversely affected.

- The scope of our patent protection may be uncertain. Our current or any future patents may be challenged and invalidated even after issuance, which would materially adversely affect our ability to successfully commercialize any product or technology.

- We work with various third parties to develop our drug candidates, such as those who help us conduct our pre-clinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected timelines, we may not be able to obtain regulatory approval for, or commercialize, our drug candidates, and our business could be materially harmed.

- We have entered into collaborations with our partners and may form or seek additional collaborations or strategic alliances or enter into additional licensing arrangements in the future. We may not realize any or all benefits of such alliances or licensing arrangements, and disputes may arise between us and our current or future collaboration partners.

- We may rely on third parties to manufacture a portion of our drug candidates for clinical development and commercial sales. Our business could be harmed if those third parties fail to deliver sufficient quantities of product or fail to do so at acceptable quality levels or prices.

Risks relating to our operations

- We operate in a competitive industry and may fail to compete effectively.
- Any failure to obtain or renew certain approvals, licenses, permits and certificates required for our business may materially and adversely affect our business, financial condition and results of operations.
- Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.
- The loss of any key members of our senior management team or our inability to attract and retain highly skilled scientists, clinical and sales personnel could adversely affect our business.
- We have been, and in the future may be, involved in lawsuits or other legal proceedings, which could adversely affect our business, financial conditions, results of operations and reputation.

Risks relating to our doing business in China

- The pharmaceutical industry in China is highly regulated and such regulations are subject to change, which may affect approval and commercialization of our drug candidates.
- Changes in the political and economic policies of the Chinese government may materially adversely affect our business, financial condition, results of operations and prospects and may result in our inability to sustain our growth and expansion strategies.
- There are uncertainties regarding the interpretation and enforcement of Chinese laws, rules and regulations.

However, the above is not an exhaustive list. Investors are advised to make their own judgment or consult with their own investment advisers before making any investment.

ENVIRONMENTAL POLICIES AND PERFORMANCE

We are committed to operate our business in a manner that protects environment, provides a safety workplace for our employees and performs our social liabilities.

We have implemented a set of policies on environment, social and governance consistent with industry standards and in compliance with the requirements of the Listing Rules. We have implemented company-wide environmental, health and safety (EHS) policies and operating procedures relating to process and work safety management, waste treatment, and emergency planning and response. Our EHS department is responsible for the formulation and updates of our EHS policies under the supervision of our Directors, and it continuously provides safety training sessions to our employees and monitors the compliance of relevant functions with our policies. Our operations involve the use of hazardous chemicals. We implemented safety guidelines setting out information about potential safety hazards and procedures for operating in the laboratory and manufacturing facilities, and we installed video surveillance systems inside the manufacturing facilities to monitor the operation process. Our operations also produce waste water and chemical waste. We treat the waste water existing our bioreactors in our biological waste disposal facilities, and store hazardous wastes in special warehouse. We also contract with third parties for the disposal of hazardous materials and wastes.

RELATIONSHIPS WITH THE GROUP'S KEY STAKEHOLDERS

The Company maintains a good relationship with its employees, customers and suppliers in order to ensure smooth business operation. The Group provides employees with competitive benefits, conducts employee care activities, and continuously improves employees' sense of happiness and belonging. We maintain long-term partnership with suppliers based on mutual trust and purchase supplies and services in the spirit of fairness and openness. We also highlight the importance of customer service quality, effectively protect customer's data security and comply with compliant marketing practices to provide customers with a more fulfilling and higher quality experience.

The ESG Report also contains information in respect of relationship with the employees, customers and suppliers, which will be issued separately within the period as required by the Listing Rules.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in all material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year ended December 31, 2022, there was no material breach of, or non-compliance with, applicable laws and regulations by the Group.

FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the last five financial years is set out on page 167 of this annual report. This summary does not form part of the audited consolidated financial statements.

FINAL DIVIDEND

The Board does not recommend payment of a final dividend for the year ended December 31, 2022.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended December 31, 2022 are set out in note 13 to financial statements.

BANK LOANS AND BORROWINGS

In 2022, the Group had no bank loans and borrowings.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year ended December 31, 2022 are set out in note 26 to financial statements.

RESERVES

As at December 31, 2022, the Company had distributable reserve accounting to approximately RMB5.199 billion.

Directors' Report

DONATIONS

During the year ended December 31, 2022, the Group made charitable donations of approximately RMB12.50 million (2021: RMB39.58 million).

FINANCIAL STATEMENTS

The results of the Group for the year ended December 31, 2022 and the state of the Group's financial position as at that date are set out in the consolidated financial statements on pages 82 to 85 of this report.

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Wang Weidong
Dr. Fang Jianmin
Dr. He Ruyi
Mr. Lin Jian

Non-executive Directors

Dr. Wang Liqiang
Dr. Su Xiaodi

Independent non-executive Directors

Mr. Hao Xianjing
Dr. Ma Lan
Mr. Chen Yunjin (appointment effective from May 5, 2022)
Ms. Yu Shanshan (resignation effective from May 5, 2022)

Supervisors

Mr. Ren Guangke
Mr. Li Yupeng
Mr. Li Zhuanglin

Ms. Yu Shanshan resigned as an independent non-executive Director on May 5, 2022 in order to devote more time to pursuing her other business engagements and has confirmed that she has no claim against the Company in respect of her resignation and has no disagreement with the Board. She has further confirmed that there is no matter relating to her resignation that needs to be brought to the attention of the Shareholders and the Stock Exchange.

The biographical information of the Directors and Supervisors are set out in the section headed "Biographies of directors, supervisors and senior management" in this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, the Group has not entered into any transaction agreement or contract of significance in which the Directors and Supervisors have direct or indirect material interests during the Reporting Period.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in this report, none of the Controlling Shareholders has or had a material interest, either directly or indirectly, in any contract of significance, whether for the provision of services or otherwise, to the business of the Group to which the Company or any of its subsidiaries was a party during the Reporting Period.

NON-COMPETITION UNDERTAKING

Pursuant to the Deed of Non-Competition, the Controlling Shareholders have undertaken that they would not and would use their best endeavors to procure their close associates (except any members of the Group) not to, directly or indirectly, at any time during the relevant period, carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business which is the same as, similar to or in competition or will compete or may compete with the core business of the Company.

The Company has received confirmations from the Controlling Shareholders confirming their compliance with the Deed of Non-Competition for the year ended December 31, 2022 for disclosure in this annual report. The independent non-executive Directors have also reviewed the Controlling Shareholders' compliance with the Deed of Non-Competition for the year ended December 31, 2022.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors nor their respective associates (as defined in the Listing Rules) had any interest in a business that competed or might compete with the business of the Group.

EMOLUMENTS OF THE DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

The Remuneration and Appraisal committee makes recommendation to the Board on the remuneration and other benefits payable to the Directors by the Group. The Remuneration and Appraisal committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at an appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group, and determines remuneration of the Directors and Supervisors based on their qualifications, experience and contributions, to attract and retain its Directors and Supervisors as well as to control costs.

Details of emoluments of Directors, Supervisors and the five highest paid individuals are set out in note 8 and note 9 to financial statements. For the year ended December 31, 2022, none of the Directors has waived or agreed to waive any emoluments.

SHARE SCHEMES

The First H Share Award and Trust Scheme

The Company has adopted the First H Share Award and Trust Scheme (the "H Share Scheme") during the extraordinary general meeting of the Shareholders on March 23, 2021. The following is a summary of the principal terms of the H Share Scheme.

(a) Purpose of the H Share Scheme

The purposes of the H Share Scheme are:

i. to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company;

ii. to deepen the reform on the Company's remuneration system and to develop and constantly improve the interests balance mechanism among the Shareholders, the operational and executive management; and

iii. to (a) recognize the contributions of the leadership of the Company including the Directors; (b) encourage, motivate and retain the leadership of the Company whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (c) provide additional incentive for the leadership of the Company and long standing employee by aligning the interests of the leadership of the Company to those of the Shareholders and the Group as a whole.

(b) Participants of the H Share Scheme

Participants eligible to participate in the H Share Scheme include any full-time PRC or non-PRC employee of any members of the Group, who is a Director, senior management member, key operating team member, employee, or a consultant of the Group (the "Eligible Participant(s)").

(c) Maximum Entitlement of Each Participant

The total number of non-vested Award Shares granted to Selected Participants under the H Share Scheme shall not exceed one per cent of the total number of Shares issued by the Company from time to time.

(d) Total Number of Shares Available for Issue and H Share Scheme Limit

The H Share Scheme is not a share scheme that will involve issuance of new shares under Chapter 17 of the Listing Rules. Subject to the terms of the H Share Scheme, the maximum size of the H Share Scheme (the "H Share Scheme Limit") shall be the maximum number of H Shares that will be acquired by the trustee appointed by the Company (the "Trustee") through on-market transactions from time to time at the prevailing market price, and in any case being 7,347,550 H Shares, which accounts for approximately 3.88% of the Company's total number of issued H Shares of 189,581,239 Shares and approximately 1.35% of the Company's total share capital of 544,263,003 Shares as at the date of this annual report. The ultimate number of H Shares underlying the H Share Scheme is uncertain as it depends on the actual implementation of the acquisition of H Shares by the Trustee. The Company shall not make any further grant of Award which will result in the aggregate number of H Shares underlying all grants made pursuant to the H Share Scheme (excluding Award Shares that have been forfeited in accordance with the H Share Scheme) to exceed the H Share Scheme Limit without Shareholders' approval. The H Share Scheme Limit shall not be subject to any refreshment.

(e) Vesting Period

The Board or the management committee of the H Share Scheme ("Delegatee") may determine the vesting criteria and conditions or periods for the Awards to be vested. Unless otherwise specified in the Award Letter approved by the Board or the Delegatee, and subject to the vesting conditions set out in the terms of the H Share Scheme, all Awards under the H Share Scheme shall be vested in four equal tranches (i.e., 25%, 25%, 25% and 25%) (each a "Vesting Period(s)"). The specific commencement and duration of each Vesting Period and the actual vesting amount of the Award granted to a Participant for the respective Vesting Periods shall be specified in the award letter issued by the Company to the Participant. The Vesting Periods of the Awards granted under the H Share Scheme shall be determined by the Board or the Delegatee in its sole and absolute discretion, and shall in any event not extend beyond the then remaining term of the Award Period (as defined below) at the time of grant.

(f) Purchase price and Basis of Determination

The source of the Award Shares under the H Share Scheme shall be H Shares to be acquired by the Trustee through on-market transactions at the prevailing market price in accordance with the instructions of the Company and the relevant provisions of the H Share Scheme Rules. The Board may specify in the instructions given to the Trustee with respect to the acquisition of H Shares any conditions or terms, including without limitation, the specified price or range of prices for the acquisition, the maximum amount of funds to be used for the acquisition, and/or the maximum number of H Shares to be acquired. The Company shall as soon as reasonably practicable, for the purposes of satisfying the grant of Awards, transfer to the Trust the necessary funds and instruct the Trustee to acquire H Shares through on-market transactions at the prevailing market price. The Trustee shall as soon as reasonably practicable thereafter proceed to acquire such number of H Shares as instructed by the Company on-market at the prevailing market price.

(g) Remaining life of the H Share Scheme

Subject to any early termination of the H Share Scheme, it shall be valid and effective for ten years commencing from March 23, 2021 (the "Award Period"), and thereafter for so long as there are non-vested Award Shares granted under the H Share Scheme prior to the expiration of the H Share Scheme, in order to give effect to the vesting of such Award Shares.

The below set out particulars of the Awards granted pursuant to the H Share Scheme:

Name of grantee	Category of grantee	Date of grant	Vesting period	Exercise period	As at January 1, 2022	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/ lapsed during the Reporting Period	As at December 31, 2022	Purchase price (HKD)	Closing price of the Shares immediately before the date when the awards were granted (HKD)	Weighted average closing price of the Shares immediately before the date when the awards were vested (HKD)
Directors												
Fang Jianmin	Executive Director and chief executive officer	September 1, 2022	September 1, 2022 to December 31, 2023	8 years	Nil	1,500,000	Nil	Nil	1,500,000	27.06	45.30	57.90
He Ruyi	Executive Director	September 1, 2022	September 1, 2022 to December 31, 2025	8 years	Nil	1,600,000	Nil	Nil	1,600,000	16.91	45.30	57.90
Five highest paid individuals during the Reporting Period[(1)]												
—	Five highest paid individuals	March 22, 2022	March 22, 2022 to June 30, 2024	8 years	Nil	200,000	100,000	100,000	Nil	19.68	50.50	51.70 or 41.50
		June 30, 2022	June 30, 2022 to December 31, 2025	8 years	Nil	150,000	Nil	112,500	37,500	27.06	43.95	57.90
		March 22, 2022	March 22, 2022 to March 31, 2025	8 years	Nil	150,000	37,500	Nil	112,500	27.32	50.50	50.55
	Sub-total	–	–	–	**0**	**500,000**	**137,500**	**212,500**	**150,000**	–	–	–
Others												
Other grantees	Employees	March 22, 2022	March 22, 2022 to March 31, 2025	8 years	Nil	225,000	56,250	101,250	67,500	50.50	50.50	50.55
		March 22, 2022	March 22, 2022 to June 30, 2025	8 years	Nil	115,000	23,750	27,500	63,750	50.50	50.50	41.50
		March 22, 2022	March 22, 2022 to September 30, 2025	8 years	Nil	40,000	10,000	Nil	30,000	50.50	50.50	38.10
		March 22, 2022	March 22, 2022 to December 31, 2025	8 years	Nil	20,000	Nil	Nil	20,000	50.50	50.50	57.90
		March 22, 2022	March 22, 2022 to December 31, 2025	8 years	Nil	20,000	5,000	15,000	Nil	50.50	50.50	51.70
		March 22, 2022	March 22, 2022 to June 30, 2025	8 years	Nil	150,000	37,500	Nil	112,500	52.10	50.50	41.50
		March 22, 2022	March 22, 2022 to September 30, 2024	8 years	Nil	120,000	60,000	Nil	60,000	26.37	50.50	51.70
		March 22, 2022	March 22, 2022 to December 31, 2024	8 years	Nil	5,000	1,250	Nil	3,750	27.00	50.50	51.70
		March 22, 2022	March 22, 2022 to December 31, 2024	8 years	Nil	15,000	3,750	Nil	11,250	27.06	50.50	51.70
		March 31, 2022	March 31, 2022 to March 31, 2026	8 years	Nil	395,000	Nil	25,000	370,000	48.37	46.50	50.55
		June 30, 2022	June 30, 2022 to December 31, 2025	8 years	Nil	84,000	Nil	Nil	84,000	27.06	43.95	57.90
		September 1, 2022	September 1, 2022 to December 31, 2025	8 years	Nil	68,000	Nil	Nil	68,000	27.06	45.30	57.90
		September 30, 2022	September 30, 2022 to September 30, 2026	8 years	Nil	60,000	Nil	60,000	Nil	38.42	38.05	38.10
		September 30, 2022	September 30, 2022 to September 30, 2026	8 years	Nil	7,156	Nil	Nil	7,156	Nil	38.05	38.10
		December 31, 2022	December 31, 2022 to December 31, 2026	8 years	Nil	400,000	Nil	Nil	400,000	39.26	57.90	57.90
		December 31, 2022	December 31, 2022 to December 31, 2026	8 years	Nil	64,224	Nil	Nil	64,224	Nil	57.90	57.90
	Sub-total	–	–	–	**Nil**	**1,788,380**	**197,500**	**228,750**	**1,362,130**	–	–	–

Notes:

(1) The five highest paid individuals exclude one executive Director and the chief executive as disclosed above.

As at January 1, 2022 and at December 31, 2022, the total number of awards available for grant under the H Share Scheme is 5,066,000 and 5,731,000 (being the H Shares purchased from the open market and held by the Trustee in the year), respectively.

2022 A Share Incentive Scheme

The Company has adopted the 2022 A Share Incentive Scheme (the "A Share Scheme") during the extraordinary general meeting of the Shareholders on December 28, 2022. The A Share Scheme is a share scheme that will involve issuance of new shares under Chapter 17 of the Listing Rules. The following is a summary of the principal terms of the A Share Scheme.

(a) Purpose of the A Share Scheme

The purpose of the A Share Scheme is to improve the Company's long-term incentive mechanism, attract and retain outstanding personnel, fully mobilise the enthusiasm of the Company's employees, effectively bond the interests of the Shareholders, the Company and the core teams together, and enable all parties to jointly pay attention to the long-term development of the Company.

(b) Participants of the A Share Scheme

Participants eligible to participate in the A Share Scheme include certain Directors, senior management, core technical personnel and other employees (excluding independent non-executive Directors and Supervisors) who the Board considers necessary to be incentivised (the "Participant(s)").

(c) Total Number of Restricted Shares Available for Issue under the A Share Scheme

The total number of Restricted Shares to be issued and granted to the Participants under the A Share Scheme is 3,580,000 shares, representing approximately 0.6578% of the total shares of the Company of 544,263,003 Shares. As at the date of this annual report, the total number of Restricted Shares available for issue under the A Share Scheme is 3,580,000 Shares.

(d) Maximum Entitlement of Each Participant under the A Share Scheme

The number of Shares to be granted to any Participant under all share schemes of the Company does not exceed 1% of the total shares of the Company as at the date of announcement of the A Share Scheme.

(e) Vesting Period of Awards Granted under the A Share Scheme

The Restricted Shares of Class A interest shall be vested in five tranches after 12 months from the Grant Date, and the Restricted Shares of Class B interest shall be vested in four tranches after 24 months from the Grant Date.

(f) Grant Price and Basis of Determination

The Grant Price of the Restricted Shares shall be RMB36.36 per Share. If there is any conversion of capital reserve into share capital, bonus issue, share subdivision or share consolidation, rights issue or any other event in the Company in the period from the date of announcement of the A Share Scheme (i.e. October 16, 2022) to the completion of the vesting of Restricted Shares to the Participants, the Grant Price or the number of Restricted Shares to be granted/vested shall be adjusted in accordance with the relevant rules of the A Share Scheme accordingly. The Grant Price was determined to be RMB36.36 per Share, which represents:

(1) approximately 63.16% of the average trading price of the A Shares on the trading day preceding the date of announcement of the A Share Scheme being RMB57.57 per Share;

(2) approximately 70.45% of the average trading price of the A Shares for the 20 trading days preceding the date of announcement of the A Share Scheme being RMB51.61 per Share;

(3) approximately 68.18% of the average trading price of the A Shares for the 60 trading days preceding the date of announcement of the A Share Scheme being RMB53.33 per Share;

(4) approximately 80.00% of the average trading price of the A Shares for the 120 trading days preceding the date of announcement of the A Share Scheme being RMB45.45 per Share.

(g) Remaining Life of the A Share Scheme

The A Share Scheme shall become effective upon the date of the first grant of the Restricted Shares (i.e. December 28, 2022) and shall be valid until the date on which all Restricted Shares granted to the Participants have been vested or lapsed. Such period shall not exceed 84 months.

Set out below are particulars of the Awards granted pursuant to the A Share Scheme:

Name of grantee	Category of grantee	Date of grant	Vesting period	Exercise period	As at 1 January 2022	Granted during the Reporting Period	Vested during the Reporting Period	Cancelled/lapsed during the Reporting Period	As at 31 December 2022	Grant price (RMB)	Closing price of the Shares immediately before the date when the awards were granted (RMB)	Weighted average closing price Shares immediately before the date when the awards were vested
Directors, chief executive, substantial shareholders and their respective associates												
Wang Weidong	Executive Director	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	350,000	Nil	Nil	350,000	36.36	75.05	N/A
He Ruyi	Executive Director	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	24,200	Nil	Nil	24,200	36.36	75.05	N/A
Lin Jian	Executive Director	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	14,850	Nil	Nil	14,850	36.36	75.05	N/A
Wen Qingkai	Substantial shareholder, Board secretary	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	18,150	Nil	Nil	18,150	36.36	75.05	N/A
Yang Minhua	Substantial shareholder	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	14,850	Nil	Nil	14,850	36.36	75.05	N/A
Wei Jianliang	Substantial shareholder	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	14,850	Nil	Nil	14,850	36.36	75.05	N/A
Jiang Jing	Spouse of Wang Liqiang	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	18,150	Nil	Nil	18,150	36.36	75.05	N/A
Wang Yuxiao	Son of Mr. Wang Weidong	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	11,000	Nil	Nil	11,000	36.36	75.05	N/A
Wang Yinxiao	Son of Wang Xudong	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	10,000	Nil	Nil	10,000	36.36	75.05	N/A
Yao Xuejing	Spouse of Supervisor Li Zhuanglin	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	33,000	Nil	Nil	33,000	36.36	75.05	N/A
Others												
Other grantees	Employees	December 28, 2022	December 28, 2022 to December 28, 2027	N/A	Nil	2,360,400	Nil	14,850	2,345,550	36.36		N/A

As at 1 January 2022 and at 31 December 2022, the total number of awards available for grant under the scheme mandate is nil and 710,550 (being the Reserved Grant), respectively. The number of shares that may be issued in respect of awards granted under all schemes of the Company during the Reporting Period divided by the weighted average number of ordinary shares in issue for the Reporting Period is approximately 0.66%.

The accounting standard and policy to estimate the fair value of the awards of the H Share Scheme and the A Share Scheme is set out in Note 28 to the financial statements.

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

As at December 31, 2022, the interests and short positions of the Directors, Supervisors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or which were otherwise required, to be notified to the Company and the Stock Exchange pursuant to the Model Code, are set out below:

INTERESTS IN SHARES OF THE COMPANY

Name of Director	Class of Shares	Nature of Interest	Number of Shares or underlying Shares(1)	Approximate percentage in relevant class of Shares(2)	Approximate percentage of shareholding(2)
Mr. Wang Weidong(3)(4)	A Shares	Interests of controlled corporations	152,984,812 (L)	43.13%	28.11%
	A Shares	Interests held jointly with another person	39,818,320 (L)	11.23%	7.32%
	A Shares	Other	350,000 (L)	0.10%	0.06%
	H Shares	Interests of controlled corporation	3,747,041 (L)	1.98%	0.69%
	H Shares	Interests held jointly with another person	23,245,000 (L)	12.26%	4.27%
Dr. Fang Jianmin(3)(4)	A Shares	Beneficial owner	26,218,320 (L)	7.39%	4.82%
	A Shares	Interests of controlled corporation	13,600,000 (L)	3.83%	2.50%
	A Shares	Interests held jointly with another person	152,984,812 (L)	43.13%	28.11%
	H Shares	Interests of controlled corporation	23,245,000 (L)	12.26%	4.27%
	H Shares	Interests held jointly with another person	3,747,041 (L)	1.98%	0.69%
	H Shares	Beneficiary of a trust (other than a discretionary interest)	1,500,000 (L)	0.79%	0.28%
Dr. Wang Liqiang(3)(4)	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	A Shares	Interest of spouse	18,150 (L)	0.01%	0.00%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Mr. Lin Jian(3)(4)	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	A Shares	Other	14,850 (L)	0.00%	0.00%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Dr. He Ruyi(4)	A Shares	Other	24,200 (L)	0.01%	0.00%
	H Shares	Beneficiary of a trust (other than a discretionary interest)	1,600,000 (L)	0.84%	0.29%

Directors' Report

Notes:

(1) The letter "L" stands for long position.

(2) The calculation is based on percentage of shareholding in a total of 544,263,003 Shares, which consists of 189,581,239 H Shares and 354,681,764 A Shares as at December 31, 2022.

(3) As at December 31, 2022, each of Yantai Rongda Venture Capital Center (Limited Partnership) (煙台榮達創業投資中心(有限合夥)) ("Rongda"), Yantai Rongqian Enterprise Management Center (Limited Partnership) (煙台榮謙企業管理中心(有限合夥)) ("Rongqian"), Yantai Rongshi Enterprise Management Center (Limited Partnership) (煙台榮實企業管理中心(有限合夥)) ("Rongshi"), Yantai Rongyi Enterprise Management Center (Limited Partnership) (煙台榮益企業管理中心(有限合夥)) ("Rongyi"), Yantai Rongjian Enterprise Management Center (Limited Partnership) (煙台榮建企業管理中心(有限合夥)) ("Rongjian") was a limited partnership established in the PRC. Each of Rongda, Rongqian, Rongshi, Rongyi and Rongjian is an employee incentive platform and held 102,381,891, 18,507,388, 9,190,203, 16,630,337 and 2,163,655 A Shares in our Company, respectively. Mr. Wang Weidong is the executive partner of each of Rongda, Rongqian, Rongshi, Rongyi and Rongjian. As such, under the SFO, Mr. Wang Weidong is deemed to be interested in the equity interests held by Rongda, Rongqian, Rongshi, Rongyi and Rongjian.

Further, as at December 31, 2022, RongChang Holding Group LTD. was a company incorporated in the British Virgin Islands. Mr. Wang Weidong was the sole director of RongChang Holding Group LTD. and RongChang Holding Group LTD. is accustomed to act in accordance with Mr. Wang Weidong's instructions. As such, under the SFO, Mr. Wang Weidong is deemed to be interested in the equity interests held by RongChang Holding Group LTD.

As at December 31, 2022, I-NOVA Limited was a company incorporated in the British Virgin Islands and was wholly-owned by Dr. Fang Jianmin. As such, under the SFO, Dr. Fang Jianmin is deemed to be interested in the equity interests held by I-NOVA Limited.

On April 16, 2020, Mr. Wang Weidong, Dr. Fang Jianmin, Mr. Lin Jian, Dr. Wang Liqiang, Mr. Wang Xudong, Mr. Deng Yong, Mr. Xiong Xiaobin, Mr. Wen Qingkai, Ms. Yang Minhua, Mr. Wei Jianliang, Rongda, RongChang Holding Group LTD. and I-NOVA Limited entered into a concert party agreement to confirm that they have acted in concert in the management, decision-making and all major decisions of our Group. As such, each of the Concert Parties are deemed to be interested in the Shares each other is interested in.

(4) As of December 31, 2022, each of Mr. Wang Weidong, spouse of Dr. Wang Liqiang, Mr. Lin Jian and Dr. He Ruyi was granted Restricted Shares under the 2022 Restricted A Share Incentive Scheme with attribution conditions attached thereto, and each of Dr. Fang Jianmin and Dr. He Ruyi was granted Award Shares pursuant to the First H Share Award and Trust Scheme on with vesting criteria and conditions attached thereto. As such, under the SFO, each of Mr. Wang Weidong, Dr. Fang Jianmin, Dr. Wang Liqiang, Mr. Lin Jian and Dr. He Ruyi is deemed to be interested in the equity interests underlying the aforesaid Award Shares or/and Restricted Shares.

Save as disclosed above, as at December 31, 2022, none of the Directors, Supervisors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or its associated corporations, recorded in the register required to be kept under section 352 of the SFO or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

So far as is known to the Company, as at December 31, 2022, as recorded in the register required to be kept by the Company under section 336 of the SFO, the following persons, other than a Director, Supervisor or chief executive of the Company, had an interest of 5% or more in the Shares or underlying Shares:

Name of Substantial Shareholder	Class of Shares	Nature of interest	Number of Shares or underlying Shares[1]	Approximate percentage in relevant class of Shares[2]	Approximate percentage of shareholding[2]
Yantai Rongda Venture Capital Center (Limited Partnership) (煙台榮達創業投資中心(有限合夥))[3]	A Shares	Beneficial owner	102,381,891 (L)	28.87%	18.81%
	A Shares	Interests held jointly with another person	90,421,241 (L)	25.49%	16.61%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Yantai Rongqian Enterprise Management Center Limited Partnership) (煙台榮謙企業管理中心(有限合夥))[3]	A Shares	Beneficial owner	18,507,388 (L)	5.22%	3.40%
RongChang Holding Group LTD.[3]	A Shares	Beneficial owner	4,111,338 (L)	1.16%	0.76%
	A Shares	Interests held jointly with another person	188,691,794 (L)	53.20%	34.67%
	H Shares	Interests held jointly with another person	23,245,000 (L)	12.26%	4.27%
	H Shares	Beneficial owner	3,747,041 (L)	1.98%	0.69%
I-NOVA Limited[3]	A Shares	Beneficial owner	13,600,000 (L)	3.83%	2.50%
	A Shares	Interests held jointly with another person	179,203,132 (L)	50.53%	32.93%
	H Shares	Interests held jointly with another person	3,747,041 (L)	1.98%	0.69%
	H Shares	Beneficial owner	23,245,000 (L)	12.26%	4.27%
Mr. Wang Xudong[3]	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Mr. Deng Yong[3]	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Mr. Xiong Xiaobin[3]	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Mr. Wen Qingkai[3]	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Ms. Yang Minhua[3]	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Mr. Wei Jianliang[3]	A Shares	Interests held jointly with another person	192,803,132 (L)	54.36%	35.42%
	H Shares	Interests held jointly with another person	26,992,041 (L)	14.24%	4.96%
Fund for the transformation of National Science and Technology Major Project (國投(上海)科技成果轉化創業投資基金企業(有限合夥)) ("SDIC Venture")[4]	A Shares	Beneficial owner	24,732,556 (L)	6.97%	4.54%

Name of Substantial Shareholder	Class of Shares	Nature of interest	Number of Shares or underlying Shares[1]	Approximate percentage in relevant class of Shares[2]	Approximate percentage of shareholding[2]
SDIC (Shanghai) Venture Capital Management Co., Ltd. (國投(上海)創業投資管理有限公司)[4]	A Shares	Interests of controlled corporation	24,732,556 (L)	6.97%	4.54%
SDIC Venture Capital Management Co., Ltd. (國投創業投資管理有限公司)[4]	A Shares	Interests of controlled corporation	24,732,556 (L)	6.97%	4.54%
China SDIC Gaoxin Industrial Investment Corp., Ltd. (中國國投高新產業投資有限公司)[4][5]	A Shares	Interests of controlled corporation	30,009,213 (L)	8.46%	5.51%
State Development & Investment Corporation (國家開發投資集團有限公司)[4][5]	A Shares	Interests of controlled corporation	30,009,213 (L)	8.46%	5.51%

Notes:

(1) The letter "L" stands for long position.

(2) The calculation is based on percentage of shareholding in a total of 544,263,003 Shares, which consists of 189,581,239 H Shares and 354,681,764 A Shares as at December 31, 2022.

(3) Please refer to the footnote (3) under the heading "DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS" above.

(4) As at December 31, 2022, SDIC Venture beneficially owns 24,732,556 A Shares and is a limited partnership incorporated in the PRC, whose executive partner is SDIC (Shanghai) Venture Capital Management Co., Ltd. (國投(上海)創業投資管理有限公司), a wholly-owned subsidiary of SDIC Venture Capital Management Co., Ltd. (國投創業投資管理有限公司), which is owned as to 40% by China SDIC Gaoxin Industrial Investment Corp., Ltd. (中國國投高新產業投資有限公司).

China SDIC Gaoxin Industrial Investment Corp., Ltd. is a wholly-owned subsidiary of State Development & Investment Corporation (國家開發投資集團有限公司), a state-owned entity incorporated in the PRC.

As such, under the SFO, each of SDIC (Shanghai) Venture Capital Management Co., Ltd., SDIC Venture Capital Management Co., Ltd., China SDIC Gaoxin Industrial Investment Corp., Ltd. and State Development & Investment Corporation is deemed to be interested in the equity interests held by SDIC Venture.

(5) As at December 31, 2022, SDIC Chuanghe National Leading Fund of Emerging Industries VC (Limited Partnership) (國投創合國家新興產業創業投資引導基金(有限合夥)) ("SDIC Chuanghe") beneficially owns 3,769,042 A Shares and is a limited partnership incorporated in the PRC, whose executive partner is SDIC Unity Capital Co., Ltd. (國投創合基金管理有限公司).

As at December 31, 2022, Hangzhou Chuanghe Select Venture Capital (Limited Partnership) (杭州創合精選創業投資合夥企業(有限合夥)) ("Hangzhou Chuanghe") beneficially owns 1,507,615 A Shares and is a limited partnership incorporated in the PRC, whose executive partner is SDIC Unity (Hangzhou) Start-up Investment Management Co., Ltd. (國投創合(杭州)創業投資管理有限公司), a wholly-owned subsidiary of SDIC Unity Capital Co., Ltd.

SDIC Unity Capital Co., Ltd. is owned as to 40% by State Development and Hi-tech Investment Corp. (國投高科技投資有限公司), a wholly-owned subsidiary of China SDIC Gaoxin Industrial Investment Corp., Ltd. (中國國投高新產業投資有限公司). Please refer to footnote (4) for shareholding information of China SDIC Gaoxin Industrial Investment Corp., Ltd.

As such, under the SFO, each of SDIC Unity Capital Co., Ltd., State Development and Hi-tech Investment Corp. and China SDIC Gaoxin Industrial Investment Corp., Ltd. is deemed to be interested in the equity interests held by SDIC Chuanghe, and each of SDIC Unity (Hangzhou) Start-up Investment Management Co., Ltd., SDIC Unity Capital Co., Ltd., State Development and Hi-tech Investment Corp. (國投高科技投資有限公司) and China SDIC Gaoxin Industrial Investment Corp., Ltd. is deemed to be interested in the equity interests held by Hangzhou Chuanghe.

Save as disclosed above, as at December 31, 2022, the Company had not been notified of any persons (other than a Director, supervisor or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares that were recorded in the register required to be kept under section 336 of the SFO.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year ended December 31, 2022 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate; and none of the Directors, or any of their spouse or children under the age of 18, had any right to subscribe for equity or debt securities of the Company or any other body corporate, or had exercised any such right.

MAJOR CUSTOMERS AND SUPPLIERS

Sales attributable to the Group's five largest customers and the largest customer accounted for 25.05% and 5.88%, respectively, of the Group's total sales for the Reporting Period.

Purchases attributable to the Group's five largest suppliers and the largest supplier accounted for 18.90% and 4.73%, respectively, of the Group's total purchases for the Reporting Period.

None of the Directors or any of their close associates (as defined in the Listing Rules) or any Shareholders (whom, to the best knowledge and belief of the Directors, own more than 5% of the Company's total issued share capital) had a material interest in the Group's five largest suppliers and five largest customers during the Reporting Period.

CONNECTED TRANSACTIONS

The following transactions constituted connected transactions under the Listing Rules during the year ended December 31, 2022:

2022 Equipment Lease Agreement

The Company has entered into an equipment lease agreement dated March 27, 2019 and a supplemental equipment lease agreement dated September 27, 2019 with Yeda Incubation (the "Equipment Lease Agreement"). As the Company expects to lease more equipment under the Equipment Lease Agreement and intends to further increase the term of the Equipment Lease Agreement due to business expansion/development, on May 23, 2022 the Board resolved to enter into the 2022 Equipment Lease Agreement to increase the leased equipment under the Equipment Lease Agreement and extend the term of the Equipment Lease Agreement to December 31, 2025.

Pursuant to the 2022 Equipment Lease Agreement, the Company has agreed to lease from Yeda Incubation 57 pieces of equipment used in our research and development activities for a fixed term from March 27, 2019 to December 31, 2025 at an aggregate rental of RMB5,600,000 per year. The rentals payable under the 2022 Equipment Lease Agreement were determined by the Company and Yeda Incubation through arm's length negotiation taking into account (i) the purchase price paid by Yeda Incubation when they acquired such equipment; (ii) a consumer price index of 5% and (iii) the annual amortization amount of the leased equipment.

The 2022 Equipment Lease Agreement has been entered into in the ordinary and usual course of business of the Group and of Yeda Incubation. We require certain equipment for our research and development activities and have leased them from Yeda Incubation to save costs for buying such equipment ourselves. As an incubator, Yeda Incubation leases out equipment used by drug developers in their ordinary and usual course of business. The Directors (including the independent non-executive Directors) considered the 2022 Equipment Lease Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As of the date of the entering into the 2022 Equipment Lease Agreement, Yeda Incubation is owned as to 55% by and is a subsidiary of RC Pharma, and RC Pharma is owned as to approximately 63.93% by the Controlling Shareholders. As such, Yeda Incubation is a connected person of the Company.

2022 Yeda Incubation Leases

The Company has entered into an incubation agreement dated September 15, 2019 and a property management agreement dated October 15, 2019 and a supplemental incubation agreement and a supplemental property management agreement, both dated June 28, 2020 with Yeda Incubation (together, the "Incubation Center Lease"). The Company has also entered into a property lease agreement dated May 7, 2020 and a supplemental property lease agreement dated June 28, 2020 with Yeda Incubation (together, the "Incubation Building Lease", together with the "Incubation Center Lease", the "Yeda Incubation Leases"). As the leased area under the Incubation Building Lease is expected to increase due to business expansion/development of the Company, and the entire Yeda Incubation Leases was expected to expire on December 31, 2022, on May 23, 2022, the Board resolved to enter into the 2022 Yeda Incubation Leases to increase the leased area under the Incubation Building Lease and renew the term of the Yeda Incubation Leases.

Pursuant to the Incubation Center Lease, the Company has leased from Yeda Incubation certain facilities at the incubation center operated by Yeda Incubation (the "Incubation Center"). The Incubation Center is located at 1 Rongchang Road, Economic Technology Development Zone, Yantai, Shandong Province, which is near to the Rongchang Biopharmaceutical Park (the "Park") where the Company's headquarters are located. Pursuant to the Incubation Building Lease, the Company has leased from Yeda Incubation certain premises at the Incubation R&D Building owned by Yeda Incubation (the "Incubation Building"). The Incubation Building is located in the Park. Yeda Incubation also provides general property management services for the premises leased by the Company and for the common area.

Set out below are the details of the 2022 Yeda Incubation Leases:

Premises	Term of the lease	Location	Area	Rentals, utilities charges and management fees
Incubation facilities comprising three kinds of laboratories, namely, non-sterilized laboratory, Class D sterilized laboratory and Class C sterilized laboratory	January 1, 2023 to July 31, 2023	Incubation Center	• Non-sterilized laboratory: 267 m² • Class D sterilized laboratory: 835.8 m²; and • Class C sterilized laboratory: 206.7 m²	• Non-sterilized laboratory: annual rentals of RMB80,100; annual utilities charges of RMB53,400; and annual property management fees of RMB11,214 • Class D sterilized laboratory: annual rentals of RMB334,320; annual utilities charges of RMB501,480 • Class C sterilized laboratory: RMB103,350; annual utilities charges of RMB144,690
Office premises and GMP Cleanrooms	January 1, 2023 to December 31, 2025	Incubation Building	• Office premises: 15,149 m²; • GMP cleanrooms: 12,278 m² • Semifinished area: 1,817 m²	• Office premises: annual rentals of RMB10,558,860 plus real estate tax RMB1,439,856 • GMP cleanrooms: annual rentals of RMB24,138,552 plus real estate tax RMB3,291,612; and • Semifinished area: annual rents of RMB625,044 plus real estate tax RMB85,236

The rentals payable under the 2022 Yeda Incubation Leases were determined based on arms' lengths negotiation of the parties with reference to prevailing market rates for properties of similar size situated in the locality that are used for similar purposes in the PRC.

As the Company has a robust pipeline complemented with many early stage drug candidates, the incubation facilities provided by Yeda Incubation facilitates our better management and coordination of the drug development progress. As the Incubation Center is located near to the Park, it provides convenient access for the Company's personnel involved in the research and development activities of our drug candidates. Further, as the Company has started to lease and use the laboratories for our research and development activities, any relocation may cause unnecessary disruption to its business operations and incur unnecessary costs.

Directors' Report

Furthermore, as the Company's business expands, the Company's own facilities cannot accommodate all of its staff and the increasing number of research and development activities; the Company is in need of office space for staff and GMP cleanrooms for ongoing research and development activities and it needs semifinished areas to be modified into office space and GMP cleanrooms. Given that the leased properties are in close proximity to its facilities, this allow its business activities to continue seamlessly. Although the Company has spare GMP-compliant manufacturing facilities, such manufacturing facilities cannot be converted into research and development facilities due to different GMP requirements. As the Company's business expands, its research and development facilities are not sufficient to accommodate increasing number of staff and growing research and development activities for drug candidates. As such, the Company needs to lease such facilities from Yeda Incubation.

The Directors (including the independent non-executive Directors) consider that the 2022 Yeda Incubation Leases is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As of the date of the entering into the 2022 Yeda Incubation Leases, Yeda Incubation is owned as to 55% by and is a subsidiary of RC Pharma, and RC Pharma is owned as to approximately 63.93% by the Controlling Shareholders. As such, Yeda Incubation is a connected person of the Company.

MabPlex Apartment Lease Agreement

The Company entered into a lease agreement (the "MabPlex Apartment Lease Agreement") with MabPlex on May 23, 2022, pursuant to which the Company agreed to lease certain premises for employees and experts housing from MabPlex for a term of January 1, 2023 to December 31, 2025.

Set out below are the details of the MabPlex Apartment Lease Agreement:

Premise	Term of the lease	Area	Rentals
No. 60 Middle Beijing Road, Yantai Economic and Technological Development Zone Area	January 1, 2023 to December 31, 2025	Employees' apartment: 13,014.6 m^2; Experts' apartment: 3,004.0 m^2	Annual rentals for 2023 to 2025: RMB3,780,000

The rentals payable under the MabPlex Apartment Lease Agreement were determined based on arms' length negotiation of the parties with reference to prevailing market rates for properties of similar size situated in the locality that are used for similar purposes in the PRC.

The Company does not have self-constructed apartments for employees or experts. As the apartments of MabPlex is located in the Park, it provides safe and convenient housing to the Company's employees and experts with fair rents. The Directors (including the independent non-executive Directors) consider that MabPlex Apartment Lease Agreement is on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

As of the date of entering into the MabPlex Apartment Lease Agreement, MabPlex is owned as to approximately 32.95% by the Controlling Shareholders. Accordingly, MabPlex is a connected person of the Company.

Grant of Award Shares

On September 1, 2022, the Management Committee granted a total of 68,000 H Shares (the "Award Shares") to Ms. Fang Michelle Yi, a senior director of international legal affairs of the Company ("Ms. Fang"), pursuant to the H Share Scheme. The 68,000 Award Shares granted to Ms. Fang represent approximately 0.01% of the total issued shares of the Company as at the date of this report. The 68,000 Award Shares represent the value of HK$3,080,400.00, taking into account of the closing price of HK$45.30 per Share as stated in the daily quotation sheet issued by the Stock Exchange on September 1, 2022 (being the date of grant of the Award Shares).

For more details of the H Share Scheme, please refer to "Share Schemes" in this annual report.

Pursuant to the H Share Scheme and similar to the practice adopted for other Eligible Employees who are Selected Participants under the H Share Scheme, in assessing the fairness and reasonableness of the grant of Award Shares, the Management Committee has taken into consideration, among others, the employee's roles, past performance and period of service in the Group, etc. The grant of the Award Shares to Ms. Fang recognizes her past contributions to the development and growth of the Group and aims to secure her long term continuous support and commitments to the Group which are crucial to the future development and business expansions of the Group.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the grant of a total of 68,000 Award Shares to Ms. Fang is on normal commercial terms and in the ordinary and usual course of business of the Group; is fair and reasonable; and is in the interests of the Company and its Shareholders as a whole.

Ms. Fang is a family member of Dr. Fang Jianmin (the executive Director and chief executive officer of the Company). Accordingly, Ms. Fang is an associate of Dr. Fang Jianmin and therefore a connected person of the Company.

CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, we have renewed, and are expected to continue, certain transactions which will constitute non-exempt continuing connected transactions of the Company under the Listing Rules upon the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted, waivers in relation to certain continuing connected transactions between us and certain connected persons under Chapter 14A of the Listing Rules at the time of Listing of H Shares. During the Reporting Period, the Board (including independent non-executive Directors) resolved to renew such continuing connected transactions.

Directors' Report

During the Reporting Period, details of the Group's continuing connected transactions subject to the reporting, annual review and announcement requirements are set out as follows:

Continuing connected transaction	Date	Connected person	Description and purpose of the transaction	Annual cap for the year ended December 31, 2022	Actual tax-included transaction value for the year ended December 31, 2022
CRC Services Framework Agreement	August 22, 2020	Kangkang	Provision of clinical trial management services from Kangkang to the Company	RMB19,000,000	RMB18,969,000
General Services Framework Agreement	June 24, 2020	RC Pharma	Provision of steam for the Group's business operations; provision of coordination and management services in relation to construction works; and provision of other miscellaneous services such as canteen, business cars hire and supporting facilities services	RMB27,690,000	RMB20,969,000
MabPlex Master Service Agreement	August 15, 2020	MabPlex	Provision of research and development and manufacturing services to the Company	RMB46,000,000	RMB33,373,000
Materials Purchase Framework Agreement	August 22, 2020	CelluPro	Sales of medium products from CelluPro to the Company	RMB35,600,000	RMB29,631,000
MabPlex Property Lease Agreement	April 22, 2020	MabPlex	Lease of manufacturing facilities from the Company to MabPlex	RMB3,772,000	RMB1,547,000

The detailed terms of the above continuing connected transactions are as follows:

CRC Services Framework Agreement

The Company has entered into a framework agreement dated August 22, 2020 with Kangkang (the "CRC Services Framework Agreement"), pursuant to which the Company has agreed to engage Kangkang and Kangkang has agreed to provide certain clinical trials management services to the Company, including but not limited to coordinating clinical research, providing training to clinical research coordinators who shall assist investigators in their clinical trials according to the requests of the Company and providing supporting services for investigators (the "CRC Services"). The Company and Kangkang will enter into separate individual agreements or work orders which will set out the specific terms and conditions according to the principles in the CRC Services Framework Agreement.

Shanghai Kangkang Medical Technology Center ("Kangkang Medical") transferred its CRC business to Kangkang in 2020 for the development of business. The service provider of the CRC Services Framework Agreement signed by the Company and Kangkang Medical in April 2020 was changed from Kangkang Medical to Kangkang. Therefore, the amount of this continuing connected transaction for the year ended December 31, 2022 is the sum of the CRC services provided by Kangkang Medical and Kangkang.

Pricing

Service fees will be charged at rates no more favorable than rates at which the Company pays independent third parties for comparable transactions and will be determined by the Company and Kangkang through arm's length negotiation based on a number of factors applicable to all service providers, including but not limited to the nature, complexity and value of tasks completed by Kangkang at each stage under each work order, the personnel and working hours estimated to be equipped and spent on providing specific service, historical hourly rate of staff in operational and managerial capacities and the then prevailing market rates by obtaining and comparing against fee quotes provided by other companies.

Annual caps

For the three years ended December 31, 2020, 2021 and 2022, the total amount payable by the Company to Kangkang for the services under the CRC Services Framework Agreement shall not exceed RMB19,000,000, RMB19,000,000 and RMB19,000,000, respectively.

During the Reporting Period, the amount of service fees paid/payable by the Company to Kangkang under the CRC Services Framework Agreement was RMB18,969,000.

Renewal

The CRC Services Framework Agreement expired on December 31, 2022. As the Company expects to have ongoing demand for certain clinical trials management services provided by Kangkang, the Board resolved to renew the CRC Services Framework Agreement. Accordingly, we have entered into the 2023-2025 CRC Services Framework Agreement with Kangkang for a term of three years effective from January 1, 2023.

General Services Framework Agreement

The Company has entered into a general services framework agreement dated December 6, 2019 and a supplemental general services framework agreement dated June 24, 2020 with RC Pharma (together, the "General Services Framework Agreement") in relation to general services provided by RC Pharma in the Park. The scope of such general services include (i) provision of steam for our business operations; (ii) provision of coordination and management services in relation to construction works; and (iii) provision of other miscellaneous services such as canteen, business cars hire and supporting facilities services.

Directors' Report

Pricing

Service fees will be charged at rates no less favorable to the Company than rates at which RC Pharma charges independent third parties and other connected persons for comparable transactions and will be determined by the relevant parties through arm's length negotiation based on factors applicable to all service providers, the factors applying to each of the three types of services are as follows:

i. provision of steam: the provision of steam will be charged at the procurement costs paid by RC Pharma, for the natural gas required for producing steam plus service charge for the maintenance of facilities and equipment for converting the same into steam;

ii. coordination and management services for construction works: the number of staff involved and the time spent by such staff on the relevant coordination and management services, which will be charged at fixed cost per man-hour as determined based on arms' length negotiation between the Company and RC Pharma;

iii. miscellaneous service: the actual number of people and the number of meals consumed, the actual usage of transportation services and costs of supporting facilities services, together with the corresponding service fees.

Annual caps

For the three years ending December 31, 2020, 2021 and 2022, the maximum aggregate annual amount of service fees under the General Services Framework Agreement shall not exceed RMB7,646,000, RMB14,920,000 and RMB27,690,000, respectively.

During the Reporting Period, the amount of service fees paid/payable by the Company to RC Pharma under the General Services Framework Agreement was RMB20,969,000.

Renewal

The General Services Framework Agreement expired on December 31, 2022. As the Company expects to continue to have ongoing demand for the general services provided by RC Pharma, the Board resolved to renew the General Services Framework Agreement. Accordingly, we have entered into the 2023-2025 General Services Framework Agreement with RC Pharma for a term of three years effective from January 1, 2023.

MabPlex Master Service Agreement

We entered into a M16120 master service agreement dated January 4, 2019 and a supplemental master service agreement dated August 15, 2020 with MabPlex (together, the "MabPlex Master Service Agreement"), Pursuant to the MabPlex Master Service Agreement, MabPlex provides certain research and development and manufacturing services to the Company, including but not limited to cell culture manufacturing, synthesis of linker-payloads, ADC conjugation service, release testing service, GMP fill/finish of ADC products, and cell banking. The Company and MabPlex will enter into separate individual agreements or work orders which will set out the specific terms and conditions according to the principles in the MabPlex Master Service Agreement.

Pricing

Service fees will be charged at rates no less favorable to the Company than rates at which the Company pays independent third parties for comparable transactions; and service fees will be determined by the Company and MabPlex through arm's length negotiation with reference to a number of factors applicable to all service providers, including but not limited to the nature, complexity, and value of tasks completed by MabPlex at each stage under each work order, the market rates, quantity and sourcing of materials, the method of delivery, the fees charged for historical transactions of similar nature and the then prevailing market rates by obtaining and comparing against fee quotes provided by other third-party companies.

Annual caps

For the three years ended December 31, 2020, 2021 and 2022, the total amounts under the MabPlex Master Service Agreement shall not exceed RMB46,200,000, RMB41,700,000 and RMB46,000,000, respectively.

During the Reporting Period, the amount of service fees paid/payable by the Company to MabPlex under the MabPlex Master Service Agreement was RMB33,373,000.

Renewal

The MabPlex Master Service Agreement expired on December 31, 2022. As the Company expects to continue procurement of research and development services from MabPlex, the Board resolved to renew the MabPlex Master Service Agreement. Accordingly, we have entered into the 2023-2025 MabPlex Master Service Agreement with MabPlex for a term of three years effective from January 1, 2023.

Materials Purchase Framework Agreement

The Company has entered into a framework agreement for purchase of materials with CelluPro dated August 22, 2020 (the "Materials Purchase Framework Agreement"), pursuant to which CelluPro will sell to the Company and the Company will buy from CelluPro certain medium products we use in our research and development activities including but not limited to basic culture medium and feed medium. The Company and CelluPro will enter into separate individual agreements or work orders which will set out the specific terms and conditions according to the principles in the Materials Purchase Framework Agreement.

Pricing

Fees will be charged at rates no less favorable to the Company than rates at which the Company pays independent third parties for comparable transactions and will be determined by the Company and CelluPro through arm's length negotiation with reference to a number of factors applicable to all suppliers, including but not limited to the market price of the products, quantity and method of procurement, specifications of the products, the fees charged for historical transactions of similar nature and the then prevailing market rates based on unit price per litre for different culture mediums.

Annual caps

For the three years ended December 31, 2020, 2021 and 2022, the total amounts under the Materials Purchase Framework Agreement shall not exceed RMB10,646,650, RMB15,200,000 and RMB35,600,000, respectively.

During the Reporting Period, the amount of fees paid/payable by the Company to CelluPro under the Materials Purchase Framework Agreement was RMB29,631,000.

Renewal

The Materials Purchase Framework Agreement expired on December 31, 2022. As the Company expects to continue to purchase medium products it uses in research and development activities from CelluPro, the Board resolved to renew the Materials Purchase Framework Agreement. Accordingly, we have entered into the 2023-2025 Materials Purchase Framework Agreement with CelluPro for a term of three years effective from January 1, 2023.

MabPlex Property Lease Agreement

The Company entered into a property lease agreement dated April 22, 2020 with MabPlex (the "MabPlex Property Lease Agreement"), pursuant to which MabPlex leases from the Company manufacturing facilities comprising a non-sterilized area of 2,933.78 m^2 and a sterilized area of 465 m^2.

Pricing

The rentals for sterilized area and non-sterilized area are RMB46,000 per month and RMB44,100 per month, respectively. Such rentals are determined by the Company and MabPlex through arm's length negotiation based on a number of factors including but not limited to prevailing market rent of similar property located in the vicinity and the term of the lease.

Further, the operational service charges for the sterilized and non-sterilized area are RMB128,000 and RMB58,000, respectively. Such operational service charges are determined through arm's length negotiation by the Company and MabPlex based on a number of factors including the costs of maintenance of the operations by the Company and the prevailing market rates for such charges for similar property located in the vicinity. The Company will also charge service charges for usages of purified water, water for injection and purified steam at the rates of RMB42/ton, RMB130/ton and RMB408/ton, respectively. Such service charges are determined through arm's length negotiation by the Company and MabPlex based on a number of factors including the costs of raw materials and for processing them.

Annual caps

For the three years ended December 31, 2020, 2021 and 2022, the total amounts receivable by the Company from MabPlex under the MabPlex Property Lease Agreement shall not exceed RMB2,468,000, RMB3,772,000 and RMB3,772,000, respectively.

During the Reporting Period, the amount of fees received/receivable by the Company from MabPlex under the MabPlex Property Lease Agreement was RMB1,547,000.

Renewal

The MabPlex Property Lease Agreement expired on December 31, 2022. As the Company expects to continue to lease certain GMP-compliant manufacturing facilities comprising non-sterilized area to MabPlex for its business operation, the Board has resolved to renew the MabPlex Property Lease Agreement. Accordingly, we have entered into the 2023-2025 MabPlex Property Lease Agreement with MabPlex for a term of three years effective from January 1, 2023.

Confirmation of the auditor

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued an unqualified letter containing the findings and conclusions in respect of the above mentioned continuing connected transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The auditor of the Company had informed the Board and confirmed nothing has come to their attention that cause them to believe that the continuing connected transactions:

i. have not been approved by the Board;

ii. are not carried out in accordance with the pricing policies in all material respects;

iii. are not entered into in accordance with the related transaction agreement in any material respects; and

iv. exceed the relevant annual caps as set by the Company.

In respect of the above mentioned non-exempt continuing connected transactions, the Directors also confirmed that the Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

All independent non-executive Directors had reviewed the Group's continuing connected transactions and confirmed that the continuing connected transactions for the Reporting Period were: (i) in the ordinary and usual course of the Company's business; (ii) on normal commercial terms or better to the Company; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

During the Reporting Period, there was no connected transaction or continuing connected transaction of the Group which has to be disclosed in accordance with the Listing Rules, save for the foregoing. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in relation to the above connected transactions and continuing connected transactions.

MATERIAL RELATED PARTY TRANSACTIONS

Save as disclosed in the paragraphs headed "Connected Transactions" and "Continuing Connected Transactions" in this annual report, the related party transactions as set out in note 32 to financial statements were not regarded as connected transactions or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

Directors' Report

PRE-EMPTIVE RIGHTS AND TAX RELIEF

There is no provision for the pre-emptive rights in the articles of association of the Company or under the laws of the PRC being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new Shares on a pro-rata basis to its existing shareholders.

The Company is not aware of any tax relief or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

PUBLIC FLOAT

According to information that is publicly available to the Company and within the knowledge of the Board, as at the date of this annual report, the Company has maintained the public float as required under the Listing Rules, as waived by the Stock Exchange pursuant to the waiver granted. Details of the waiver are disclosed in the Prospectus.

CORPORATE GOVERNANCE

The Board is of opinion that the Company had adopted, applied and complied with the code provisions as set out in the CG Code contained in Appendix 14 to the Listing Rules during the year under review. Principal corporate governance practices adopted by the Company are set out in the "Corporate Governance Report" section of this report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at December 31, 2022 are set out in note 1 to financial statements.

PERMITTED INDEMNITY

The Company has purchased appropriate liability insurance for its Directors and Supervisors which provides proper protection for the Directors and Supervisors.

EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report, the Company had not entered into any equity-linked agreement for the year ended 31 December 2022, nor did any equity-linked agreement subsist as at December 31, 2022.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into during the year or subsisted at the end of the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

COMPLETION OF THE A SHARE OFFERING

As approved by the China Securities Regulatory Commission ("CSRC"), the Company completed the A Share offering by issuing 54,426,301 new A Shares at the issue price of RMB48.00 per A Share and converting all of the then existing domestic shares and unlisted foreign shares into A Shares. The A Shares were listed on the Sci-Tech Board on March 31, 2022.

The Company considered that the A Share offering would accelerate the Group's development and improve its competitiveness, it would be beneficial to and was in the interests of the Company and its Shareholders as a whole, and would be beneficial to strengthen the sustainable development of the Company.

The subscribers were investors who fulfilled the relevant rules and requirements relating to the Sci-Tech Board published by the Shanghai Stock Exchange and the CSRC (excluding those in respect of which subscription had been prohibited by laws, regulations and regulatory documents of the PRC).

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the year ended December 31, 2022. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group during the year ended December 31, 2022.

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

The Company does not have any other disclosure obligations under Rules 13.20, 13.21 and 13.22 of the Listing Rules.

AUDITOR

The consolidated financial statements of the Group for the year ended December 31, 2022 have been audited by Ernst & Young who will retire at the forthcoming annual general meeting. Ernst & Young, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of Ernst & Young as the auditor of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board of
RemeGen Co., Ltd.
Mr. Wang Weidong
Chairman and Executive Director

Yantai, the PRC
March 29, 2023

Independent Auditor's Report

EY 安永

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To the shareholders of RemeGen Co., Ltd.

(Incorporated in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of RemeGen Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 82 to 166, which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of research and development expenses	
For the year ended 31 December 2022, the research and development ("R&D") expenses incurred by the Group amounted to RMB982,080,000. The R&D expenses accounted for 58% of the total of selling and distribution expenses, R&D expenses and administrative expenses. Due to the significant amount of R&D expenses and the risk that clinical trial expenses and testing expenses were not properly accrued during the reporting period. We identified the recognition of R&D expenses as a key audit matter. Relevant disclosures are included in note 2.4, note 3 to the consolidated financial statements.	Our procedures in relation to the recognition of R&D expenses included: We evaluated the design and the operating effectiveness of the key controls related to the Group's R&D process, and performed testing of internal control on the R&D expense process. We obtained an understanding and evaluating the specific recognition time and conditions for the capitalization of R&D expenditures by the management. Based on the progress of R&D projects, we inquired management about the reasons for periodical fluctuations in R&D expenses and analysed those fluctuations. We obtained the breakdown of prepayments, reviewed the contracts and evaluated the completion status on a sample basis and analysed prepayments with long aging. For the service fees paid to clinical trial and testing service providers, we reviewed on a sample basis the terms in R&D related agreements, invoices and expense breakdowns, and we obtained confirmations from service providers on a sample basis. We performed tests of details on a sample basis and reviewed related supporting documents in relation to the recognition of R&D expenses. We performed a cut-off test of R&D expenses. We reviewed the disclosures of R&D expenses in the consolidated financial statements.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recognition of revenue	
For the year ended 31 December 2022, revenue of the Group in total was RMB767,775,000 of which RMB738,204,000 and RMB29,571,000 were derived from sales of goods and service income representing 96% and 4% total revenue, respectively. Revenue has a significant impact on the financial statements and revenue is one of the key performance indicators of the Group. There is an inherent risk of being manipulated to achieve the forecast objectives. Therefore, we recognized the revenue recognition of sale of goods and service income as a key audit matter. Relevant disclosures are included in note 2.4, note 4 and note 5 to the consolidated financial statements.	Our procedures in relation to the recognition of revenue mainly include: We evaluated the design and the operating effectiveness of the key controls related to the Group's sales and collection, and performed testing of internal control on sales and collection processes. We obtained main sales/service contracts, analyzed contract terms, reviewed accounting treatments with contract terms, and evaluated whether the company's accounting policies in accordance with the provisions of accounting standards. For technology license agreements entered into with Seagen Inc. in prior years, we obtained understanding the achievement of milestones under the technology license agreements and whether there were any amendments to the agreements in the current year, in order to analyze,on an ongoing basis, whether the revenue recognition related to the technology license agreements was correct. We performed an procedure of analysis for revenue. We performed testing of details, reviewed supporting documents related to revenue, including sales/service contracts, invoices, delivery orders, receipts, payment receipts, and work hours confirmation, and review the accuracy of revenue. We performed confirmation procedure for the balance of accounts receivable and the transaction amount of major customers and customers on sampling basis, checked the discrepancy and examined evidences supporting documents of the recognition of revenue for the confirmation letter without reply. We carried a cut off test for revenue. We reviewed the disclosures of revenue in the consolidated financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Denis Ming Kui Cheng.

Ernst & Young
Certified Public Accountants

Hong Kong
29 March 2023

Consolidated Statement Of Profit Or Loss

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
REVENUE	*5*	**767,775**	1,423,902
Cost of sales		**(269,939)**	(67,163)
Gross profit		**497,836**	1,356,739
Other income and gains	*5*	**232,499**	185,970
Selling and distribution expenses		**(440,696)**	(262,967)
Administrative expenses		**(272,542)**	(219,840)
Research and development costs		**(982,080)**	(710,973)
Impairment losses on financial assets, net		**(11,128)**	(342)
Other expenses		**(15,962)**	(67,006)
Finance costs	*6*	**(6,757)**	(5,323)
(LOSS)/PROFIT BEFORE TAX	*7*	**(998,830)**	276,258
Income tax expense	*10*	**–**	–
(LOSS)/PROFIT FOR THE YEAR		**(998,830)**	276,258
Attributable to:			
Owners of the parent		**(998,830)**	276,258
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic/Diluted			
— For (loss)/profit for the year		**(1.88)**	0.57

Consolidated Statement Of Comprehensive Income

Year ended 31 December 2022

	2022 RMB'000	2021 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(998,830)**	276,258
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**3,519**	5,846
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:		
Equity investments designated at fair value through other comprehensive income:		
Changes in fair value	**(1,799)**	(840)
Income tax effect	**270**	417
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**1,990**	5,423
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(996,840)**	281,681
Attributable to:		
Owners of the parent	**(996,840)**	281,681

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*13*	2,406,750	1,577,687
Right-of-use assets	*14*	204,778	148,856
Other intangible assets	*15*	17,461	13,143
Investments in an associate	*16*	1,500	–
Equity investments designated at fair value through other comprehensive income	*17*	79,693	12,067
Pledged deposits	*22*	616	564
Other non-current assets	*18*	98,255	106,939
Total non-current assets		2,809,053	1,859,256
CURRENT ASSETS			
Inventories	*19*	522,673	280,314
Trade and bills receivables	*20*	281,187	7,050
Prepayments, other receivables and other assets	*21*	220,952	177,091
Pledged deposits	*22*	118,146	78,677
Cash and cash equivalents	*22*	2,069,180	1,756,821
Total current assets		3,212,138	2,299,953
CURRENT LIABILITIES			
Trade and bills payables	*23*	221,692	159,259
Other payables and accruals	*24*	585,840	393,130
Lease liabilities	*14*	60,154	52,454
Deferred income	*25*	15,348	4,442
Other current liabilities		9,267	7,117
Total current liabilities		892,301	616,402
NET CURRENT ASSETS		2,319,837	1,683,551

Consolidated Statement of Financial Position

31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		5,128,890	3,542,807
NON-CURRENT LIABILITIES			
Lease liabilities	14	104,881	50,324
Deferred tax liabilities		40	310
Deferred income	25	43,669	45,751
Total non-current liabilities		148,590	96,385
Net assets		4,980,300	3,446,422
EQUITY			
Equity attributable to owners of the parent			
Share capital	26	544,263	489,837
Treasury shares	12	(463,028)	(449,170)
Reserves	27	4,899,065	3,405,755
Total equity		4,980,300	3,446,422

Wang Weidong
Director

Fang Jianmin
Director

Consolidated Statement Of Changes In Equity

Year ended 31 December 2022

	Attributable to owners of the parent							
	Share capital RMB'000	Treasury shares RMB'000	Share premium* RMB'000	Other reserve* RMB'000	Fair value reserve* RMB'000	Exchange fluctuation reserve* RMB'000	Accumulated losses* RMB'000	Total equity RMB'000
At 1 January 2021	489,837	–	3,709,340	14,690	732	(270)	(619,708)	3,594,621
Profit for the year	–	–	–	–	–	–	276,258	276,258
Other comprehensive income for the year:								
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	–	–	(423)	–	–	(423)
Exchange differences related to foreign operations	–	–	–	–	–	5,846	–	5,846
Total comprehensive income for the year	–	–	–	–	(423)	5,846	276,258	281,681
Repurchase of H shares under First H Share Award and Trust Scheme	–	(449,170)	–	–	–	–	–	(449,170)
Share-based payments *(note 28)*	–	–	–	19,290	–	–	–	19,290
At 31 December 2021	489,837	(449,170)	3,709,340	33,980	309	5,576	(343,450)	3,446,422
At 1 January 2022	**489,837**	**(449,170)**	**3,709,340**	**33,980**	**309**	**5,576**	**(343,450)**	**3,446,422**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(998,830)**	**(998,830)**
Other comprehensive income for the year:								
Changes in fair value of equity investments at fair value through other comprehensive income, net of tax	**–**	**–**	**–**	**–**	**(1,529)**	**–**	**–**	**(1,529)**
Exchange differences related to foreign operations	**–**	**–**	**–**	**–**	**–**	**3,519**	**–**	**3,519**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,529)**	**3,519**	**(998,830)**	**(996,840)**
Repurchase of H shares under First H Share Award and Trust Scheme	**–**	**(13,858)**	**–**	**(17,743)**	**–**	**–**	**–**	**(31,601)**
Issue of A Shares in initial public offering ("IPO") *(note 26)*	**54,426**	**–**	**2,451,519**	**–**	**–**	**–**	**–**	**2,505,945**
Share-based payments *(note 28)*	**–**	**–**	**–**	**56,374**	**–**	**–**	**–**	**56,374**
At 31 December 2022	**544,263**	**(463,028)**	**6,160,859**	**72,611**	**(1,220)**	**9,095**	**(1,342,280)**	**4,980,300**

* These reserve accounts comprise the consolidated reserves of RMB4,899,065,000 (31 December 2021: RMB3,405,755,000) in the consolidated statement of financial position as at 31 December 2022.

Consolidated Statement Of Cash Flows

Year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		(998,830)	276,258
Adjustments for:			
Finance costs	6	6,757	5,323
Bank interest income	5	(61,543)	(43,348)
Gain on disposal of financial assets at fair value through profit or loss	5	(12,106)	–
Gain upon early termination of leases		–	(1)
Depreciation of property, plant and equipment	7,13	120,902	65,437
Depreciation of right-of-use assets	7,14	62,443	53,054
Amortisation of other intangible assets	7,15	3,026	1,981
Amortisation of long-term prepayments	7	432	325
Impairment of financial assets, net	7,20,21	11,128	342
Loss on disposal of items of property, plant and equipment, net	7	1,018	309
Share-based payment expenses	28	55,770	19,224
Foreign exchange differences, net		9,694	10,446
		(801,309)	389,350
Increase in inventories		(241,756)	(214,044)
Increase in trade and bills receivables		(488,317)	(39,309)
Increase in prepayments, other receivables and other assets		(63,813)	(58,259)
Decrease in other non-current assets		56,274	5,964
Increase in trade and bills payables		58,091	20,296
Increase in other payables and accruals		160,906	134,622
Decrease in pledged deposits		5,652	1,014
Decrease in deferred income in respect of government grants related to income		(10,677)	(18,444)
Cash generated operations		(1,324,949)	221,190
Interest received		61,260	42,441
Net cash (used in)/flows from operating activities		(1,263,689)	263,631

Consolidated Statement Of Cash Flows

Year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		(755,573)	(615,073)
Purchases of items of other intangible assets		(1,944)	(2,267)
Proceeds from disposal of items of property, plant and equipment		169	–
Purchases of financial assets at fair value through profit or loss		(1,835,500)	–
Proceeds from disposal of financial assets at fair value through profit or loss		1,847,606	–
Receipts of government grants for property, plant and equipment		19,500	17,952
Capital increase in investment of an associate		(1,500)	–
Purchases of equity investments designated at fair value through other comprehensive income		(69,425)	–
Increase in pledged deposits		(44,890)	(38,559)
Net cash used in investing activities		(841,557)	(637,947)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of bank borrowings		–	(108,000)
Proceeds from issue of A Shares and over-allotment through IPO		2,612,462	–
Payment of issuance costs in relation to A Share IPO		(92,552)	(14,361)
Repurchase of H Shares under First H Share Award and Trust Scheme		(40,924)	(449,170)
Interest paid for bank borrowings		–	(224)
Interest portion of lease payment		(6,757)	(5,323)
Principal portion of lease payments		(45,280)	(49,819)
Net cash flows from/(used in) financing activities		2,426,949	(626,897)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		321,703	(1,001,213)
Cash and cash equivalents at beginning of year		1,756,821	2,768,521
Effect of foreign exchange rate changes, net		(9,344)	(10,487)
CASH AND CASH EQUIVALENTS AT END OF YEAR	22	2,069,180	1,756,821
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	2,187,942	1,836,062
Less: pledged deposits	22	(118,762)	(79,241)
Cash and cash equivalents as stated in the consolidated statement of cash flows		2,069,180	1,756,821

1. CORPORATE AND GROUP INFORMATION

RemeGen Co., Ltd. (the "Company") was incorporated in the People's Republic of China (the "PRC") on 4 July 2008 as a limited liability company. On 12 May 2020, the Company was converted into a joint stock company with limited liability under the Company Law of the PRC. The registered office of the Company is located at 58 Middle Beijing Road, Yantai Development Zone, Yantai Area of Shandong Pilot Free Trade Zone, PRC.

During the year, the Company and its subsidiaries (the "Group") were principally engaged in the biopharmaceutical research, biopharmaceutical service, and biopharmaceutical production and sale.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of registration/ incorporation and place of operations	Nominal value of issued ordinary/ registered paid-in capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
RemeGen Biosciences, Inc. (previously known as "RC Biotechnologies, Inc.")	Delaware, United States of America ("USA") 18 April 2011	1,500 ordinary shares	100%	–	Research and development, registration and business development
Ruimeijing (Beijing) Pharmaceutical Technology Co., Ltd. (瑞美京(北京)醫藥科技有限公司)*	Beijing, PRC 14 August 2019	RMB1,000,000	100%	–	Research and development
RemeGen Hong Kong Limited	Hong Kong 26 September 2019	United States dollars ("USD") 14,000,000	100%	–	Research and development
RemeGen Australia Pty Ltd	South Australia 3 March 2021	100 ordinary shares	–	100%	Research and development and business development
RemeGen Medical Research (Shanghai) Co., Ltd. (榮昌生物醫藥研究(上海)有限公司)*	Shanghai, PRC 20 May 2020	RMB8,000,000	100%	–	Research and development
Shanghai Rongchang Biotechnology Co. Ltd. (上海榮昌生物科技有限公司)*	Shanghai, PRC 7 May 2022	RMB500,000,000.00	100%	–	Research and development

* The English name of these subsidiaries represents the best efforts made by the management of the Company to translate the Chinese name as they do not have official English name registered in the PRC. These subsidiaries were registered as domestic limited liability companies under PRC law.

Notes to Financial Statements

31 December 2022

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise all standards and interpretations approved by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income and bills receivable which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

The Group has been focusing on the research and development of drugs since its establishment, and has gradually entered the commercialization stage. A conditional marketing application of the telitacicept developed by the Group was submitted to the National Medical Products Administration ("NMPA") on 24 October 2019, and was officially approved by the NMPA on 9 March 2021; a conditional marketing application of the disitamab vedotin was submitted to the NMPA on 17 August 2020, and was officially approved by the NMPA on 8 June 2021; other drug candidates are in different preclinical and clinical studies development stage. During the reporting period, the Group announced initial listing and over-allotment of its shares on the Stock Exchange. As at 31 December 2022, the unused cash of the Group were RMB2,069,180,000, and the Group had current assets exceeded its current liabilities by RMB2,319,837,000. The management of the Group believes that the funds provided or available from the above activities can support the normal operation, research and development and production activities of the Group for at least the next 12 months. Therefore, the Group has prepared these financial statements on a going concern basis.

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's 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*
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

The nature and the impact of the revised IFRSs that are applicable to the Group are described below: (Continued)

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

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

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

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

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to IFRS 16	*Lease Liability in a Sale and Leaseback*[2]
IFRS 17	*Insurance Contracts*[1]
Amendments to IFRS 17	*Insurance Contracts*[1,5]
Amendment to IFRS 17	*Initial Application of IFRS 17 and IFRS 9 — Comparative Information*[6]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current* (the "2020 Amendments")[2,4]
Amendments to IAS 1	*Non-current Liabilities with Covenants (the "2022 Amendments")*[2]
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 1 January 2023
2 Effective for annual periods beginning on or after 1 January 2024
3 No mandatory effective date yet determined but available for adoption
4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after 1 January 2024. In addition, as a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised to align the corresponding wording with no change in conclusion .
5 As a consequence of the amendments to IFRS 17 issued in October 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before 1 January 2023
6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS 17

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

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

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

Further information about those IFRSs that are expected to be applicable to the Group is described below. (Continued)

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

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

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

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

Further information about those IFRSs that are expected to be applicable to the Group is described below. (Continued)

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

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

The Group has applied the initial recognition exception and did not recognise a deferred tax asset and a deferred tax liability for temporary differences for transactions related to leases. Upon initial application of these amendments, the Group will not recognise deferred tax for all temporary differences related to leases at the beginning of the earliest comparative period presented as the Group's sufficient taxable profit is not available. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Notes to Financial Statements

31 December 2022

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates and joint ventures (Continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred.

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

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

Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

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

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

Impairment of non-financial assets

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

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

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

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

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

Buildings	1.90%-19.00%
Plant and machinery	9.50%-19.00%
Office equipment and others	9.50%-47.50%
Motor vehicles	11.88%-19.00%
Leasehold improvements	30.03%-36.36%

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill)

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

Patents and licences

Patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years. The useful life of patents and licences is determined by considering the periods of validity of patents and the technical obsolescence.

Research and development costs

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

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

Leases

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

Group as a lessee

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessee (Continued)

(a) Right-of-use assets

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

Land use rights	50 years
Buildings	2 to 8 years
Plant and machinery	2 to 5 years
Motor vehicles	3 years

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

(b) Lease liabilities

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

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

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Initial recognition and measurement (Continued)

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

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

Financial assets at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

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

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

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

- the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (Continued)

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

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

Impairment of financial assets

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

General approach

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

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information. The Group considers that there has been a significant increase in credit risk when contractual payments are more than 90 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

General approach (Continued)

The Group has rebutted the 90 days past due presumption of default based on reasonable and supportable information, including the Group's credit risk control practices and the historical recovery rate of financial assets over 90 days past due. However, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. Debt investments are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk of debt investments since origination, the allowance will be based on the lifetime ECL.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

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

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

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

Simplified approach

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or payables, as appropriate.

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

The Group's financial liabilities include trade and other payables, financial liabilities included in other payables and accruals, interest-bearing bank borrowings and lease liabilities.

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Treasury shares

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

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash at banks, are subject to an insignificant risk of changes in value and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash at banks and demand deposits, which are not restricted as to use.

Income tax

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

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 profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Government grants

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

The Group recognises revenue from the following major sources:

(a) Sales of goods

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. A receivable is recognised by the Group when the goods are delivered to the customer 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.

(b) Service income

The Group earns revenue by providing research service to its customers through contracts. Revenue from service is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Group. The input method recognises revenue on the basis of the labour hours expended relative to the total expected labour hours to complete the service.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers (Continued)

(c) ***Licence of intellectual property***

For granting of a licence that is distinct from other promises in granting, a licence 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 licence 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 service to the customer as those activities occur.

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

Variable consideration

In some contracts between the Group and its customers, there are arrangements for sales rebates and arrangements for obtaining the right to receive payment according to the milestones agreed in the agreement, forming variable consideration. The Group determines the best estimate of the variable consideration according to the expected value or the most likely amount, but the transaction price including the variable consideration does not exceed the amount that the accumulated revenue recognised is unlikely to be reversed significantly when the relevant uncertainty is eliminated.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

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

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

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of share options and restricted shares is determined by an external valuer using the Black-Scholes Option Pricing Model and the discounted cash flow model, respectively. Further details are included in note 28 to the financial statements.

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other employee benefits

Pension scheme

The employees of the Group which operate in Mainland China are required to participate in a defined central pension scheme managed by the local municipal government. The subsidiaries operating in Mainland China are required to contribute a certain percentage, which was pre-determined by the local municipal government, of the relevant part of the payroll of these employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

For the year ended 31 December 2022, the Group did not have any defined benefit plan.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Research and development expenses

Development expenses incurred on the Group's drug product pipelines are capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, 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 pipelines and the ability to measure reliably the expenditure during the development. Development expenses which do not meet these criteria are expensed when incurred. The management of the Group will assess the progress of each of the research and development projects and determine the criteria met for capitalisation. All development expenses were expensed when incurred during the current and prior years.

Estimation uncertainty

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Assessing restrictions on variable consideration

When estimating variable consideration, the Group considers all information that can be reasonably obtained, including historical information, current information and forecast information, and estimates various possible consideration amounts and probabilities within a reasonable range. The transaction price that includes variable consideration does not exceed the amount for which it is highly probable that a significant reversal of accumulated recognized revenue will not occur when the relevant uncertainty is eliminated. When assessing the elimination of uncertainties related to variable consideration, when it is highly probable that the accumulated amount of recognized revenue will not be significantly reversed, the probability of revenue reversal and the proportion of the reversal amount will be considered at the same time. At the end of each reporting period, the Group reassesses the amount of variable consideration, including reassessing whether the estimate of variable consideration is restricted, to reflect the conditions existing at the end of the reporting period and changes in conditions that occurred during the reporting period.

Sales rebates

The Group and the dealers have agreed on sales rebates related to sales indicators in advance, and estimated the expected sales rebates when the sales revenue is recognized according to the contractual agreement and historical information. The assumptions used by the Group to determine the estimated amount of sales rebate include the achievement of dealer performance and the assessment of payment collection. The Group regularly reviews the information related to these estimates and adjusts the estimated amount of sales rebates accordingly.

Milestone Payment

At the inception of each agreement that includes milestone payment agreements, the Group assesses whether the corresponding milestone is likely to be achieved, and uses the best estimate method to estimate the relevant amount included in the transaction price. When the relevant uncertainty is eliminated, it is highly probable that there will be no significant reversal of the accumulated recognized revenue, and the variable consideration related to the milestone is included in the transaction price. The Group's milestones related to development activities may include reaching a number of different stages of clinical trials. Because of the ambiguities involved in achieving these development objectives, the recognition of variable consideration is generally limited at contract inception. The Group will assess whether the variable consideration is restricted during each reporting period based on the facts and circumstances of the relevant clinical trials. Variable consideration will be included in the transaction price and allocated to each individual performance obligation when the constraints related to development milestones change and no significant reversal of revenue related to the milestone is expected.

Recognition of income taxes and deferred tax assets

Determining income tax provision involves judgement on the future tax treatment of certain transactions and when certain matters relating to the income taxes have not been confirmed by the local tax bureau. Management evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatments of such transactions are reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised in respect of deductible temporary differences and unused tax losses. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences and the losses can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is revised as necessary and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful lives and residual values of property, plant and equipment

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

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

Write-down of inventories to net realisable value

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

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Group to make estimates about expected future cash flows, discount for lack of marketability and discount rates, and hence they are subject to uncertainty. The fair value of unlisted equity investments at 31 December 2022 was RMB11,128,000 (31 December 2021: RMB12,067,000). Further details are included in note 17 to the financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is engaged in biopharmaceutical research, biopharmaceutical service, biopharmaceutical production and sale, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Group's senior management for purposes of resource allocation and performance assessment. Therefore, no analysis by operating segment is presented.

Geographical information

(a) Revenue from external customers

	2022 RMB'000	2021 RMB'000
Mainland China	723,388	131,310
USA	44,387	1,292,592
	767,775	1,423,902

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

(b) Non-current assets

	2022 RMB'000	2021 RMB'000
Mainland China	2,660,910	1,781,060
USA	64,865	65,499
Australia	–	66
	2,725,775	1,846,625

The non-current asset information above is based on the locations of the assets and excludes equity investments designated at fair value through other comprehensive income and other financial instruments.

Information about a major customer

During the year ended 31 December 2022, no revenue derived from a single customer accounted for 10% or more of the Group's total revenue(2021: RMB1,292,592,000 from a single customer accounted for 10% or more of the Group's total revenue).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	767,775	1,423,902

Revenue from contracts with customers

(a) Disaggregated revenue information

	2022 RMB'000	2021 RMB'000
Types of revenue		
Licence revenue	–	1,290,875
Sales of goods	738,204	131,310
Service income	29,571	1,717
Total revenue from contracts with customers	767,775	1,423,902
Geographical markets		
Mainland China	723,388	131,310
USA	44,387	1,292,592
Total revenue from contracts with customers	767,775	1,423,902
Timing of revenue recognition		
Transferred at a point in time	738,204	1,423,902
Transferred over a period of time	29,571	–
Total revenue from contracts with customers	767,775	1,423,902

5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

(b) Performance obligations

Information about the Group's performance obligations is summarised below:

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 90 days from the delivery.

Service income

Service revenue is recognized over a period of time using the input method to measure the progress of completion of services as customers simultaneously acquire and consume the benefits provided by the Group. The input method recognizes revenue based on the increase in labor hours relative to the total labor hours expected to complete the service.

Licence revenue

The time when the intellectual property licence is delivered is the time when the performance obligation is fulfilled, and the customer obtains the control of the intellectual property licence at this time, can use and benefit from it, and the Group recognises the income for the part of the down payment amount at the time when the control of the intellectual property licence is transferred. Subsequent milestone payments are variable consideration, and their payment depends on future uncertain events and is difficult to estimate reasonably at this stage. The Group will re-estimate the amount of variable consideration that should be included in the transaction price at the end of the reporting period. For the royalties charged, revenue shall be recognized at the later point of time when the customer's subsequent sales or use behavior actually occurs and the company performs the relevant performance obligations. For the royalties paid by the Group to customers, they are used as consideration payable to customers and are written off against income.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are as follows:

	2022 RMB'000	2021 RMB'000
Amounts expected to be recognised as revenue:		
Within one year	51	27,146

The amounts disclosed above do not include variable consideration which is constrained.

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5. REVENUE, OTHER INCOME AND GAINS (Continued)

Revenue from contracts with customers (Continued)

	Notes	2022 RMB'000	2021 RMB'000
Other income			
Government grants*	7	141,221	140,026
Rental income	14	2,152	2,279
Bank interest income	7	61,543	43,348
Gain on disposal of financial assets at fair value through profit or loss	7	12,106	–
Sales of materials		2,182	99
Others		–	124
		219,204	185,876
Gains			
Foreign exchange gains, net		13,234	–
Gain on proceed of property, plant and equipment		15	–
Gain on early termination of leases		–	1
Others		46	93
		13,295	94

* The government grants mainly represent subsidies received from government authorities for the purpose of compensation for expenditure arising from research activities and clinical trials, awards for new drug development and capital expenditure incurred on certain projects. There are no unfulfilled conditions or contingencies relating to these government grants.

6. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank borrowings	–	100
Interest on lease liabilities *(note 14(c))*	6,757	5,323
	6,757	5,423
Less: interest capitalised in property, plant and equipment	–	100
	6,757	5,323

7. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after (crediting)/charging:

	Notes	2022 RMB'000	2021 RMB'000
Cost of inventories sold		201,340	67,163
Cost of services provided		6,696	–
Cost of licence arrangement		61,903	56,046
Research and development costs *(note (a))*		982,080	710,973
Depreciation of property, plant and equipment *(note (b))*	13	120,902	65,437
Depreciation of right-of-use assets	14	62,443	53,054
Amortisation of other intangible assets *(note (c))*	15	3,026	1,981
Amortisation of long-term prepayments		432	325
Auditor's remuneration		2,485	1,700
Government grants	5	(141,221)	(140,026)
Lease payments not included in the measurement of lease liabilities		3,199	6,082
Employee benefit expenses (excluding directors' and supervisors' remuneration *(note 8)*):			
Wages, salaries and allowances		636,079	364,307
Pension scheme contributions *(note (d))*		54,064	31,714
Staff welfare expenses		41,071	26,196
Share-based payment expenses		17,941	11,130
		749,155	433,347
Foreign exchange differences, net		(13,234)	25,465
Impairment of financial assets, net:			
Impairment of trade receivables, net *(note (e))*	20	10,512	121
Impairment of financial assets included in prepayments, other receivables and other assets *(note (e))*	21	616	221
		11,128	342
Bank interest income	5	(61,543)	(43,348)
Gain on disposal of financial assets at fair value through profit or loss	5	(12,106)	–
Loss on disposal of items of property, plant and equipment, net *(note (e))*		1,018	309

7. (LOSS)/PROFIT BEFORE TAX (Continued)

The Group's (loss)/profit before tax is arrived at after (crediting)/charging: (Continued)

Notes:

(a) The research and development costs included RMB420,999,000 (2021: RMB302,547,000) relating to employee benefit expenses, depreciation and amortisation for the year ended 31 December 2022, which are also included in the respective amounts disclosed above for each type of expenses. Research and development costs also included share award expenses of RMB16,238,000 (2021: RMB549,000) for the year ended 31 December 2022, which are included in note28 to the financial statements.

(b) Mainly included in "Cost of inventories sold", "Administrative expenses", "Research and development costs" and "Selling and distribution expenses" in the consolidated statement of profit or loss.

(c) Mainly included in "Administrative expenses" and "Research and development costs" in the consolidated statement of profit or loss.

(d) There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

(e) Included in "Other expenses" in the consolidated statement of profit or loss.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"), section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2022 RMB'000	2021 RMB'000
Fees	2,293	900
Other emoluments:		
Salaries, allowances and benefits in kind	16,863	10,779
Performance related bonuses	4,402	5,633
Pension scheme contributions	150	144
Share-based payment expenses	37,829	8,094
	59,244	24,650
	61,537	25,550

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows: (Continued)

Year ended 31 December 2022

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Share-based payment expenses RMB'000	Total remuneration RMB'000
Executive directors						
Mr. Wang Weidong	–	2,340	660	–	56	3,056
Dr. Fang Jianmin	1,393	5,421	1,390	39	18,301	26,544
Mr. Lin Jian	–	480	403	–	2	885
Dr. He Ruyi	–	6,173	1,425	38	18,404	26,040
	1,393	14,414	3,878	77	36,763	56,525
Non-executive directors						
Dr. Wang Liqiang	–	–	–	–	–	–
Dr. Su Xiaodi	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Ms. Ma Lan *(note (a))*	300	–	–	–	–	300
Mr. Hao Xianjing	300	–	–	–	–	300
Mr. Chen Yunjin *(note (b))*	200	–	–	–	–	200
Ms. Yu Shanshan *(note (c))*	100	–	–	–	–	100
	900	–	–	–	–	900
Supervisors						
Mr. Ren Guangke	–	791	144	35	540	1,510
Mr. Li Yupeng	–	1,658	380	38	526	2,602
Mr. Li Zhuanglin	–	–	–	–	–	–
	–	2,449	524	73	1,066	4,112
	2,293	16,863	4,402	150	37,829	61,537

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8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows: (Continued)

Year ended 31 December 2021

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Share-based payment expenses RMB'000	Total remuneration RMB'000
Executive directors						
Mr. Wang Weidong	–	840	660	–	–	1,500
Dr. Fang Jianmin	–	3,714	3,950	36	–	7,700
Mr. Lin Jian	–	480	403	–	–	883
Dr. He Ruyi	–	3,880	300	36	6,271	10,487
	–	8,914	5,313	72	6,271	20,570
Non-executive directors						
Dr. Wang Liqiang	–	–	–	–	–	–
Dr. Su Xiaodi	–	–	–	–	–	–
	–	–	–	–	–	–
Independent non-executive directors						
Ms. Yu Shanshan *(note (c))*	300	–	–	–	–	300
Mr. Hao Xianjing	300	–	–	–	–	300
Dr. Lorne Alan Babiuk *(note (d))*	125	–	–	–	–	125
Ms. Ma Lan *(note (a))*	175	–	–	–	–	175
	900	–	–	–	–	900
Supervisors						
Mr. Ren Guangke	–	688	110	36	1,297	2,131
Mr. Li Yupeng	–	–	–	–	–	–
Mr. Li Zhuanglin	–	1,177	210	36	526	1,949
	–	1,865	320	72	1,823	4,080
	900	10,779	5,633	144	8,094	25,550

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows: (Continued)

Notes:

(a) Ms. Ma Lan was appointed as an independent non-executive director of the Company in June 2021.

(b) Mr. Chen Yunjin was appointed as an independent non-executive director of the Company in May 2022.

(c) Ms. Yu Shanshan was appointed as an independent non-executive director of the Company in May 2020, and retired as an independent non-executive director of the Company in May 2022.

(d) Dr. Lorne Alan Babiuk was appointed as an independent non-executive director of the Company in May 2020, and retired as an independent non-executive director of the Company in June 2021.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2021: two directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining three (2021: three) highest paid employees who were neither a director nor supervisor of the Company during the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries, allowances and benefits in kind	7,237	6,397
Performance-related bonuses	–	1,448
Pension scheme contributions	34	72
Share-based payment expenses	8,683	7,288
	15,954	15,205

The number of non-director and non-supervisor highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2022	2021
RMB3,500,001 to RMB4,000,000	–	2
RMB4,000,001 to RMB4,500,000	1	–
RMB5,000,001 to RMB5,500,000	1	–
RMB6,000,001 to RMB6,500,000	1	–
RMB8,000,001 to RMB8,500,000	–	1

9. FIVE HIGHEST PAID EMPLOYEES (Continued)

During the year, share awards were granted to the five highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such awarded shares, which has been recognised in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the year is included in the above five highest paid employees' remuneration disclosures.

10. INCOME TAX

The provision for corporate income tax in Mainland China is based on the statutory rate of 25% of the assessable profits as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

The Company has been recognised as High New Tech Enterprises in 2022 and entitled to a reduced corporate income tax rate of 15% according to the tax incentives of the CIT Law for High New Tech Enterprises.

The subsidiaries incorporated in Mainland China were subject to preferential tax rates of 20%, because they were regarded as "small-scaled minimal profit enterprises" during the corresponding period.

The subsidiary incorporated in the USA is subject to America federal income tax at a rate of 21% and California state income tax at a rate of 8.84%.

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at the rate of 16.5% on any estimated assessable profits arising in Hong Kong.

The subsidiary incorporated in Australia is subject to Australia profits tax at the rate of 25% on any estimated assessable profits arising in Australia.

The income tax expense of the Group for the year is analysed as follows:

	2022 RMB'000	2021 RMB'000
Current		
Charge for the year	–	–
Deferred	–	–
Total tax charge for the year	–	–

10. INCOME TAX (Continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	2022 RMB'000	2021 RMB'000
(Loss)/Profit before tax	**(998,830)**	276,258
Tax at the statutory tax rate	**(254,487)**	69,064
Lower tax rates enacted by local authority	**148,072**	3,676
Expenses not deductible for tax	**10,180**	6,499
Additional deductible allowance for research and development expenses	**(194,727)**	(154,438)
Effect of deemed sales	**4,737**	28,411
Income not subject to tax	**(2,436)**	–
Utilisation of deductible losses for previously unrecognized deferred tax	**–**	6,414
Deductible temporary difference and tax losses not recognised	**288,661**	40,374
Tax charge at the Group's effective rate	**–**	–

The Company has been recognised as High New Tech Enterprises in 2022, the losses for the portion that has not been offset yet, can be offsetting against future taxable profits of the Company in ten years. The Group has tax losses in Mainland China of RMB3,723,031,000 (2021: RMB2,255,897,000) and certain deductible temporary difference of RMB630,089,000 (2021: RMB525,176,000) as at the end of the year, that will expire in one to ten years for offsetting against future taxable profits of the companies in which the losses arose.

The Group also has tax losses in the USA, Hong Kong and Australia of RMB260,639,000 (2021: RMB121,439,000) as at the end of the year, that will be carried forward indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of unused tax loss and certain deductible temporary difference as the Group is not probable that future taxable profits against which the losses or deductible temporary differences can be utilized will be available in the relevant tax jurisdictions and entities.

11. DIVIDENDS

No dividend has been declared and paid by the Company during the year (2021: nil).

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31 December 2022

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/earnings for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 54,426,000 (2021:Nil) in issue during the year, as adjusted to reflect the rights issue during the year .

The calculation of the diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2022 RMB'000	2021 RMB'000
(Loss)/Earnings		
(Loss)/Earnings attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per share calculation	(998,830)	276,258
Dilutive potential conversion expenses	–	–
(Loss)/Earnings attributable to ordinary equity holders of the parent Attrbutable to continuing operations	(998,830)	276,258
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	530,120,137	487,443,301
Effect of dilution — weighted average number of ordinary shares:		
Share awards	1,034,407	–
	531,154,544	487,443,301

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2022							
At 1 January 2022:							
Cost	491,912	637,161	51,671	460	610,682	–	1,791,886
Accumulated depreciation	42,535	151,711	19,707	246	–	–	214,199
Net carrying amount	449,377	485,450	31,964	214	610,682	–	1,577,687
At 1 January 2022, net of accumulated depreciation	449,377	485,450	31,964	214	610,682	–	1,577,687
Additions	–	16,254	8,042	111	976,034	577	1,001,018
Disposals	–	(1,166)	(21)	–	–	–	(1,187)
Depreciation provided during the year	(29,229)	(80,745)	(10,127)	(51)	–	(750)	(120,902)
Adjustment	(46,480)	–	–	–	–	–	(46,480)
Transfers	299,456	256,661	5,654	–	(566,490)	4,719	–
Transfers to intangible assets *(note 15)*	–	–	–	–	(5,298)	–	(5,298)
Exchange realignment	–	1,777	135	–	–	–	1,912
At 31 December 2022, net of accumulated depreciation	673,124	678,231	35,647	274	1,014,928	4,546	2,406,750
At 31 December 2022:							
Cost	744,889	903,611	65,440	570	1,014,928	5,296	2,734,734
Accumulated depreciation	71,765	225,380	29,793	296	–	750	327,984
Net carrying amount	673,124	678,231	35,647	274	1,014,928	4,546	2,406,750

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment and others RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2021						
At 1 January 2021:						
Cost	177,439	402,763	33,057	244	338,786	952,289
Accumulated depreciation	31,720	105,409	12,361	231	–	149,721
Net carrying amount	145,719	297,354	20,696	13	338,786	802,568
At 1 January 2021, net of accumulated depreciation	145,719	297,354	20,696	13	338,786	802,568
Additions	–	70,798	6,610	19	772,194	849,621
Disposals	–	(539)	(85)	–	–	(624)
Depreciation provided during the year	(10,815)	(47,028)	(7,579)	(15)	–	(65,437)
Adjustment	88	(2,399)	811	–	(6,658)	(8,158)
Transfers	314,385	167,526	11,532	197	(493,640)	–
Exchange realignment	–	(262)	(21)	–	–	(283)
At 31 December 2021, net of accumulated depreciation	449,377	485,450	31,964	214	610,682	1,577,687
At 31 December 2021:						
Cost	491,912	637,161	51,671	460	610,682	1,791,886
Accumulated depreciation	42,535	151,711	19,707	246	–	214,199
Net carrying amount	449,377	485,450	31,964	214	610,682	1,577,687

As at 31 December 2022, the Group had no assets subject to restrictions on ownership. (As at 31 December 2021, the Group has discharged its mortgage.)

14. LEASES

The Group as a lessee

The Group has lease contracts for various items of land use rights, buildings, plant and machinery used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of buildings, plant and machinery generally have lease terms between 1 and 5 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Total RMB'000
As at 1 January 2021	40,111	88,086	9,742	–	137,939
Additions	–	62,423	382	1,795	64,600
Depreciation charge	(855)	(48,511)	(3,253)	(435)	(53,054)
Exchange realignment	–	(512)	–	–	(512)
Remeasurement resulted from the early termination of leases	–	–	(117)	–	(117)
As at 31 December 2021 and 1 January 2022	**39,256**	**101,486**	**6,754**	**1,360**	**148,856**
Additions	**–**	**114,644**	**–**	**–**	**114,644**
Depreciation charge	**(855)**	**(57,712)**	**(3,280)**	**(596)**	**(62,443)**
Exchange realignment	**–**	**3,721**	**–**	**–**	**3,721**
As at 31 December 2022	**38,401**	**162,139**	**3,474**	**764**	**204,778**

Land use rights represent the land use rights granted by the PRC government authority on the use of land within the pre-approved lease period, the original terms of the land use rights of the Group held in the PRC are 50 years up to December 2061, June 2062 and April 2070, respectively.

14. LEASES (Continued)

The Group as a lessee (Continued)

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2022 RMB'000	2021 RMB'000
Carrying amount at 1 January	102,778	89,568
New lease arrangements	105,067	63,147
Accretion of interest recognised during the year	6,757	5,323
Remeasurement resulted from the early termination of leases	–	(118)
Exchange realignment	2,469	–
Payments	(52,036)	(55,142)
Carrying amount at 31 December	165,035	102,778
Analysed into:		
Current portion	60,154	52,454
Non-current portion	104,881	50,324

The maturity analysis of lease liabilities is disclosed in note 35 to the financial statements.

The payments of lease liabilities to a related party for the year ended 31 December 2022 were RMB39,342,000 (2021: RMB39,907,000), details of which are included in note 32 to the financial statements.

The balances of lease liabilities due to a related party as at 31 December 2022 were RMB106,176,000 (2021: RMB34,582,000), details of which are included in note 32 to the financial statements.

(c) The amounts recognized in profit or loss in relation to leases are as follows:

	2022 RMB'000	2021 RMB'000
Interest on lease liabilities *(note 6)*	6,757	5,323
Depreciation charge of right-of-use assets	62,443	53,054
Expense relating to short-term leases*	1,333	5,080
Expense relating to leases of low-value assets*	1,866	1,002
Total amount recognised in profit or loss	72,399	64,459

* Included in "Administrative expenses" and "Selling and distribution expenses" in the consolidated statement of profit or loss.

The total cash outflow for leases included in the consolidated statement of cash flows is disclosed in note 29(c) to the financial statements.

14. LEASES (Continued)

The Group as a lessor

The Group leases its properties under operating lease arrangements. Rental income recognised by the Group for the year ended 31 December 2022 was RMB2,152,000 (2021: RMB2,279,000), details of which are included in note 5 to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
At 31 December 2022			
Cost at 1 January 2022, net of accumulated amortisation	533	12,610	13,143
Additions	–	2,037	2,037
Transfers from property, plant and equipment *(note 13)*	–	5,298	5,298
Amortisation provided during the year	(533)	(2,493)	(3,026)
Exchange realignment	–	9	9
At 31 December 2022	–	17,461	17,461
At 31 December 2022:			
Cost	13,387	21,328	34,715
Accumulated amortisation	(13,387)	(3,867)	(17,254)
Net carrying amount	–	17,461	17,461

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
At 31 December 2021			
Cost at 1 January 2021, net of accumulated amortisation	1,333	3,762	5,095
Additions	–	10,029	10,029
Amortisation provided during the year	(800)	(1,181)	(1,981)
At 31 December 2021	533	12,610	13,143
At 31 December 2021:			
Cost	13,387	13,983	27,370
Accumulated amortisation	(12,854)	(1,373)	(14,227)
Net carrying amount	533	12,610	13,143

16. INVESTMENTS IN AN ASSOCIATE

	2022 RMB'000	2021 RMB'000
Share of net assets	1,500	–

Particulars of the Group's associate are as follows:

Name	Particulars of issued share held	Place of registration and business	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
Yantai Yeda Caisheng Venture Capital Partnership (Limited Partnership)	Registered capital of RMB1 each	PRC/ Mainland China	25	25	25	Investment management

The following table illustrates the aggregate financial information of the Group's associate that are not individually material:

	2022 RMB'000	2021 RMB'000
Share of the associate's profit for the year	–	–
Share of the associate's total comprehensive income	–	–
Aggregate carrying amount of the Group's investments in the associate	1,500	–

17. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2022 RMB'000	2021 RMB'000
Equity investment designated at fair value through other comprehensive income		
Listed equity investments, at fair value		
Biocytogen Pharmaceuticals (BeiJing) CO., Ltd.	68,565	–
Unlisted equity investments, at fair value		
Yantai Heyuan Addis Biomedical Technology, Ltd.*	11,128	12,067
	79,693	12,067

* The English name of the entity represents the best efforts made by the management of the Group to translate the Chinese name as it did not have an official English name registered in the PRC.

The above equity investments were irrevocably designated as at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

18. OTHER NON-CURRENT ASSETS

	2022 RMB'000	2021 RMB'000
Prepayments for property, plant and equipment	93,952	50,141
Value-added tax recoverable	16	54,678
Others	4,287	2,120
	98,255	106,939

19. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	282,082	174,899
Working in progress	213,050	97,500
Finished goods	24,217	7,128
Goods in transits	2,429	–
Low-value consumption materials	895	787
	522,673	280,314

20. TRADE AND BILLS RECEIVABLES

	2022 RMB'000	2021 RMB'000
Trade receivables	212,664	2,433
Impairment	(10,633)	(121)
Trade receivables, net	202,031	2,312
Bills receivable	79,156	4,738
	281,187	7,050

Trade receivables mainly consist of receivables of sales of goods.

For receivables of sales of goods, the Group's trading terms with its customers are mainly on credit. The credit period offered by the Group is generally one month and major customers can extend up to 3 months.

The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

20. TRADE AND BILLS RECEIVABLES (Continued)

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	202,031	2,312

The movements in the loss allowance for impairment of trade receivables are as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	121	–
Impairment losses, net *(note 7)*	10,512	121
At end of year	10,633	121

Details of impairment assessment of trade receivables are set out in note 35.

The expected loss rate for the trade receivables generated from the sales of goods not past due is assessed to be 5% based on the time of past due. The Directors are of the opinion that the ECL in respect of these balances is sufficient.

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2022 RMB'000	2021 RMB'000
Value-added tax recoverable	4,311	27,433
A-share IPO Listing fees	–	18,102
Prepayments	198,700	124,095
Due from related parties *(note 32)*	1,576	1,675
Deposits and other receivables	17,337	6,142
	221,924	177,447
Impairment allowance	(972)	(356)
	220,952	177,091

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

Financial assets included in prepayments, other receivables and other assets mainly represent deposits with suppliers and other parties. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under IFRS 9. Other receivables had no historical default, the financial assets included in the above balances were categorised in stage 1 at the end of the year. In calculating the expected credit loss rate, the Group considers the flow rate and adjusts for forward-looking macroeconomic data.

The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be normal because they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk.

The Group applies an "expected credit loss ("ECL") model" to evaluate the credit losses for other receivables. The movements in provision for impairment of other receivables are as follows:

	2022 **RMB'000**	2021 RMB'000
At beginning of year	**356**	135
Impairment losses, net *(note 7)*	**616**	221
At end of year	**972**	356

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 **RMB'000**	2021 RMB'000
Cash and bank balances	**1,555,786**	1,205,696
Time deposits	**632,156**	630,366
	2,187,942	1,836,062
Less: Pledged for bills payable *(note (a))*	**(112,820)**	(73,643)
Pledged for wages of migrant workers *(note (b))*	**(3,406)**	(3,397)
Interest receivable recorded in pledged deposits *(note (c))*	**(1,920)**	(1,637)
Pledged for an office lease *(note (d))*	**(616)**	(564)
Cash and cash equivalents	**2,069,180**	1,756,821

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (Continued)

Notes:

(a) As at 31 December 2022, the amounts of bank balances of RMB112,820,000 (2021: RMB73,643,000) were pledged for bills payable.

(b) As at 31 December 2022, the amounts of bank balances of RMB3,406,000 (2021: RMB3,397,000) were pledged for wages of migrant workers.

(c) As at 31 December 2022, the amounts of bank balances of RMB1,245,000 (2021: RMB1,005,000) and the amounts of time deposits of RMB675,000 (2021: RMB632,000) were interest receivable.

(d) As at 31 December 2022, the amounts of bank balances of RMB616,000 (2021: RMB564,000) were pledged for an office lease.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The Group's cash and cash equivalents as at the end of the year are denominated in the following currencies:

	2022 **RMB'000**	2021 RMB'000
Denominated in RMB	**1,999,863**	1,505,715
Denominated in HKD	**25,770**	3,877
Denominated in USD	**42,916**	245,747
Denominated in AUD	**631**	1,482
	2,069,180	1,756,821

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

23. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the year, based on the invoice date, is as follows:

	2022 RMB'000	2021 RMB'000
Within 3 months	152,195	119,138
3 to 6 months	57,255	39,938
6 months to 1 year	12,242	46
Over 1 year	–	137
	221,692	159,259

The Group's trade and bills payables included RMB35,000 due to the Group's related parties as at 31 December 2022 (31 December 2021: Nil) (note 32).

Other than the trade payables due to the Group's related parties, trade and bills payables are normally settled on terms of one to six months.

24. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Payables for purchase of property, plant and equipment	355,477	225,124
Payroll payable	130,857	80,486
Other tax payables	14,684	6,126
Accruals	55,330	33,906
Due to related parties *(note 32)*	8,933	11,057
Contract liabilities	51	27,146
Other payables	20,508	9,285
	585,840	393,130

Other payables are non-interest-bearing and repayable on demand.

25. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants:		
Current	15,348	4,442
Non-current	43,669	45,751
	59,017	50,193

The movements in government grants during the year are as follows:

	2022 RMB'000	2021 RMB'000
At beginning of year	50,193	50,685
Grants received during the year	29,994	29,863
Released to profit or loss during the year	(20,670)	(30,355)
Adjustment	(500)	–
At end of year	59,017	50,193

The grants are related to the subsidies received from the government for the purpose of compensation for expenses arising from research activities and clinical trial, an award for new drug development and capital expenditure incurred on certain projects.

26. SHARE CAPITAL

Shares

	2022 RMB'000	2021 RMB'000
Issued and fully paid:		
544,263,003 (2021: 489,836,702) ordinary shares	544,263	489,837

26. SHARE CAPITAL (Continued)

A summary of movements in the Company's share capital is as follows:

Share capital

	Numbers of shares in issue RMB'000	Share capital RMB'000
At 1 January 2021 and 31 December 2021 and 1 January 2022	489,837	489,837
Issue of shares from A-share initial public offering *(note (a))*	54,426	–
At 31 December 2022	544,263	489,837

Note:

(a) In connection with the Company's A-share initial public offering on the STAR Market of Shanghai Stock Exchange in March 2022, 54,426,301 ordinary shares of RMB1.00 each were issued at a subscription price of RMB48.00 per share. After deducting expenses relating to the issue of shares, the share capital and share premium of the Company increased by RMB54,426,000 and RMB2,451,519,000, respectively.

27. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(a) Share premium

The share premium of the Group represents the share premium contributed the Company's Global Offering on the Science and Technology Board of the Shanghai Stock Exchange in March 2022.

(b) Other reserve

Other reserve of the Group represents the share-based compensation reserve from the equity-settled share award. The disclosures are included in note 28 "SHARE AWARD".

(c) Fair value reserve

It represents the fair value of equity investments at fair value through other comprehensive income.

(d) Exchange fluctuation reserve

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of entities of which the functional currency is not RMB.

28. SHARE AWARD

(1) Restricted stock

Before the reorganisation of the Company, certain employees (the "Granted Employees") are granted share awards of Yantai Rongchang Pharmaceutical Co., Ltd. ("Rongchang Pharmaceuticals") and the Company.

Pursuant to the share award during the period from years 2015 to 2017, 724,070 share awards in Rongchang Pharmaceuticals were granted to fourteen selected employees of the Company and the earliest vesting date is 1 January 2020. There is no other performance target required except the eligible participant remains as an employee of Rongchang Pharmaceuticals and its subsidiaries for five years after the grant dates.

Pursuant to the share award during the year ended 31 December 2018, 1,370,000 share awards in Rongchang Pharmaceuticals were granted to fifteen selected employees of the Company and the earliest vesting date is 1 January 2023. There is no other performance target required except the eligible participant remains as an employee of Rongchang Pharmaceuticals and its subsidiaries for five years after the grant dates.

Pursuant to the share award during the year ended 31 December 2019, 265,000 share awards in the Company were granted to nine selected employees of the Company and the earliest vesting date is 1 June 2024. There are no other performance targets required except the eligible participant remains as an employee of the Group for five years after the grant dates.

In December 2019, the equity interests in the Company were transferred to the then ultimate shareholders of the Company pursuant to a reorganisation (the "Reorganisation"). Prior to the Reorganisation, the Company was wholly owned by Rongchang Pharmaceuticals. Upon completion of the Reorganisation, the Company and Rongchang Pharmaceuticals were owned immediately by the then ultimate shareholders of the Company. Yantai Rongjian Enterprise Management Center LP ("Rongjian") and Yantai Rongyi Enterprise Management Center LP ("Rongyi") were established by the then ultimate shareholders of the Company as the Group's additional immediate shareholders. The purpose to establish Rongjian and Rongyi (collectively, the "PRC Share Incentive Entities") was to hold incentive shares of the Company for the Granted Employees during the period from years 2015 to 2019. Some Granted Employees became limited partners of Rongjian and Rongyi which subscribed for restricted stocks of the Company ("restricted stocks") and share awards of Rongchang Pharmaceuticals in the PRC Share Incentive Entities to replace the original share awards in Rongchang Pharmaceuticals granted during the period from years 2015 to 2018. Other Granted Employees became limited partners of Rongjian and Rongyi which subscribed for restricted stocks of the Company to replace the share awards in the Company granted to them during the year of 2019. The percentage of partnership in the PRC Share Incentive Entities was determined based on the percentage of his/her previous granted awards and the percentage of shares in the Company as held by the PRC Share Incentive Entities.

28. SHARE AWARD (Continued)

(1) Restricted stock (Continued)

The Granted Employees shall not have any right to receive any shares of the Company awarded to them and all other interests attributable thereto unless and until the legal and beneficial ownership of the awarded shares of the Company were transferred to them and the legal and beneficial ownership of those awarded shares vested to them. When the Granted Employees ceased to be the Group's employees, the unvested shares of the Company would be retained by the PRC Share Incentive Entities.

The Granted Employees shall not have any right to transfer the legal and beneficial ownership in the PRC Share Incentive Entities until the original vesting date defined in the employee incentive scheme granted prior to the Reorganisation.

The fair value of services received in return for share awards granted is measured by reference to the fair value of share awards granted. The fair value of the share awards granted is measured at the grant date at the market value of the share awards and is determined using an option pricing model and a discounted cash flow model, adjusted for the exclusion of expected dividends to be received in the vesting period.

On the day of the Reorganisation, restricted stocks of the Company and share awards of Rongchang Pharmaceuticals were granted to the Granted Employees through their respective ownership interests in the PRC Share Incentive Entities, the Company identified these new equity instruments as replacement equity instruments for the original granted share awards in Rongchang Pharmaceuticals and the Company. The Company accounted for the granting of replacement equity instruments in the same way as a modification of the original grant of equity instruments. The incremental fair value granted is the difference between the fair value of the restricted stock of the Group and the net fair value of the share awards previously granted on the day of the Reorganisation. The incremental fair value represented additional share-based payment which is charged to profit or loss over the remaining vesting periods under the straight-line amortisation basis.

In December 2019, RC-Biology Investment Ltd. ("RC-Biology"), a company limited by shares and incorporated in the British Virgin Islands was established by the Concert Parties of the Group and acquired shares from the original shareholder of the Group as the Group's immediate shareholders. The purpose to establish RC-Biology was to hold incentive shares for the foreign employees.

On 5 May 2020, 8,624,319 special shares of the RC-Biology ("Special Shares") were granted to nine foreign employees (the "Purchasers"). According to the agreement, upon each twelve-month anniversary of the initial public offering date of the Group, 20% of the Special Shares that are not vested ("Unvested Shares") will become Special Shares that are vested ("Vested Shares"), if the Purchasers provide continuous full-time employment to the Company or its affiliates through each such anniversary date. No Unvested Shares will become Vested Shares after the date on which the Purchasers' employment is terminated.

28. SHARE AWARD (Continued)

(1) Restricted stock (Continued)

On 27 July 2020, 1,320,000 special shares of RC-Biology ("Special Shares") were granted to a foreign employee (the "Purchaser"). According to the agreement, upon each twelve-month anniversary of the initial public offering date of the Group, 20% of the Special Shares that are not vested ("Unvested Shares") will become Special Shares that are vested ("Vested Shares"), if the Purchasers provide continuous full-time employment to the Company or its affiliates through each such anniversary date. No Unvested Shares will become Vested Shares after the date on which the Purchasers' employment is terminated.

During the year, share award expenses (including the above incremental share-based payments) of RMB11,888,000 (2021: RMB19,224,000) were charged to profit and loss and RMB603,000 (2021: RMB66,000) were charged to inventories.

(2) the First H Share Award and Trust Scheme

The Company has implemented a share award scheme (hereinafter referred to as "the scheme"). The purposes of the H Share Scheme are: (i) to attract, motivate and retain skilled and experienced personnel to strive for the future development and expansion of the Group by providing them with the opportunity to own equity interests in the Company; (ii) to deepen the reform on the Company's remuneration system and to develop and constantly improve the interests balance mechanism among the Shareholders, the operational and executive management; and (iii) to (a) recognize the contributions of the leadership of the Company including the Directors; (b) encourage, motivate and retain the leadership of the Company whose contributions are beneficial to the continual operation, development and long-term growth of the Group; and (c) provide additional incentive for the leadership of the Company and long standing employee by aligning the interests of the leadership of the Company to those of the Shareholders and the Group as a whole. This scheme took effect on 23 March, 2021, and will be effective for 10 years from that date unless cancelled or modified.

The maximum number of unexercised share award currently granted under the scheme is 7,347,550 H shares. According to the scheme, the maximum number of share awards granted to each qualified person in any 12-month period is 1% of the shares issued by the Company at any time. The grant of share awards exceeding the upper limit shall be approved by the shareholders' meeting.

All awards under this scheme are assigned in four equal amounts (i.e. 25%, 25%, 25% and 25%), each of which is a "vesting period". The specific start date and duration of each vesting period and the actual vesting amount of the awards granted to the selected incentive objects in each vesting period shall be listed in the award letter approved by the Board of Directors or its authorized personnel. The exercise period of the granted share award shall be decided by the Board of Directors, which shall start after the waiting period of 1 to 4 years and end within 10 years from the date of offering the granted share award or the expiration date of the scheme, whichever is earlier.

The share award does not give the holder the right to obtain dividends or the right to vote at the shareholders' meeting.

28. SHARE AWARD (Continued)

(2) the First H Share Award and Trust Scheme (Continued)

The value per share of the equity incentives granted in 2022 ranged from RMB1.26 per share to RMB51.72 per share (2021: nil), of which the Group recognised equity incentive expenses of RMB43,512,000 in 2022 (2021: nil).

The fair value of the equity-settled incentive granted on the grant date is estimated using the Black-Scholes option pricing model and the enterprise value distribution model, in combination with the terms and conditions of the equity incentive granted. The following table lists the inputs to the model used:

	2022	2021
Expected volatility (%)	0.00–48.54	N/A
Risk-free interest rate (%)	1.53–2.51	N/A
Expected life (year)	1–4	N/A
Weighted average share price (RMB per share)	24.33	N/A

The following share awards were outstanding under the Scheme during the year:

	2022	
	Weighted average exercise price RMB per share	Number of awards '000
At 1 January 2022	–	–
Granted during the year	24.33	5,388.38
Forfeited during the year	27.28	(441.25)
Exercised during the year	27.83	(335.00)
At 31 December 2022		4,612.13

The weighted average share price at the date of exercise for share awards exercised during the year was RMB27.83 per share (2021: No share awards were exercised).

28. SHARE AWARD (Continued)

(2) the First H Share Award and Trust Scheme (Continued)

The exercise prices and exercise periods of the share awards outstanding as at the end of the reporting period are as follows:

2022

Number of awards '000	Exercise price* RMB per share	Exercise period
71.38	–	8 years
1,600.00	14.83	8 years
60.00	21.45	8 years
3.75	21.96	8 years
11.25	22.01	8 years
112.50	22.22	8 years
121.50	23.14	8 years
1,568.00	23.73	8 years
400.00	35.07	8 years
370.00	39.23	8 years
181.25	41.08	8 years
112.50	42.38	8 years
4,612.13		

* The exercise price of the equity incentive may be adjusted in accordance with the allotment of shares, the payment of stock dividends, or other similar changes in the Company's share capital.

The 335,000 share awards exercised during the year resulted in the issue of 335,000 ordinary shares of the Company and in a change in capital surplus of RMB17,743,000.

At the end of the reporting period, the Company had 4,612,130 share awards outstanding under the Scheme. The exercise in full of the outstanding share awards would, under the present capital structure of the Company, result in the issue of 4,612,130 additional ordinary shares of the Company and other reserve reduces of RMB209,315,000.

28. SHARE AWARD (Continued)

(3) A share restricted stock incentive scheme

The Company has implemented a share award scheme (hereinafter referred to as "the scheme"). The purpose of the A Share Scheme is to improve the Company's long-term incentive mechanism, attract and retain outstanding personnel, fully mobilise the enthusiasm of the Company's employees, effectively bond the interests of the Shareholders, the Company and the core teams together, and enable all parties to jointly pay attention to the long-term development of the Company. The validity period of this incentive scheme is from 28 December, 2022 to the date when all the restricted shares granted to the incentive objects are vested or invalidated, and the maximum period is not more than 84 months.

The number of restricted shares to be granted to incentive objects in the scheme is 3,580,000 shares, accounting for 0.6578% of the total share capital of the Company. Among them, 873,505 shares of Class A interest and 1,996,400 shares of Class B interest were granted for the first time, totally 2,869,450 shares, accounting for 0.5272% of the total share capital of the Company, and 80.15% of the total equity granted for the first time; 710,550 shares are reserved, accounting for 0.1306% of the total share capital of the Company, and the reserved part accounts for 19.85% of the total equity granted this time. The number of shares of the Company granted to any incentive object in this scheme through all the equity incentive scheme within the validity period does not exceed 1% of the total share capital of the Company.

The Class A interest under this scheme is divided into five equal amounts (i.e. 20%, 20%, 20%, 20% and 20%), each of which is a "vesting period". Class B interest under this scheme are divided into four groups (20%, 40%, 20% and 20%), each of which has a "vesting period". The actual numbers of awards granted to the grantees in each vesting period are affected by the performance appraisals. The exercise period of the granted share award shall be decided by the Board of Directors, which shall start after the waiting period of 1 to 5 years and end within 84 months from the date of offering the granted share award or the expiration date of the scheme, whichever is earlier.

The share award does not give the holder the right to obtain dividends or the right to vote at the shareholders' meeting.

The value per share of A share restricted stock incentive scheme granted in 2022 was RMB39.72 per share to RMB47.46 per share (2021: nil), of which the Group recognises equity incentive expenses of RMB370,000 in 2022 (2021: nil).

28. SHARE AWARD (Continued)

(3) A share restricted stock incentive scheme (Continued)

The fair value of the equity-settled incentive granted on the grant date is estimated using the Black-Scholes option pricing model and the enterprise value distribution model, in combination with the terms and conditions of the equity incentive granted. The following table lists the inputs to the model used:

Class A

	2022	2021
Expected volatility (%)	39.45-43.05	N/A
Risk-free interest rate (%)	2.24-2.67	N/A
Expected life (year)	1-5	N/A
Weighted average share price (RMB per share)	36.36	N/A

Class B

	2022	2021
Expected volatility (%)	39.98-43.05	N/A
Risk-free interest rate (%)	2.41-2.67	N/A
Expected life (year)	2-5	N/A
Weighted average share price (RMB per share)	36.36	N/A

The following restricted stock were outstanding under the Scheme during the year:

	2022	
	Weighted average exercise price RMB per share	Number of awards '000
At 1 January 2022	–	–
Granted during the year	36.36	2,869.45
Forfeited during the year	36.36	(14.85)
At 31 December 2022		2,854.60

28. SHARE AWARD (Continued)

(3) A share restricted stock incentive scheme (Continued)

The exercise prices and exercise periods of the share awards outstanding as at the end of the reporting period are as follows:

2022

Number of awards '000	Exercise price* RMB per share	Exercise period
2,854.60	36.36	5 years

At the end of the reporting period, the Company had 2,854,000 share awards outstanding under the Scheme. The exercise in full of the outstanding share awards would, under the present capital structure of the Company, result in the issue of 2,854,000 additional ordinary shares of the Company and additional share capital of 100,939,000 (before issue expenses).

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB114,644,000 (2021: RMB64,600,000) and RMB105,067,000 (2021: RMB63,147,000), respectively, in respect of lease arrangements for plant and machinery, buildings and motor vehicles.

(b) Changes in liabilities arising from financing activities

Year ended 31 December 2022

	Lease liabilities RMB'000
At 1 January 2022	102,778
Changes from financing cash flows	(52,036)
Accretion of interest	6,757
Exchange realignment	2,469
New lease arrangements	105,067
At 31 December 2022	165,035

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Changes in liabilities arising from financing activities (Continued)

Year ended 31 December 2021

	Interest-bearing borrowings RMB'000	Lease liabilities RMB'000
At 1 January 2021	108,124	89,568
Changes from financing cash flows	(108,224)	(55,142)
Remeasurement upon early termination of leases	–	(118)
Accretion of interest	–	5,323
New lease arrangements	–	63,147
Capital element of property, plant and equipment	100	–
At 31 December 2021	–	102,778

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2022 RMB'000	2021 RMB'000
Within operating activities	3,199	4,277
Within financing activities	52,036	55,142
	55,235	59,419

30. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bills payable are included in note 22, to the financial statements.

31. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Purchases of items of property, plant and equipment	466,999	523,405

Notes to Financial Statements

31 December 2022

32. RELATED PARTY TRANSACTIONS

The Directors are of the view that the following companies are related parties that have material transactions or balances with the Group during the year.

(a) Name and relationships of the related parties

Name	Relationship
Yantai Lida Medicine Co., Ltd. (煙台立達醫藥有限公司) ("Lida Pharmaceutical")	(i)
Shanghai Kangkang Medical Technology Center (上海康康醫藥科技中心) ("Kangkang Medical")	(i)
Shanghai Kangkang Medical Technology Co., Ltd. (上海康康醫療科技有限公司) ("Kangkang")	(i)
Yantai Rongchang Biomedical Industry Technology Research Institute Co., Ltd. (煙台榮昌生物醫藥產業技術研究院有限公司) ("Rongchang Biomedical Industry")	(i)
Rongchang Pharmaceuticals (Zibo), Ltd. ("榮昌製藥(淄博)有限公司") ("Rongchang Pharma (Zibo)")	(i)
Yantai CelluPro Biotechnology Co., Ltd. (煙台賽普生物技術有限公司) ("CelluPro Biotechnology")	(i)
Yantai Yeda International Biomedical Innovation Incubation Center Co., Ltd. (煙台業達國際生物醫藥創新孵化中心有限公司) ("Yeda International")	(i)
Rongchang Pharmaceuticals (煙台榮昌製藥股份有限公司)	(ii)
Yantai MabPlex International Biomedical Co., Ltd. (煙台邁百瑞國際生物醫藥股份有限公司) ("MabPlex International")	(iii)
MabPlex Shanghai,Ltd. (邁百瑞生物醫藥(上海)有限公司) ("MabPlex Shanghai")	(iii)
MabPlex USA, Inc. ("MabPlex USA")	(iii)

Notes:

(i) These entities were subsidiaries of Rongchang Pharmaceuticals which was majority-owned during the year by the Concert Parties as defined below.

(ii) Rongchang Pharmaceuticals held a 100% equity interest in the Company before December 2019.

The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

Before the reorganisation of the Group in December 2019, all of the Group's paid-in capital was injected by Rongchang Pharmaceuticals. Pursuant to the Group reorganisation, the paid-in capital of the Group held by Rongchang Pharmaceuticals has been transferred to various shareholders in proportion to their respective shareholdings in Rongchang Pharmaceuticals.

Pursuant to a concert party agreement dated 16 April 2020 entered into amongst Dr. Fang Jianmin, Mr. Wang Weidong, Mr. Lin Jian, Mr. Xiong Xiaobin, Dr. Wang Liqiang, Mr. Wang Xudong, Mr. Deng Yong, Ms. Yang Minhua, Mr. Wen Qingkai and Mr. Wei Jianliang, Yantai Rongda Venture Capital Center (Limited Partnership), RongChang Holding Group Ltd., and I-NOVA Limited (together, the "Concert Parties"), the Concert Parties confirmed that they have acted in concert in the management, decision-making and all major decisions of the Group since 1 January 2017, and they have agreed to continue to act in concert and reach consensus on any proposal presented to the general meeting of the shareholders of the Company for voting. In the event they fail to reach such consensus, each of the Concert Parties shall exercise their respective indirect voting rights in accordance with majority vote amongst the Concert Parties. The Concert Parties collectively held 40.39% of equity interests in the Company.

In the opinion of the directors, the Company was controlled by the Concert Parties during the year and up to the date of these financial statements.

(iii) These entities were controlled by the Concert Parties as defined above.

32. RELATED PARTY TRANSACTIONS (Continued)

(b) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	Notes	2022 RMB'000	2021 RMB'000
Rental income			
MabPlex International	(i)	1,547	2,279
Rongchang Pharmaceuticals	(i)	605	–
		2,152	2,279
Purchases of materials			
MabPlex International	(i)	–	4,880
CelluPro Biotechnology	(i)	29,631	13,385
MabPlex Shanghai	(i)	–	259
		29,631	18,524
Purchases of services			
Kangkang	(i)	18,969	15,350
MabPlex International	(i)	33,373	26,623
Rongchang Pharmaceuticals	(i)	44,829	34,603
Yeda International	(i)	1,322	1,171
Rongchang Pharma (Zibo)		24	–
MabPlex USA	(i)	21	–
		98,538	77,747
Purchases of equipment			
MabPlex Shanghai	(i)	–	10,779
MabPlex International	(i)	–	3,682
		–	14,461
Rental expenses			
MabPlex International	(i)	–	2,278
Yeda International	(i)	77	65
		77	2,343
Repayment of lease liabilities			
Yeda International	(i)	37,740	39,907
MabPlex International	(i)	1,396	–
Rongchang Pharmaceuticals	(i)	206	–
		39,342	39,907
Interest expenses on lease liabilities			
Yeda International	(i)	3,291	2,781
MabPlex International	(i)	524	–
Rongchang Pharmaceuticals	(i)	32	–
Rongchang Pharma (Zibo)	(i)	1	–
		3,848	2,781

32. RELATED PARTY TRANSACTIONS (Continued)

(b) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transactions with related parties during the year: (Continued)

Notes:

(i) During the year, the transactions were carried out in accordance with mutually agreed terms and conditions.

(c) Outstanding balances with related parties:

	2022 RMB'000	2021 RMB'000
Prepayments, other receivables and other assets		
MabPlex International	1,436	1,611
Kangkang Medical	76	–
Yeda International	64	64
	1,576	1,675
Other non-current assets		
Yeda International	–	738
Trade and bills payables		
Rongchang Pharma (Zibo)	35	–
Other payables and accruals		
Rongchang Pharmaceuticals	8,346	11,057
Yeda International	566	–
MabPlex International	21	–
	8,933	11,057
Lease liabilities		
Yeda International	94,412	34,582
MabPlex International	10,556	–
Rongchang Pharmaceuticals	1,149	–
Rongchang Pharma (Zibo)	59	–
	106,176	34,582

Note:

The Group's balances due from and due to the related companies are trade in nature, unsecured, interest-free and have no fixed terms of repayment as at the end of year.

32. RELATED PARTY TRANSACTIONS (Continued)

(d) Compensation of key management personnel of the Group:

	2022 RMB'000	2021 RMB'000
Fees	2,293	900
Salaries, allowances and benefits in kind	24,198	15,390
Performance related bonuses	4,792	6,593
Pension scheme contributions	260	252
Share-based payment expenses	41,705	14,207
Total compensation paid to key management personnel	73,248	37,342

Further details of directors' and supervisors' remuneration are included in note 8 to the financial statements.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows:

As at 31 December 2022

Financial assets

	Financial assets at fair value through other comprehensive income			
	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	79,693	–	79,693
Trade and bills receivables	79,156	–	202,031	281,187
Financial assets included in prepayments, other receivables and other assets	–	–	17,941	17,941
Pledged deposits	–	–	118,762	118,762
Other non-current assets	–	–	2,969	2,969
Cash and cash equivalents	–	–	2,069,180	2,069,180
	79,156	79,693	2,410,883	2,569,732

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the year are as follows: (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	**221,692**
Financial liabilities included in other payables and accruals	**380,526**
Lease liabilities	**165,035**
	767,253

As at 31 December 2021

Financial assets

	Financial assets at fair value through other comprehensive income			
	Debt investments RMB'000	Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	12,067	–	12,067
Trade and bills receivables	4,738	–	2,312	7,050
Financial assets included in prepayments, other receivables and other assets	–	–	7,461	7,461
Pledged deposits	–	–	79,241	79,241
Cash and cash equivalents	–	–	1,756,821	1,756,821
	4,738	12,067	1,845,835	1,862,640

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Financial liabilities

	Financial liabilities at amortised cost RMB'000
Trade and bills payables	159,259
Financial liabilities included in other payables and accruals	279,374
Lease liabilities	102,778
	541,411

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of pledged deposits, cash and cash equivalents, trade and bills payables, financial assets included in prepayments, other receivables and other assets and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The carrying amounts of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	31 December 2022		31 December 2021	
	Carrying amount RMB'000	**Fair value RMB'000**	Carrying amount RMB'000	Fair value RMB'000
Financial assets				
Debt investments at fair value through other comprehensive income	**79,156**	**79,156**	4,738	4,738
Equity investment designated at fair value through other comprehensive income	**79,693**	**79,693**	12,067	12,067
	158,849	**158,849**	16,805	16,805

The Group's finance department headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The financial controller reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the directors periodically for interim and annual financial reporting.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of bills receivable and unlisted equity investments designated at fair value through other comprehensive income have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2022 and 2021:

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input
Unlisted equity investment	Discounted cash flow method	Discount rate	31 December 2022: 14.82%	Increase/(decrease) in 1% would result in a (decrease)/increase in fair value by (RMB457,000)/ RMB471,000
			(31 December 2021: 13.82%)	(Increase/(decrease) in 1% would result in a (decrease)/increase in fair value by (RMB3,281,000)/ RMB4,098,000)
		Discount for lack of marketability	31 December 2022: 30.09%	Increase/(decrease) in 5% would result in a (decrease)/increase in fair value by (RMB240,000)/ RMB240,000
			(31 December 2021: 28.84%)	(Increase/(decrease) in 5% would result in a (decrease)/increase in fair value by (RMB848,000)/ RMB848,000)

The discount for lack of marketability represents the amounts of premiums and discounts determined by the Group that market participants would take into account when pricing the investment.

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2022

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	68,565	11,128	79,693
Debt investments at fair value through other comprehensive income	–	79,156	–	79,156
	–	147,721	11,128	158,849

As at 31 December 2021

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investment designated at fair value through other comprehensive income	–	–	12,067	12,067
Debt investments at fair value through other comprehensive income	–	4,738	–	4,738
	–	4,738	12,067	16,805

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy (Continued)

Assets measured at fair value: (Continued)

The movements in fair value measurements within Level 3 during the year are as follows:

	2022 RMB'000	2021 RMB'000
Equity investment designated at fair value through other comprehensive income		
At beginning of year	12,067	12,907
Total loss recognised in other comprehensive income	(939)	(840)
At end of the year	11,128	12,067

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2021: Nil).

Liabilities for which fair values are disclosed:

There were no liabilities for which fair values are disclosed as at 31 December 2022 (2021: Nil).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly comprise cash and bank balances and interest-bearing borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as bills receivable, other receivables, trade and bills payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations.

The following table demonstrates the sensitivity at the end of the year to a reasonably possible change in USD and RMB exchange rates, HKD and RMB exchange rates with all other variables held constant, of the Group's (loss)/profit before tax (arising from USD and RMB, HKD and RMB denominated financial instruments) and the Group's equity.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Increase/ (decrease) in the rate of foreign currency %	Increase/ (decrease) in profit/(loss) before tax RMB'000	Increase/ (decrease) in equity RMB'000
31 December 2022			
If RMB weakens against USD	**5**	**2,158**	**2,158**
If RMB strengthens against USD	**(5)**	**(2,158)**	**(2,158)**
If RMB weakens against HKD	**5**	**1,282**	**1,282**
If RMB strengthens against HKD	**(5)**	**(1,282)**	**(1,282)**
31 December 2021			
If RMB weakens against USD	5	9,883	9,883
If RMB strengthens against USD	(5)	(9,883)	(9,883)
If RMB weakens against HKD	5	2	2
If RMB strengthens against HKD	(5)	(2)	(2)

Credit risk

The Group trades only with recognised and creditworthy parties. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits and financial assets included in prepayments, other receivables and other assets, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

For other receivables and other assets, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

As at the end of the year, cash and cash equivalents were deposited in financial institutions in high quality without significant credit risk.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

Maximum exposure and year-end staging

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December.

The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2022

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets	17,941	–	–	17,941
Trade and bills receivables*	281,187	–	–	281,187
Pledged deposits	118,762	–	–	118,762
Cash and cash equivalents	2,069,180	–	–	2,069,180
	2,487,070	–	–	2,487,070

* For trade and bills receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the financial statements.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 20 to the financial statements.

As at 31 December 2021

	12-month ECLs	Lifetime ECLs		
	Stage 1	Stage 2	Stage 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets included in prepayments, other receivables and other assets	7,461	–	–	7,461
Trade and bills receivables*	7,050	–	–	7,050
Pledged deposits	79,241	–	–	79,241
Cash and cash equivalents	1,756,821	–	–	1,756,821
	1,850,573	–	–	1,850,573

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of the year, based on the contractual undiscounted payments, is as follows:

As at 31 December 2022

	On demand RMB'000	Within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade and bills payables	–	221,692	–	–	221,692
Financial liabilities included in other payables and accruals	380,526	–	–	–	380,526
Lease liabilities	–	63,121	117,433	–	180,554
	380,526	284,813	117,433	–	782,772

As at 31 December 2021

	On demand RMB'000	Within one year RMB'000	One to five years RMB'000	Over five years RMB'000	Total RMB'000
Trade and bills payables	–	159,259	–	–	159,259
Financial liabilities included in other payables and accruals	279,374	–	–	–	279,374
Lease liabilities	–	53,877	50,477	11,349	115,703
	279,374	213,136	50,477	11,349	554,336

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2022.

36. EVENTS AFTER THE REPORTING PERIOD

There is no important events after the reporting period.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the year is as follows:

	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	2,381,745	1,558,682
Right-of-use assets	159,323	95,409
Other intangible assets	17,330	13,065
Investments in subsidiaries	335,537	209,165
Investments in an associate	1,500	–
Equity investments designated at fair value through other comprehensive income	79,693	12,067
Other non-current assets	97,032	103,604
Total non-current assets	3,072,160	1,991,992
CURRENT ASSETS		
Inventories	517,764	280,314
Trade and bills receivables	281,187	7,050
Prepayments, other receivables and other assets	718,140	686,435
Pledged deposits	118,146	78,677
Cash and cash equivalents	2,008,469	1,638,940
Total current assets	3,643,706	2,691,416
CURRENT LIABILITIES		
Trade and bills payables	230,254	166,699
Other payables and accruals	555,814	374,688
Lease liabilities	48,300	40,423
Deferred income	15,347	4,442
Other current liabilities	9,267	7,117
Total current liabilities	858,982	593,369
NET CURRENT ASSETS	2,784,724	2,098,047
TOTAL ASSETS LESS CURRENT LIABILITIES	5,856,884	4,090,039

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the year is as follows: (Continued)

	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES		
Lease liabilities	69,611	7,885
Deferred tax liabilities	40	310
Deferred income	43,669	45,751
Total non-current liabilities	113,320	53,946
Net assets	5,743,564	4,036,093
EQUITY		
Equity attributable to owners of the parent		
Share capital	544,263	489,837
Reserves *(note 27)*	5,199,301	3,546,256
Total equity	5,743,564	4,036,093

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Information about the statement of financial position of the Company at the end of the year is as follows: (Continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium RMB'000	Other reserve RMB'000	Fair value reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	3,709,340	14,390	732	(538,071)	3,186,391
Profit for the year	–	–	–	340,698	340,698
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	(423)	–	(423)
Share-based payment expenses	–	19,590	–	–	19,590
At 31 December 2021 and 1 January 2022	3,709,340	33,980	309	(197,373)	3,546,256
Loss for the year	–	–	–	**(853,319)**	**(853,319)**
Issue of A shares in initial public offering ("IPO")	**2,451,519**	–	–	–	**2,451,519**
Change in fair value of equity investments at fair value through other comprehensive income, net of tax	–	–	**(1,529)**	–	**(1,529)**
Share-based payment expenses	–	**56,374**	–	–	**56,374**
At 31 December 2022	**6,160,859**	**90,354**	**(1,220)**	**(1,050,692)**	**5,199,301**

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 March 2023.

Financial Summary

	31 December 2022 RMB'000	31 December 2021 RMB'000	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Total assets	**6,021,191**	4,159,209	4,117,691	689,311	531,092
Total liabilities	**1,040,891**	712,787	523,070	921,280	1,029,270
Total equity	**4,980,300**	3,446,422	3,594,621	(231,969)	(498,178)
REVENUE	**767,775**	1,423,902	–	–	11,321
Cost of sales	**(269,939)**	(67,163)	–	–	(8,932)
Gross profit	**497,836**	1,356,739	–	–	2,389
Other income and gains	**232,499**	185,970	75,400	38,481	15,377
Selling and distribution expenses	**(440,696)**	(262,967)	(24,180)	(621)	–
Administrative expenses	**(272,542)**	(219,840)	(217,623)	(68,434)	(29,125)
Research and development costs	**(982,080)**	(710,973)	(465,821)	(352,066)	(216,438)
Impairment losses on financial assets, net	**(11,128)**	(342)	(47)	134	(196)
Other expenses	**(15,962)**	(67,006)	(36,324)	(3,985)	(1,900)
Finance costs	**(6,757)**	(5,323)	(29,226)	(43,789)	(40,055)
(LOSS)/PROFIT BEFORE TAX	**(998,830)**	276,258	(697,821)	(430,280)	(269,948)

Definitions and Glossary

"ADC"	antibody-drug conjugates, a class of biopharmaceutical drug composed of monoclonal antibodies targeted against specific tumor cell surface antigens linked, via chemical linkers, to highly potent anti-tumor small molecule agents
"Articles"	the articles of association of the Company, as amended, modified or supplemented from time to time
"A Share(s)"	domestic RMB ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Sci-Tech Board
"A Share Offering"	the initial public offering of A shares of the Company on March 31, 2022
"Audit Committee"	the audit committee of the Board
"Board of Directors" or "Board"	the board of Directors of the Company
"CelluPro"	Yantai CelluPro Biotechnology Co., Ltd. (煙台賽普生物技術有限公司), a limited liability company incorporated in the PRC on June 27, 2018 and owned by MabPlex and RC Pharma as to 51% and 49%, respectively
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Company" or "RemeGen"	RemeGen Co., Ltd.* (榮昌生物製藥(煙台)股份有限公司), a company incorporated in the PRC with limited liability, the H Shares and A Shares of which are listed on the Main Board of the Stock Exchange (stock code: 9995) and the Sci-Tech Board of the Shanghai Stock Exchange (stock code: 688331), respectively
"Controlling Shareholder(s)" or "Concert Party(ies)"	has the meaning ascribed under the Listing Rules and unless the context otherwise requires, refers to Mr. Wang Weidong (王威東), Dr. Fang Jianmin (房健民), Mr. Lin Jian (林健), Dr. Wang Liqiang (王荔強), Mr. Wang Xudong (王旭東), Mr. Deng Yong (鄧勇), Mr. Xiong Xiaobin (熊曉濱), Mr. Wen Qingkai (溫慶凱), Ms. Yang Minhua (楊敏華), Mr. Wei Jianliang (魏建良), Yantai Rongda Venture Capital Center (Limited Partnership) (煙台榮達創業投資中心(有限合夥)), RongChang Holding Group LTD. and I-NOVA Limited, and each of them, a "Controlling Shareholder" or "Concert Party"
"Core Product(s)"	has the meaning ascribed to it in Chapter 18A of the Listing Rules; for purposes of this report, our core products include telitacicept (RC18), disitamab vedotin (RC48) and RC28
"Deed of Non-Competition"	the deed of non-competition undertakings executed by the Controlling Shareholders in favor of the Company
"Director"	the director of the Company

Definitions and Glossary

"Eligible Employees"	any full-time PRC or non-PRC employees of any members of the Group, who is a Director, senior management, key operating team member, employee, or, a consultant of the Group as prescribed under the H Share Scheme
"FDA"	the U.S. Food and Drug Administration
"FISH"	fluorescence in situ hybridization, a type of in situ hybridization (ISH) test that detects the genetic material in human cells, including specific genes or portions of genes. In the case of HER2 FISH test, fluorescent labels are used to attach to the hybrid of HER2-genes and the probes and return a score of either positive (+) or negative (-)
"Group"	the Company and its subsidiaries
"H Shares"	overseas listed foreign invested ordinary share(s) in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, listed on the Main Board of the Stock Exchange
"H Share Scheme"	the First H Share Award and Trust Scheme in its present or any amended form as adopted by the Company on March 23, 2021
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	Any entity or person who is not a connected person of the Company within the meaning ascribed thereto under the Listing Rules
"Kangkang"	Shanghai Kangkang Medical Technology Co., Ltd. (上海康康醫藥科技有限公司), is a wholly-owned subsidiary of Yeda Incubation
"Listing" or "Listing of H Shares"	the listing of the H Shares of the Company on the Main Board of the Stock Exchange on November 9, 2020
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"MabPlex"	Yantai MabPlex International Biomedical Co., Ltd. (煙台邁百瑞國際生物醫藥有限公司), a limited liability company incorporated in the PRC on June 25, 2013 and owned as to 32.95% by the Controlling Shareholders
"Main Board"	the Main Board of the Stock Exchange

Definitions and Glossary

"Management Committee"	the management committee of the H Share Scheme which comprises the chairman of the Board, chief executive officer, and chief financial officer of the Company, to which the Board has delegated its authority to administer the H Share Scheme, including the power to grant Award Shares under the H Share Scheme
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Nomination Committee"	the nomination committee of the Board
"Prospectus"	the prospectus issued by the Company dated October 28, 2020
"RC Pharma"	Yantai Rongchang Pharmaceutical Co., Ltd. (煙台榮昌製藥股份有限公司), a joint stock company incorporated in the PRC on March 18, 1993, a company controlled by our Controlling Shareholders
"Remuneration and Appraisal Committee"	the remuneration and appraisal committee of the Board
"Reporting Period"	the year ended December 31, 2022
"RMB"	Renminbi, the lawful currency of China
"Sci-Tech Board"	the Science and Technology Innovation Board of the Shanghai Stock Exchange
"Selected Participants"	any Eligible Employee(s) who is approved for participation in the H Share Scheme, and has been granted any Award thereunder
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	shares in the share capital of the Company, with a nominal value of RMB1.00 each, comprising the A Shares and H Shares
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Strategy Committee"	the strategy committee of the Board
"Supervisory Committee"	the supervisory committee of the Company
"Supervisor(s)"	supervisor(s) of the Company
"Yeda Incubation"	Yantai Yeda International Biomedical Innovation Incubation Center Co.,Ltd. (煙台業達國際生物醫藥創新孵化中心有限公司), a company incorporated in the PRC and is owned as to 55% by and is a subsidiary of RC Pharma