



INNOCARE

诺诚健华

InnoCare Pharma Limited
諾誠健華醫藥有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 9969

2023

ANNUAL REPORT



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InnoCare Pharma Limited
2023 Annual Report

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DEFINITIONS

In this report, unless the context otherwise requires, the following terms have the following meanings. These terms and their definitions may not correspond to any industry standard definition, and may not be directly comparable to similarly titled terms adopted by other companies operating in the same industries as the Company.

"AD"	atopic dermatitis
"AGM"	annual general meeting of the Company
"ALL"	acute lymphoblastic leukemia
"AML"	acute myeloid leukemia
"AQP4 IgG"	aquaporin 4 antibody
"ASH"	American Society of Hematology
"AUD"	Australian dollars, the lawful currency of Australia
"Audit Committee"	the audit committee of the Board
"B-cell"	a type of white blood cell that differs from other lymphocytes like T-cells by the presence of the BCR on the B-cell's outer surface. Also known as B-lymphocytes
"BioDuro"	BioDuro Inc. and its affiliates, including BioDuro Shanghai and BioDuro Beijing Co. Ltd. (保諾科技(北京)有限公司) or any one of them
"Biogen"	Biogen Inc. (Nasdaq: BIIB)
"Board"	the board of directors of our Company
"BTD"	breakthrough therapy designation
"BTK"	Bruton's tyrosine kinase, a human enzyme encoded by the BTK Gene
"CD20"	B-lymphocyte antigen CD20, a B-cell specific cell surface molecule that is encoded by the MS4A1 gene
"CDC"	complement-dependent cytotoxicity
"CDE"	Center for Drug Evaluation, an institution under the NMPA
"CEO" or "Chief Executive Officer"	the chief executive officer of the Company
"CG Code"	the Corporate Governance Code set out in Appendix C1 of the Listing Rules

“Chairperson”	Chairperson of the Board
“China” or “PRC”	the People’s Republic of China, which for the purpose of this report and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“cholangiocarcinoma”	bile duct cancer, a type of cancer that forms in the bile ducts
“CLL”	chronic lymphocytic leukemia
“CNSL”	central nervous system lymphoma
“Company”, “our Company”, “the Company” or “InnoCare”	InnoCare Pharma Limited (Stock code: 9969), an exempted company with limited liability incorporated under the laws of the Cayman Islands on 3 November 2015, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange on 23 March 2020
“Compensation Committee”	the compensation committee of the Board
“Director(s)”	the director(s) of the Company
“DLBCL”	diffuse large B-cell lymphoma, a common type of non-Hodgkin lymphoma that starts in lymphocytes
“DLT”	dose-limiting toxicity, side effects of a drug or other treatment that are serious enough to prevent an increase in dose or level of that treatment
“EULAR”	the European Alliance of Associations for Rheumatology
“FGFR”	fibroblast growth factor receptor, membrane-spanning proteins that are a subgroup of the family of tyrosine kinase receptors
“FL”	follicular lymphoma
“Global Offering”	the Hong Kong public offering and the international offering of the Shares
“GMP”	good manufacturing practice
“Group”, “our Group”, “the Group”, “we”, “us” or “our”	the Company and its subsidiaries from time to time
“Guangzhou Kaide”	Guangzhou Kaide Technology Development Co., Ltd., which was renamed as GZHT Technology Holdings

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“HK\$” or “HKD”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Stock Exchange” or “Stock Exchange” or “HKEx”	The Stock Exchange of Hong Kong Limited
“IBD”	inflammatory bowel disease
“ICP-105”	one of the Company’s clinical stage drug candidates
“ICP-192”	one of the Company’s clinical stage drug candidates
“ICP-022” or “Orelabrutinib”	one of the Company’s clinical stage drug candidates
“iDMC”	Independent Data Monitoring Committee
“IL-2”	interleukin-2
“IL-5”	interleukin-5
“IL-12”	interleukin-12
“IL-17”	interleukin-17
“IL-23”	interleukin-23
“IND”	investigational new drug or investigational new drug application, also known as clinical trial application in China or clinical trial notification in Australia
“IPO”	the initial public offering of the Company on the Hong Kong Stock Exchange
“IRC”	Independent Review Board/Committee
“ITK”	inducible T cell Kinase
“ITP”	Immune Thrombocytopenia
“iwNHL”	International Working Group Criteria for Non-Hodgkin Lymphoma
“JAK”	janus tyrosine kinase
“Listing”	the listing of the Shares on the Main Board of the Hong Kong Stock Exchange

“Listing Date”	23 March 2020, being the date on which the Shares of the Company were listed on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MCD”	a subtype of diffuse large B-cell lymphoma (DLBCLs), based on co-occurrence of MYD88L265P and CD79B mutations (MCD subtype)
“MCL”	mantle cell lymphoma, a type of B-cell non-Hodgkin lymphoma
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 of the Listing Rules
“MS”	multiple sclerosis
“MZL”	marginal zone lymphoma
“NDA”	new drug application
“NMOSD”	neuromyelitis optica spectrum disorder, also known as demyelinating autoimmune disease, is a chronic disorder of the brain and spinal cord dominated by inflammation of the optic nerve (optic neuritis) and inflammation of the spinal cord (myelitis)
“NMPA”	National Medical Products Administration (國家藥品監督管理局) and its predecessor, the China Food and Drug Administration (國家食品藥品監督管理局)
“Nomination Committee”	the nomination committee of the Board
“NRDL”	National reimbursement drug list
“NTRK”	neurotrophic tyrosine receptor kinase
“pan-FGFR inhibitor”	pan-inhibitor of fibroblast growth factor receptor (FGFR) family
“pan-TRK inhibitor”	pan-inhibitor of tropomyosin-related kinase family
“pharmacodynamics” or “PD”	the study of how a drug affects an organism, which, together with pharmacokinetics, influences dosing, benefit, and adverse effects of the drug

DEFINITIONS

“pharmacokinetics” or “PK”	the study of the bodily absorption, distribution, metabolism, and excretion of drugs, which, together with pharmacodynamics, influences dosing, benefit, and adverse effects of the drug
“Prospectus”	the prospectus of the Company, dated 11 March 2020, in relation of its Global Offering
“R&D”	research and development
“R/R” or “r/r”	relapsed and refractory
“R-CHOP”	a combination of five drugs as first-line treatment for aggressive non-Hodgkin lymphoma
“RICE”	a combination of four drugs as a treatment for non-Hodgkin lymphoma or Hodgkin lymphoma that has come back after treatment
“Reporting Period”	the year ended 31 December 2023
“RMB”	Renminbi, the lawful currency of the PRC
“RMB Share Issue”	the Company’s initial issue of no more than 264,648,217 RMB Shares which have been listed on the STAR Market since 21 September 2022
“RMB Shares”	the ordinary Shares to be subscribed for in RMB by target subscribers in the PRC, to be listed on the STAR Market and traded in RMB
“SC”	subcutaneous
“Share(s)”	ordinary shares in the share capital of our Company with a nominal value of US\$0.000002 each
“Shareholder(s)”	holder(s) of Share(s)
“SHP2”	non-receptor protein tyrosine phosphatase involved in mediating RAS signaling pathway and immune checkpoint pathway as well for regulation of cellular proliferation and survival
“SLE”	systemic lupus erythematosus
“SLL”	small lymphocytic lymphoma
“SRI”	the SLE Responder Index
“STAR Market”	the Science and Technology Innovation Board of the Shanghai Stock Exchange

DEFINITIONS

“T-cell”	a type of lymphocyte produced or processed by the thymus gland and actively participating in the immune response. T-cells can be distinguished from other lymphocytes, such as B-cells and NK cells, by the presence of a T-cell receptor on the cell surface
“TDCC”	T-cell-dependent cellular cytotoxicity
“TRK”	a family of tyrosine kinases that regulates synaptic strength and plasticity in the mammalian nervous system
“TYK2”	tyrosine kinase 2
“UC” or “urothelial cancer”	urothelial cell carcinoma, a type of cancer that typically occurs in the urinary system and begins in urothelial cells
“United States” or “U.S.”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“U.S. FDA” or “FDA”	U.S. Food and Drug Administration
“US\$” or “USD”	United States dollars, the lawful currency of the United States
“Vivo”	Vivo Opportunity Fund, L.P, a company of Vivo Capital VIII, LLC
“WM”	Waldenstrom’s macroglobulinemia

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Dr. Jisong Cui
(*Chairperson and Chief Executive Officer*)
Dr. Renbin Zhao

Non-executive Directors

Dr. Yigong Shi
Mr. Ronggang Xie
Mr. Ming Jin
Mr. Shan Fu (*resigned with effect from 27 March 2023*)

Independent Non-executive Directors

Ms. Lan Hu
Dr. Kaixian Chen
Dr. Zemin Jason Zhang
(*resigned with effect from 14 July 2023*)
Dr. Dandan Dong
(*appointed with effect from 11 October 2023*)

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Building 8, No. 8 Life Science Park Road
Zhongguancun Life Science Park
Changping District
Beijing
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Dah Sing Financial Centre
No. 248 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

The offices of Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ogier Global (Cayman) Limited
89 Nexus Way
Camana Bay
Grand Cayman
KY1-9009
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKER

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

COMPANY SECRETARY

Ms. Angel Pui Shan Lee

AUTHORIZED REPRESENTATIVES

Dr. Jisong Cui
Ms. Angel Pui Shan Lee

AUDIT COMMITTEE

Ms. Lan Hu (*chairperson*)
Dr. Kaixian Chen
Dr. Zemin Jason Zhang
(*resigned with effect from 14 July 2023*)
Mr. Ronggang Xie
(*appointed with effect from 14 July 2023*)

COMPENSATION COMMITTEE

Ms. Lan Hu (*chairperson*)
Dr. Jisong Cui
Dr. Zemin Jason Zhang
(*resigned with effect from 14 July 2023*)
Dr. Kaixian Chen (*appointed with effect from 14 July 2023*)

NOMINATION COMMITTEE

Dr. Jisong Cui (*chairperson*)
Dr. Kaixian Chen
Dr. Zemin Jason Zhang
(*resigned with effect from 14 July 2023*)
Ms. Lan Hu (*appointed with effect from 14 July 2023*)

AUDITOR

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

STOCK CODE

9969

COMPANY WEBSITE

www.innocarepharma.com

During the fiscal year, we continued advancing our robust pipeline which consists of 13 valuable assets, including 2 commercialized products, more than 30 ongoing global trials in various clinical stages, and business operations with consistent strong execution and a clear growth strategy in aspects of research and development (“R&D”), manufacturing, commercialization, and collaboration, including the following milestones and achievements:

BUILDING A LEADING FRANCHISE IN HEMATO-ONCOLOGY

With orelabrutinib serving as our backbone therapy and a key component of our extensive pipeline in hemato-oncology — including Tafasitamab, ICP-248, ICP-B02, ICP-490, ICP-B05, and potential future developments from internal and external sources — our goal is to become a leading player in hemato-oncology both in China and worldwide. We intend to address various segments, such as non-Hodgkin lymphoma (“NHL”), multiple myeloma (“MM”), and leukemia, utilizing both single and combination therapies.

Orelabrutinib

- Leveraging the indication expansion of relapsed and/or refractory marginal zone lymphoma (“r/r MZL”) approved in April 2023 as the first and only BTK inhibitor for r/r MZL in China and the coverage of National Reimbursement Drug List (“NRDL”) of relapsed and refractory chronic lymphocytic leukemia/small lymphocytic lymphoma (“r/r CLL/SLL”) and relapsed and refractory mantle cell lymphoma (“r/r MCL”), our core product 宜諾凱® (Orelabrutinib, Bruton Tyrosine Kinase (“BTK”) inhibitor) generated product revenue of RMB670.7 million for the year ended 31 December 2023, an increase of 18.5% compared to RMB565.9 million in the same period of 2022. The sales growth was mainly driven by the smooth implementation of the updated NRDL, expansion of new indications of our commercialized products, high maturity of dual-channel implementation, active and effective market penetration and hospital coverages carried out by our in-house commercialization team, and broad use recommendation by the Chinese Society of Clinical Oncology (“CSCO”) Diagnosis and Treatment Guidelines for Malignant Lymphoma (the “Guidelines”).
- The new drug application (“NDA”) for r/r MZL was approved by the National Medical Products Administration (“NMPA”) in April 2023 as the first and only BTK inhibitor for r/r MZL in China. Overall response rate (“ORR”) was 58.9% assessed by Independent Review Committee (“IRC”). The estimated 12-month PFS and OS were 82.8% and 91%. Relapsed and/or refractory MZL has been included in the NRDL with no price cut.
- We have successfully finished the patient enrollment of the Phase III registrational trial for first-line treatment of CLL/SLL in the first half of 2023 and expect to submit the NDA in the second half of 2024.
- In the U.S., the patient enrollment of our Phase II registrational trial for r/r MCL was completed in the first half of 2023 and we expect to submit the NDA to the U.S. Food and Drug Administration (“U.S. FDA or FDA”) and start the Phase III confirmatory trial in the second half of 2024.
- We are initiating a global randomized, double-blind, multicenter Phase 3 study of orelabrutinib in combination with rituximab and bendamustine (BR) vs. BR in subjects with treatment-naïve mantle cell lymphoma.
- A Phase III registrational trial in China for the first-line (“1L”) treatment of MCD subtype DLBCL is ongoing to compare orelabrutinib in combination with rituximab, cyclophosphamide, doxorubicin, vincristine, and prednisone (“R-CHOP”) versus R-CHOP. This global leading registrational trial in treatment-naïve patients with MCD subtype DLBCL is currently recruiting in 45 sites across China.

BUSINESS HIGHLIGHTS

ICP-B04 (Tafasitamab (“CD19”) (Minjuvi®))

- We have successfully finished the patient enrollment of the Phase II registrational trial for relapsed or refractory diffuse large B-cell lymphoma (“r/r DLBCL”) in China and aim to submit the NDA to the Center for Drug Evaluation (“CDE”) in the second quarter of 2024, with NDA approval anticipated in the first half of 2025. At the end of 2022, the Biologics License Application (“BLA”) of tafasitamab and lenalidomide combination therapy was approved by the Department of Health of the Hong Kong Special Administrative Region for adult patients with r/r DLBCL who are not eligible for autologous stem cell transplantation (“ASCT”). Under the early access program in Boao Lecheng International Medical Tourism Pilot Zone and Guangdong-Hong Kong-Macao Greater Bay Area (“Greater Bay Area”), prescriptions of tafasitamab in combination with lenalidomide were issued in China at the Ruijin Hainan Hospital and Guangdong Clifford Hospital for eligible DLBCL patients.

Tafasitamab, in combination with lenalidomide, has obtained accelerated approval in the US and conditional marketing authorization approval in Europe for the treatment of adults with r/r DLBCL who are not eligible for autologous stem cell transplantation (“ASCT”). The combination therapy is the first available therapy for second line treatment for r/r DLBCL patients. In China, tafasitamab in combination with lenalidomide was officially included as a class II recommended regimen for the treatment of adult patients with r/r DLBCL who are ineligible for ASCT in the CSCO Guidelines.

ICP-248

- ICP-248 is a novel, orally bioavailable B-cell lymphoma-2 (“BCL-2”) selective inhibitor. Currently, we are conducting a Phase I dose escalation trial, with a primary focus on patients with CLL/SLL, Mantle cell lymphoma (“MCL”), and other NHL. Patient enrollment is currently ongoing. The preliminary results demonstrated a good safety profile and achieved favorable pharmacokinetics (“PK”) which has differentiated ICP-248 from other BCL-2 inhibitors. So far, seventeen patients were dosed and among six evaluable patients at 100mg QD, three reached complete responses (“CR”) in which two achieved undetectable minimal residual disease (“uMRD”) and ORR was 100%. These study results could potentially support combination therapy with orelabrutinib in 1L CLL/SLL treatment and other NHL treatment, which could become an important asset for our Company’s globalization. The IND for combination therapy with orelabrutinib for 1L CLL/SLL treatment has been approved in March 2024. In the U.S., the IND filing was approved in January 2024.

ICP-B02 (CM355)

- ICP-B02 is a CD20xCD3 bi-specific antibody. We are conducting a Phase III clinical trial in China to assess the safety, tolerability, PK, and the preliminary anti-tumor activity of ICP-B02 in r/r NHL. Dose escalation of the intravenous infusion formulation (“IV”) was completed and the subcutaneous formulation (“SC”) is being evaluated. Our preliminary data of both IV and SC formulations have shown good efficacy of ICP-B02 in patients with follicular lymphoma (“FL”) and DLBCL. All the 13 patients who were treated with ICP-B02 at doses ≥ 6 mg achieved response yielding an ORR of 100%. Among 9 patients who were evaluable in SC group, the ORR was 100.0% (9/9) with complete response rate (CRR) of 77.8% (7/9), including 2 DLBCL patients with CR. Most of the responders are still under treatment with sustained response. Based on the encouraging results of ICP-B02 single agent, we are planning for a dose expansion study of ICP-B02 in combination with other immunochemotherapies targeting earlier lines of treatment for NHL patients. The IND for the combination therapies has been submitted.

ICP-490

- ICP-490 is a proprietary, orally available small molecule that modulates the immune system and other biological targets through multiple mechanisms of action. We are conducting a Phase I dose escalation study in China with multiple myeloma (“**MM**”) patients. ICP-490 was well tolerated. The favorable safety profile supported the dose escalation to the next dosage level. Pharmacodynamic (“**PD**”) analysis showed deeper degradation of primary pharmacological targets Aiolos (IKZF3) and Ikaro (IKZF1). In September 2023, the IND approval was granted by CDE to initiate the clinical trial for ICP-490 in combination with dexamethasone. ICP-490 shows strong potential to revolutionize MM treatment and further promise in hemato-oncology therapeutics as a mono therapy or in combination with others.

ICP-B05 (CM369)

- ICP-B05 is an anti-CC chemokine receptor 8 (“**CCR8**”) monoclonal antibody, a potential first-in-class drug co-developed by InnoCare and KeyMed Biosciences Inc. (2162.HK) as a monotherapy or in combination with other therapies for the treatment of various cancers. We are conducting a Phase I trial to evaluate the safety, tolerability, pharmacokinetic characteristics, and efficacy of ICP-B05 in subjects with advanced solid tumors and relapsed or refractory NHL. Dose escalation of ICP-B05 in solid tumors has been escalated up to 150mg, which is also the initial dose designated for NHL. ICP-B05 is well tolerated with no DLTs nor Grade \geq 3 adverse events (“**AEs**”) observed. The preliminary results demonstrated a favorable PK profile with sufficient exposure for target coverage and regulatory T-cell depletion. Preliminary efficacy was observed in NHL patient, who achieved PR at the first tumor assessment. Dose escalation is ongoing and we will explore the combination of ICP-B05 with other immunotherapies in various cancer indications after collecting the safety data of monotherapy.

DEVELOPING B-CELL AND T-CELL PATHWAYS IN AUTOIMMUNE DISEASES

Autoimmune diseases can affect almost every organ in the body and can occur at any point across the lifespan. Many result in chronic and debilitating conditions, and some have no known cure. The global markets for autoimmune diseases therapeutics is anticipated to reach US\$185 billion by 2029, growing moderately at a CAGR of 3.7% over the forecast period, driven by increasing prevalence of autoimmune diseases and immune-related secondary disorders, multiple new product launches, and rising cost for treatments. (3 October 2023 by iHealthcareAnalyst, Inc.) We have fortified our powerful discovery engine in the global frontier targets for the development of autoimmune therapeutics through B-cell and T-cell pathways for the purpose of providing the first-in-class and/or best-in-class treatments to the massive unmet clinical needs with a promising market potential in China and/or worldwide.

Orelabrutinib

- We have achieved proof of concept (“**PoC**”) of orelabrutinib for the treatment of Immune Thrombocytopenia (“**ITP**”) and the Phase III registrational trial is ongoing in China. First patient was enrolled in October 2023, and last patient in is expected by the end of 2024 or the beginning of 2025. On 12 June 2023, the PoC of ITP Phase II result was orally presented at the European Hematology Association (“**EHA**”) 2023 Hybrid Congress. Generally, 40% of patients taking orelabrutinib 50mg QD met the primary endpoint, 75%(6/8) of patients who had previously responded to glucocorticoids (“**GC**”) / intravenous immunoglobulin (“**IVIG**”) therapies met the primary endpoint at 50mg QD. By leveraging BTK inhibitor’s advantage in ITP, such as decreased macrophage-mediate platelet destruction and reduced production of pathogenic autoantibodies, we positioned orelabrutinib as a preferred BTK inhibitor for idiopathic diseases.

BUSINESS HIGHLIGHTS

- The Phase IIa trial for systemic lupus erythematosus (“**SLE**”) demonstrated positive results, with remarkable SLE Responder Index (“**SRI**”)-4 response rates observed in a dose dependent manner, along with trends indicating a reduction in proteinuria levels. A Phase IIb trial is ongoing. We expect to complete the patient enrollment in 2024. Interim analysis is planned and the results will be discussed with CDE for the next steps.
- The 24-week data from the multiple sclerosis (“**MS**”) global Phase II trial is consistent with the previously reported 12-week data in terms of both efficacy and safety. The primary endpoint was achieved dose-dependently (C_{max} driven) in all three active orelabrutinib treatment groups. Notably, a 92.3% relative reduction was achieved in cumulative number of new Gd + T1 lesions at week 24 at 80mg QD compared to placebo arm (switched to orelabrutinib 50mg QD after Week 12). This reduction stands out as a leading indicator of efficacy when compared to other MS therapies that are approved or in developmental stages. All orelabrutinib groups achieved T1 new lesion control after 4 weeks of treatment and the effect was sustained up to 24 weeks. The 80mg QD cohort showed the highest reduction rate of cumulative number of new lesions Gd+T1 lesions and the best for lesion control throughout 24 weeks with lowest incidence of liver-related TEAEs, indicating its potential as a leading MS treatment.

ICP-332

- ICP-332 is a novel tyrosine kinase 2 (“**TYK2**”) inhibitor that is being developed for the treatment of various T cell related autoimmune disorders. In December 2023, we have announced the positive topline results from the Phase II randomized, double-blind, placebo-controlled study of ICP-332, a once-daily oral inhibitor of TYK-2, in adult patients with moderate-to-severe atopic dermatitis (“**AD**”). Patients with AD treated with ICP-332 for 4 weeks showed excellent efficacy and safety profile. The percentage change from baseline in the Eczema Area and Severity Index (“**EASI**”) score, a measure of the eczema area and severity of atopic dermatitis, reached to 78.2% at 80mg once-daily dosing with a statistically significance ($p < 0.0001$) and 72.5% at 120mg once-daily dosing with a statistically significance ($p < 0.0001$) compared to 16.7% for patients receiving placebo. Moreover, ICP-332 achieved multiple efficacy endpoints including EASI 50, EASI 75, EASI 90 (improvement of at least 50%, 75%, and 90% in EASI score from baseline) and Investigator’s Global Assessment (IGA) 0/1 (score of 0 clear or 1 almost clear) in the 80mg and/or 120mg group respectively. EASI 75 reached to 64%/64% at the 80mg and 120mg dosing group respectively, compared to 8% percent for patients receiving placebo ($p < 0.0001$). All treatment-related adverse events (TRAEs) were mild or moderate, which is comparable to those receiving placebo. We will continue to evaluate the potential of ICP-332 in the Phase III trial of AD, and across other immune-mediated diseases. We expect to start the patient enrollment of the Phase III trial for AD in China, initiate second indication in China and clinical trial in US in 2024.

ICP-488

- ICP-488 is a potent and selective TYK2 allosteric inhibitor that binds to the pseudo kinase JH2 domain of TYK2 and blocks IL-23, IL12, type 1 IFN, and other cytokine receptors. We plan to develop ICP-488 for the treatments of various autoimmune diseases. As of the date of this report, we have finished the Phase I trial of ICP-488. Pharmacokinetics (PK) and safety were evaluated in both healthy participants and patients with moderate to severe chronic plaque psoriasis, with preliminary efficacy assessed in the psoriasis patients. Following single dose of ICP-488 administration (1–36 mg), ICP-488 plasma exposures were approximately dose-proportional. There was no apparent accumulation of ICP-488 observed (<1.5-fold) in the MAD portion (3–12 mg once-daily). No clinically significant differences in the pharmacokinetics of ICP-488 was observed following co-administration with standard high-fat, high-calorie meals. The least-squares mean percentage change from baseline in the Psoriasis Area and Severity Index (“**PASI**”) score, a measure of the area and severity of psoriasis, indicated a significant difference between the ICP-488 6mg once-daily dosing group and the placebo group at week 4 (37.5% vs 13.8%, $p=0.0870$ which was less than two-sided alpha of 0.1). PASI 50 assessments demonstrated a 42% improvement with treatment of ICP-488 at 6mg QD compared with placebo (0%). All TEAEs and TRAEs were mild or moderate with the same incidence rate in both the ICP-488 and placebo arms. The safety and efficacy profile of ICP-488 supported advancing it to Phase II clinical trials in psoriasis patients.
- The Phase II study of psoriasis is ongoing, we aim to finish patient enrollment and have the topline results by the end of 2024.

ICP-B02 (CM355)

- ICP-B02 is a CD20 × CD3 T-cell-engaging bispecific monoclonal antibody that redirects T cells to eliminate malignant B cells. ICP-B02 (SC & IV) induced a profound and sustained depletion of peripheral B cells after first infusion in our Phase I/II clinical trial in r/r NHL patients. Given the critical role of B cells in a variety of severe autoimmune diseases, ICP-B02 may have broader applications in severe autoimmune diseases as it is more feasible and tolerable.

ICP-923

- ICP-923 is an oral IL-17A blocker. IL-17 is a pro-inflammatory cytokine that plays an important role in immune functional responses. Orally administered small molecules targeting IL-17A may represent a convenient alternative to IL-17A-targeting monoclonal antibodies for many patients. We have identified a novel, orally available, small molecule that can potentially block the binding of both IL-17AA and IL-17AF to IL-17R.

BUSINESS HIGHLIGHTS

BUILDING A COMPETITIVE DRUG PORTFOLIO FOR SOLID TUMOR TREATMENT

We strive to expand the breadth of our pipeline to cover solid tumor disease areas through a combination of targeted therapy and immune-oncology approaches. The inadequacy of age-appropriate dosage forms and strengths, along with a shortage of pediatric drugs, are key issues commonly encountered in pediatric medicine. We believe the potential best-in-class molecule, ICP-723, will enable us to establish a strong presence in the field of solid tumor treatment. To benefit a broader range of patients, our rapidly maturing early-stage pipeline, including cornerstone therapies like ICP-189, ICP-B05, and the ICP-033, aims to offer competitive treatment solutions for a wide array of solid tumors to patients both in China and globally.

ICP-723 (Zurletrectinib)

- A Phase II registrational trial has been initiated in mainland China for ICP-723 in adult and adolescent patients (12+ years of age) with advanced solid tumors harboring NTRK gene fusions. We expect patient enrollment to be completed within the next few months following the date of this report and thus far, we have observed an ORR of 80–90%. Zurletrectinib was shown to overcome acquired resistance to 1st generation TRK inhibitors, bringing hope to patients who failed prior TRKi therapy. Furthermore, the IND for the pediatric population (2 years old ≤ age < 12 years old) was approved by CDE in July 2023, and pediatric patients enrollment is ongoing with 1 PR observed. We expect to submit the NDA by the end of 2024 or early 2025.

ICP-189

- ICP-189 is a potent oral allosteric inhibitor of SHP2 with potential synergistic combinations with a range of targeted therapies or immunotherapies. We are conducting a Phase Ia dose escalation study to evaluate the safety, tolerability, pharmacokinetics and preliminary anti-tumor activity of ICP-189 in patients with advanced solid tumors in China. As of the date of this report, we completed the dose escalation up to the 120mg QD cohort with no DLTs or severe adverse events (“**AEs**”) (Grade ≥ 3) observed. The patient enrollment at 160mg QD is ongoing. ICP-189 demonstrated dose proportional pharmacokinetics and a long half-life. At the 120mg dose, ICP-189 achieved sufficient exposure to effectively cover IC90 for DUSP6 inhibition, a downstream biomarker of MAPK pathway. Preliminary efficacy of ICP-189 monotherapy was observed; one patient with cervical cancer in the 20mg dose cohort achieved a partial response (PR) that sustained for 14 cycles. Additionally, the Phase I trial to evaluate the safety and efficacy of ICP-189 in combination with ArriVent’s furmonertinib, a 3rd generation EGFR inhibitor, for the treatment of non-small cell lung cancer (“**NSCLC**”) is ongoing with first patient dosed in March 2024.

ICP-192 (Gunagratinib)

- Gunagratinib is a potent and highly selective pan-fibroblast growth factor receptor (“**pan-FGFR**”) inhibitor that we are developing for the treatment of various types of solid tumors. We have completed the Phase I study, which showed good safety and tolerability, and are currently conducting a Phase II registrational trial in cholangiocarcinoma (“**CCA**”) in China. In January 2023, we presented the data from an ongoing Phase IIa dose expansion study of gunagratinib in patients with cholangiocarcinoma at ASCO-GI 2023.

FINANCIAL HIGHLIGHTS

In 2023, the Group has achieved the following growth when compared with those of 2019 to 2022:

	As at December 31,/year ended December 31,				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000 (Restated)	2019 RMB'000
Cash and bank balances	8,224,596	8,697,927	5,928,716	3,969,640	2,291,773
Total asset	9,919,129	10,321,158	7,397,531	4,537,710	2,615,693
Total liabilities	2,738,424	2,676,831	1,738,612	1,377,204	5,563,439
REVENUE	738,537	625,404	1,043,033	1,364	1,247
Cost of sales	(128,435)	(143,397)	(65,667)	–	–
Other income and gains	244,153	198,199	217,938	271,304	104,449
Selling and distribution expenses	(366,891)	(438,611)	(298,463)	(68,208)	(3,458)
Research and development costs	(751,176)	(639,139)	(721,584)	(402,771)	(213,123)
Administrative expenses	(193,520)	(181,556)	(139,815)	(89,371)	(63,623)
Other expenses	(92,674)	(291,167)	(1,271)	(1,489)	(2)
Finance costs	(35,069)	(17,045)	(2,642)	(1,139)	(1,916)
Fair value changes of convertible redeemable preferred shares	–	–	–	(69,181)	(1,814,018)
Fair value changes of convertible loan	(53,963)	3,396	(51,014)	(32,374)	(159,907)
Impairment losses on financial assets	(268)	(100)	(32)	–	–
Shares of profits and losses of joint ventures	(4,900)	(9,711)	(604)	–	–
Income tax expense	(1,426)	–	(46,558)	–	–
LOSS FOR THE YEAR	(645,632)	(893,727)	(66,679)	(391,865)	(2,150,351)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
– Basic and diluted	(RMB0.37)	(RMB0.60)	(RMB0.05)	(RMB0.40)	(RMB9.32)

FINANCIAL HIGHLIGHTS

	2023 RMB'000	2022 RMB'000
Revenue	738,537	625,404
Cost of sales	(128,435)	(143,397)
Gross profit	610,102	482,007
Other income and gains	244,153	198,199
Selling and distribution expenses	(366,891)	(438,611)
Research and development expenses	(751,176)	(639,139)
Administrative expenses	(193,520)	(181,556)
Other expenses	(92,674)	(291,167)
Loss for the year	(645,632)	(893,727)
Adjusted loss for the year (as illustrated under "Non-HKFRSs Measures")	(490,668)	(473,691)

	31 December 2023 RMB'000	31 December 2022 RMB'000
Cash and bank balances	8,224,596	8,697,927

Total Revenue increased by 18.1% to RMB738.5 million for the year ended 31 December 2023, compared to RMB625.4 million for the year ended 31 December 2022, which was primarily attributable to continuous and rapid ramp-up of orelabrutinib sales volume. The sales of orelabrutinib increased by 18.5% to RMB670.7 million for the year ended 31 December 2023, compared to RMB565.9 million for the year ended 31 December 2022.

Gross Profit increased by 26.6% to RMB610.1 million for the year ended 31 December 2023 from RMB482.0 million for the year ended 31 December 2022. Gross profit margin was 82.6% for the year ended 31 December 2023, representing an increase of 5.5% as compared with 77.1% for the year ended 31 December 2022. The gross profit margin improvement was primarily due to the increased sales volume of orelabrutinib and reduction in the unit cost of sales. The reduction of unit cost of sales is attributed to the more efficient manufacture process implemented at Guangzhou facility during the Reporting Period.

Other Income and Gains increased to RMB244.2 million for the year ended 31 December 2023 from RMB198.2 million for the year ended 31 December 2022, primarily attributable to an increase by RMB55.4 million in the bank interest income to RMB192.3 million for the year ended 31 December 2023 from RMB136.9 million for the year ended 31 December 2022.

Total Expenses, including research and development expenses, selling and distribution expenses, administrative expenses and other expenses, decreased from RMB1,550.5 million for the year ended 31 December 2022 to RMB1,404.3 million for the year ended 31 December 2023. This change mainly resulted from (i) decreased selling and distribution expenses by RMB71.7 million from RMB438.6 million for the year ended 31 December 2022 to RMB366.9 million for the year ended 31 December 2023 due to business operational efficiency improvement; (ii) decreased unrealized foreign exchange loss by RMB200.7 million due to a lesser appreciation of the US dollar against the RMB in 2023 compared to 2022; offset by (iii) increased research and development expenses by RMB112.0 million to RMB751.2 million for the year ended 31 December 2023, primarily due to the spending increase for clinical trials with significant progress made in multiple pipelines and strategic investment in early stage candidates poised to become future assets.

Loss for the year decreased by 27.8% to RMB645.6 million for the year ended 31 December 2023 from RMB893.7 million for the year ended 31 December 2022.

Cash and bank balances stood at approximately RMB8.22 billion as of 31 December 2023. This robust cash position provides flexibility for the Company to expedite the clinical development, and to invest in a competitive pipeline.

NON-HKFRSS MEASURES

To supplement the Group's consolidated financial statements, which are presented in accordance with HKFRSs, we also use the adjusted total loss for the year as an additional financial measure, which is not required by, or presented in accordance with HKFRSs. We believe that these adjusted measures provide useful information to shareholders and potential investors in understanding and evaluating our consolidated results of operations in turn as they help our management.

Adjusted total loss for the year represents the total loss for the year excluding the effect of certain non-cash items, namely the unrealized foreign exchange and share-based compensation expense. The term adjusted total loss for the year is not defined under HKFRSs. The use of this non-HKFRSs measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRSs. Our presentation of this adjusted figure may not be comparable to similarly titled measures presented by other companies. However, we believe that this non-HKFRSs measure reflects our normal operating results by eliminating potential impacts of items that our management do not consider to be indicative of our normal operating performance, and thus, facilitate comparisons of normal operating performance from period to period and company to company to the extent applicable.

The table below sets forth a reconciliation of total loss to adjusted total loss for the years indicated:

	2023 RMB'000	2022 RMB'000
Loss for the year	(645,632)	(893,727)
Adjust:		
Unrealized exchange loss	89,861	290,559
Share-based compensation expense	65,103	129,477
Adjusted loss for the year	(490,668)	(473,691)

CHAIRPERSON'S STATEMENT



Dr. Jisong Cui (Jasmine Cui)
Chairperson and Executive Director

Dear Shareholders,

We express our deep gratitude for your unwavering support of InnoCare. On behalf of the Board, it is my privilege to share our accomplishments in 2023 and outline our promising business prospects for future success. Despite the global market volatility witnessed throughout the year, InnoCare remained steadfast in its pursuit of excellence and achieved notable milestones across all facets of our operations.

EFFICIENT STRATEGY IMPLEMENTATION LED TO SIGNIFICANT GROWTH

In 2023, we consistently harnessed the power of innovation to provide benefit of patients. Notably, orelabrutinib attained the distinction of being the first and only BTK inhibitor approved for the treatment of relapsed or refractory Marginal Zone Lymphoma (r/r MZL) in China, an indication which has been included in the updated 2023 National Reimbursement Drug List (the “**NRDL**”) and this approval marks a significant stride in our mission to enhance patient care.

Leveraging the indication expansion of r/r MZL and the coverage of National Reimbursement Drug List (“**NRDL**”) of r/r CLL/SLL and r/r MCL, our core product 宜諾凱® (Orelabrutinib) generated product revenue of RMB670.7 million for the year ended 31 December 2023, an robust increase of 18.5% compared to the same period of 2022. We are confident that the endorsement received from esteemed medical communities such as the Chinese Society of Clinical Oncology (CSCO) Diagnosis and Treatment Guidelines, combined with our robust commercialization prowess, will facilitate widespread patient access to orelabrutinib and bolster our market share in China in the ensuing years.

Furthermore, we expanded our commercial portfolio by launching tafasitamab (CD19, Minjuvi®), in combination with lenalidomide, under the early access program in the Boao Lecheng International Medical Tourism Pilot Zone and the Guangdong-Hong Kong-Macao Greater Bay Area (“**Greater Bay Area**”) for adult patients with relapsed or refractory diffuse large B-cell lymphoma (r/r DLBCL) ineligible for autologous stem cell transplantation (ASCT). This combination marks the first FDA-approved treatment for second-line r/r DLBCL. The Biologics License Application (BLA) approval was secured in Hong Kong, and tafasitamab in combination with lenalidomide was incorporated as a class II recommended regimen for r/r DLBCL treatment in the Chinese Society of Clinical Oncology (CSCO) Guidelines. Looking ahead, we are accelerating the registrational trial in China to provide tafasitamab to patients with significant unmet clinical needs.

In our mission to providing more innovative medicines globally, we continually seek new paths and platform to invest in distinctive clinical assets on both domestic and international fronts. We have nurtured a robust and competitive pipeline consisting of 13 clinical assets, with more than 30 ongoing clinical trials, securing nine IND approvals, specifically targeting hemato-oncology, autoimmune diseases, and solid tumors.

Financially, in 2023, we maintained a robust cash position and executed commercial strategies effectively to unlock value. Our total revenue reached RMB738.5 million with strong performance of 18.1% growth, primarily driven by orelabrutinib sales. Through successful fundraising endeavors and diligent financial management, we closed the year with a total cash balance of RMB8.2 billion, providing us with solid financial stability, resilience, and flexibility to navigate volatile macroeconomic conditions and fluctuating capital markets. This will also supports our scale-up efforts and enhance our capacity to deliver high-quality and innovative drugs more effectively.

Over the past years, we have expanded our infrastructure and internal production capabilities in Guangzhou and Beijing. The commercial batch production of orelabrutinib at the Guangzhou facility has implemented more efficient manufacturing processes. This achievement underscores the strength of our integrated platform and represents critical milestone in our unwavering pursuit of establishing a world-class biopharmaceutical company dedicated to developing and commercializing high-quality innovative drugs accessible to patients.

Reflecting on the successes of the past eight years, we affirm that our spirit of innovation constitutes our core competency and serves as the bedrock upon which InnoCare thrives in the burgeoning biotech landscape.

BEGIN THE NEW JOURNEY OF INNOCARE VERSION 2.0

With a solid foundation laid over the past eight years, we reaffirm our commitment to developing high-quality innovative drugs and accelerating pipeline development for the benefit of patient worldwide. Having completed the era of InnoCare version 1.0, we officially embarked on version 2.0 at the onset of 2023. Our commitment to the mission of “Science Drives Innovation for the Benefit of Patients” remains unwavering as we enhance capabilities across all fronts, encompassing management, discovery, clinical development, commercialization, and business development.

Building A Leading Franchise in Heme-Oncology

With orelabrutinib serving as our backbone therapy and a key component of our extensive pipeline in hemato-oncology — including tafasitamab, ICP-248, ICP-B02, ICP-490, ICP-B05 and potential future developments from internal and external sources — our goal is to become a leading player in hemato-oncology both in China and worldwide. We intend to address various segments, such as non-Hodgkin lymphoma (“**NHL**”), multiple myeloma (“**MM**”), and leukemia, utilizing both single and combination therapies.

CHAIRPERSON'S STATEMENT

Advancing B-cell and T-cell Pathways in Autoimmune Diseases

We have reinforced our robust discovery engine to target global frontier targets in the development of autoimmune therapeutics. By addressing both B-cell and T-cell pathways, our objective is to deliver first-in-class or best-in-class treatments that address significant unmet clinical needs with promising market potential globally.

Building a Competitive Drug Portfolio for Solid Tumor Treatment

Our endeavor is to broaden the scope of our pipeline to encompass solid tumor disease areas through a blend of targeted therapy and immune-oncology approaches. We believe that our potential best-in-class molecule, ICP-723, will enable us to establish a strong foothold in the solid tumor treatment domain. And we are looking forward to the data readout of ICP-189 combo with the 3rd generation EGFR inhibitor in NSCLC patients.

In the forthcoming years, we anticipate the commercialization of multiple innovative drugs that will significantly benefit patients worldwide. We recognize that talent, technology, and innovation capabilities are pivotal to our future success. Thus, we will persist in enhancing our talent pool and attracting top global talent to InnoCare. Concurrently, we continue to uphold our commitment to cost-effectiveness and financial prudence, aiming to optimize the risk-return ratio for our shareholders.

On behalf of all at InnoCare, I extend heartfelt gratitude to each of you our partners, shareholders, and stakeholders for your always support and trust. Looking ahead, my colleagues and I remain unwaveringly confident and steadfastly focused on our mission and strategy. Our goal is to continuously generate value for our shareholders and to enhance global public health through ongoing innovation.

Yours faithfully,

Dr. Jisong Cui

Chairperson and Executive Director

28 March 2024

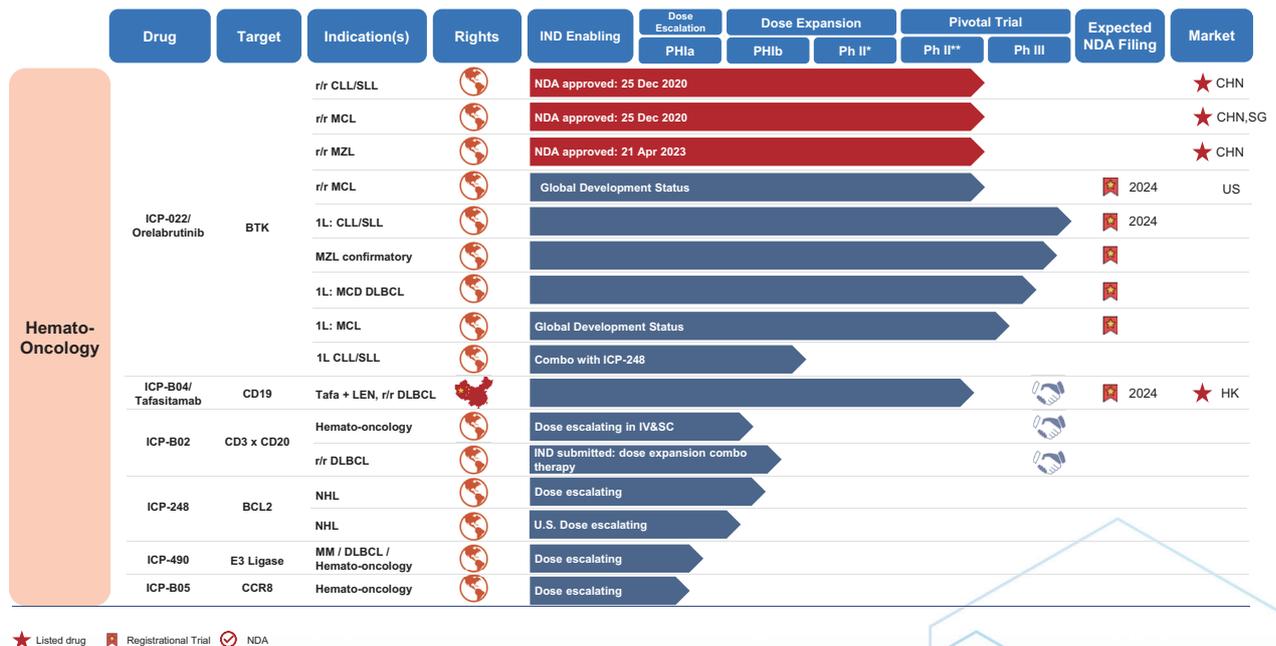
OVERVIEW

InnoCare is a commercial stage biopharmaceutical company committed to discovering, developing, and commercializing potential best-in-class and/or first-in-class drugs for the treatment of cancers and autoimmune diseases, being two major therapeutic areas with significant market opportunities and synergies. Led by a well-known management team of seasoned industry executives, we have built a fully integrated biopharmaceutical platform with strong in-house R&D, clinical development, manufacturing, and commercialization capabilities. Our vision is to become a global biopharmaceutical leader that develops and delivers innovative therapies for patients worldwide.

Leveraging our management team’s global vision and local expertise, we have built a differentiated and balanced drug portfolio and have launched our first product, orelabrutinib, in China. In addition, we have launched our second commercialized product, Tafasitamab, in a designated province in China for prior clinical use. Our drug candidates target both novel and evidence-based biological pathways. Our discovery and development efforts are focused on drug candidates with evidence-based targets that have the potential to be best-in-class from a safety and/or efficacy perspective. We also devote significant efforts in identifying novel targets and developing therapies with global breakthrough potential.

PRODUCT PIPELINE

Our current pipeline drugs cover a variety of novel and validated therapeutic targets and drug modalities including monoclonal antibodies, bispecific antibodies, and small molecules for the treatment of various autoimmune diseases, hemato-oncology and solid tumors.



★ Listed drug 📅 Registrational Trial 🌐 NDA

MANAGEMENT DISCUSSION AND ANALYSIS

	Drug	Target	Indication(s)	Rights	IND Enabling	Dose Escalation		Dose expansion		Pivotal Trial		Filed	Market
						PH1a	PH1b	PH1*	PH1**	PH1			
Auto-immune Disease	ICP-022/ Orelabrutinib	BTK	SLE										
			MS		Global Phase II Completed								
			ITP										
			NMOSD										
	ICP-332	TYK2 – JH1	Atopic Dermatitis		Phase II completed with promising results, phase III initiating								
ICP-488	TYK2 – JH2	Psoriasis											
Solid Tumors	ICP-723/ Zurletrectinib	pan-TRK	NTRK fusion-positive cancers										
	ICP-192/ Gunagratinib	pan-FGFR	Cholangiocarcinoma										
	ICP-189	SHP2	Solid tumors		Dose escalating								
			+EGFRi NSCLC										
	ICP-B05	CCR8	Solid tumors		Dose escalating								
	ICP-033	VEGFR, DDR1	Solid tumors										

★ Listed drug Registrational Trial NDA

BUSINESS OVERVIEW

ORELABRUTINIB COMMERCIALIZATION ACHIEVEMENTS AND MILESTONES



(宜諾凱®, Orelabrutinib, BTK inhibitor)

Orelabrutinib (宜諾凱®), our first and core commercial product, is a highly selective, irreversible BTK inhibitor. It was successfully included in China's NRDL in 2022 for the treatment of patients with r/r CLL/SLL and r/r MCL. Orelabrutinib has also been included in the updated NRDL in 2024 for the treatment of patients with r/r MZL, maintaining the same price as in 2023. Since its first launch day in mainland China, orelabrutinib was included in the CSCO Guidelines as a Class I treatment for r/r CLL/SLL and r/r MCL, and as one of the recommended BTK inhibitors to be combined with chemotherapy for the treatment of r/r DLBCL and pCNSL.

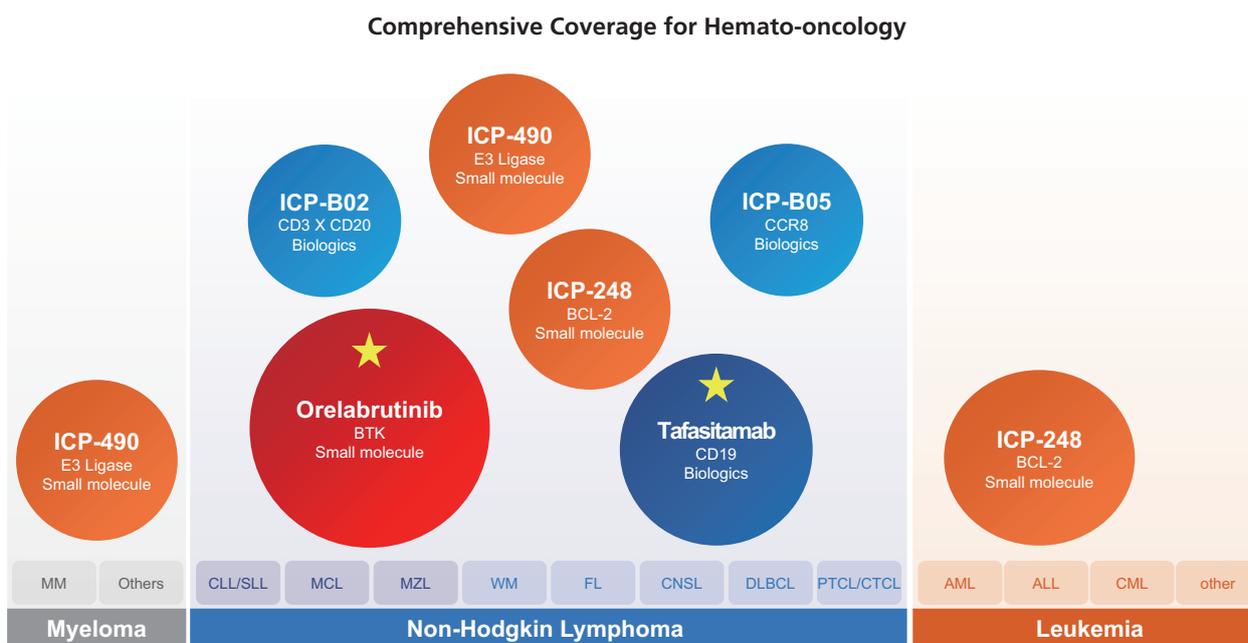
MANAGEMENT DISCUSSION AND ANALYSIS

Total revenue of the Group was RMB738.5 million for the year ended 31 December 2023, of which orelabrutinib generated sales of RMB670.7 million for the year ended 31 December 2023, representing a 18.5% growth compared to the year ended 31 December 2022. With an in-house team of approximately 330 experienced sales and marketing members, orelabrutinib's promotion coverage has rapidly penetrated core cities and nationally leading hospitals. We expect that the NRDL inclusion, expansion of new indications, maturity of dual-channel implementation, and our strengthened commercialization capabilities will facilitate robust sales growth of orelabrutinib in 2024 and beyond. This growth will be supported through broadened patient access, accelerated market penetration, and an increased duration of treatment (DOT), ultimately enabling us to capture a substantial market share across all channels.

BUILDING A LEADING FRANCHISE IN HEMATO-ONCOLOGY

With orelabrutinib serving as our backbone therapy and a key component of our extensive pipeline in hemato-oncology — including Tafasitamab, ICP-248, ICP-B02, ICP-490, ICP-B05 and potential future developments from internal and external sources — our goal is to become a leading player in hemato-oncology both in China and worldwide. We intend to address various segments, such as non-Hodgkin lymphoma (“**NHL**”), multiple myeloma (“**MM**”), and leukemia, utilizing both single and combination therapies.

We are well underway towards building a leading hemato-oncology franchise to cover NHL and MM segments with (i) our internally developed core therapy orelabrutinib, (ii) the U.S. FDA and European Medicines Agency (“**EMA**”) approved anti-CD19 antibody Tafasitamab for r/r DLBCL, (iii) multiple pipeline drugs that cover almost all important hemato-oncology targets such as BCL-2, CD20xCD3, E3 ligase and CCR8, and (iv) a well-established and focused commercialization platform in China.



Orelabrutinib for Hemato-Oncology Diseases

As of the date of this report, we have dosed over 1,100 patients across all of our orelabrutinib trials for oncology and autoimmune diseases. Besides r/r CLL/SLL and r/r MCL, orelabrutinib was approved for r/r MZL, marking it as the first and only BTK inhibitor approved for this use in mainland China. Additionally, multiple registrational trials are ongoing across China and the U.S., including first line and second line treatments for various hematological malignancies. The clinical data indicates that orelabrutinib's high target selectivity and exceptional target occupancy rate have resulted in favorable safety and efficacy profiles.

MANAGEMENT DISCUSSION AND ANALYSIS

Orelabrutinib for r/r MZL

MZL is an indolent B-cell NHL and the second most prevalent lymphoma in China, accounting for 8.3% of all lymphomas. It mainly affects middle-aged and elderly individuals. The annual incidence of MZL has been increasing globally. After first-line treatment, patients with r/r MZL lack effective treatment options.

In April 2023, orelabrutinib received approval from the Chinese NMPA for the treatment of patients with r/r MZL. Orelabrutinib is currently the first, and only, BTK inhibitor approved for the treatment of r/r MZL in China.

On 16 June 2023, we announced the latest clinical data of orelabrutinib at the 17th International Conference on Malignant Lymphoma (“**ICML**”) during the oral presentation section. Orelabrutinib demonstrated high response rates with durable disease remission and was well tolerated in Chinese patients with r/r MZL. The primary endpoint was overall response rate (“**ORR**”) assessed by Independent Review Committee (“**IRC**”) based on the Lugano 2014 classification.

Among the enrolled Chinese patients, the majority had late-stage diseases, with stage IV accounting for 75.9%. After a median follow-up of 24.3 months, the IRC-assessed ORR was 58.9%. The median duration of response (“**DoR**”) and the median progression-free survival (“**PFS**”) was 34.3 months and not reached, respectively. The 12-month PFS rate was 82.8%, and the overall survival (“**OS**”) rate was 91%. Treatment was generally well tolerated with most treatment-related adverse events (“**TRAE**”) being grade of 1 or 2.

We are now conducting a randomized, controlled, double-blind, Phase III study to evaluate the efficacy and safety of orelabrutinib plus lenalidomide and rituximab (R2) versus placebo plus R2 in r/r MZL.

According to publicly disclosed data at ASH 2023 (Jiadai Xu, Lu-Ya Cheng, Yang Ke, et al. Blood 2023; 142 (Supplement 1): 6146.), orelabrutinib combined with rituximab shows encouraging anti-tumor activity in MZL, with a favorable safety profile. These results suggest a potential first-line treatment strategy for MZL. Among a total of 10 patients, 3 (30%) achieved complete response (“**CR**”) and 6 (60%) attained partial response (“**PR**”) as their best response, resulting in an ORR of 90%. After a median follow-up of 13.0 months (range 7.8–24.7), the median PFS was not reached, with a 6-month PFS rate of 100%. OS could not be assessed, as no deaths occurred. As of 6 May 2023, 8 patients were receiving orelabrutinib maintenance treatment, with a median duration of maintenance treatment of 9.6 months (range 3.0–17.8). The ORR was 75% (6/8) during maintenance treatment, with 1 patient having stable disease (“**SD**”) and 1 developing progressive disease (“**PD**”). No serious adverse events were observed and off-target related AEs such as atrial fibrillation, diarrhea, and major hemorrhage were not reported.

MANAGEMENT DISCUSSION AND ANALYSIS

Orelabrutinib for r/r MCL

MCL is a subtype of B-cell non-Hodgkin lymphoma that results from the malignant transformation of B-lymphocytes in the mantle zone of lymph node follicles. MCL occurs most frequently in men at a median age of 60 years, and the majority of patients are diagnosed in an advanced stage of the disease. Despite high response rates to first-line chemoimmunotherapy, the majority of patients eventually relapse and require subsequent treatment. Currently, there is no standard therapy for relapsed/refractory MCL. The therapies approved by the Food and Drug Administration for this patient population are still limited, with low rates of CR, short durations of remission, and unfavorable safety and tolerability profiles for older patients.

On 2 May 2023, Blood Advances, part of leading hematology journal Blood, and the Journal of the American Society of Hematology, published the clinical study results of orelabrutinib in Relapsed or Refractory Mantle Cell Lymphoma (“**r/r MCL**”) patients. The journal concluded that orelabrutinib demonstrated substantial efficacy and was well tolerated in patients with r/r MCL after long-term follow-up.

A total of 106 patients were enrolled in the study. As of 9 June 2023, after a median follow-up of 46.98 months, based on conventional computerized tomography (“**CT**”) assessment, the ORR was 83%, with 35.8% achieving complete response, 3.8% achieving unconfirmed complete response (“**CRu**”), and 43.4% obtaining partial response, as assessed by the Investigator. Patients experienced a rapid response to the treatment. The median duration of response was 25.79 months, and the progression-free survival was 24.94 months. The median OS reached 56.21 months. Orelabrutinib was well-tolerated, demonstrating a favorable safety profile.

In the U.S., enrollment for the global Phase II registrational trial for r/r MCL was completed in the first half of 2023, and we expect to submit the NDA in the second half of 2024. Orelabrutinib has previously been granted breakthrough therapy designation (“**BT**”) from the FDA and will take an accelerated development path in the U.S. Thus far, orelabrutinib has demonstrated a consistent efficacy and safety profile in r/r MCL patients across diverse populations, including those from the U.S., China, and other countries.

A prospective, multicenter, single-arm Phase II study of orelabrutinib-lenalidomide-rituximab (OLR) in patients with untreated MCL in China (Huilai Zhang, Liping Su, Lihong Liu, et al. Blood 2023; 142 (Supplement 1): 736.) showed that out of 21 patients (75.0%) who completed 6 cycles of induction therapy and were evaluable for response, 16 (76.2%) achieved a CR and 5 (23.8%) obtained a PR, resulting in an ORR of 100%. In addition, 18 of these 21 patients were available for minimal residual disease (“**MRD**”) analysis, with both peripheral blood MRD (“**PB-MRD**”) and bone marrow MRD (“**BM-MRD**”) results being negative in all 18 patients. The median DOR and median PFS were not reached, with the estimated 12-month DOR rate and PFS rate at 90.9% and 92.3%, respectively.

Orelabrutinib for 1L CLL/SLL

This is a randomized, multicenter, open-label, Phase III study to evaluate the efficacy and safety of orelabrutinib with previously untreated CLL/SLL. The primary endpoint of this study is progress-free survival (“**PFS**”) evaluated by the IRC.

The registrational Phase III trial, conducted across 53 sites in China, successfully completed the enrollment of patients for 1L CLL in the first half of 2023. An interim analysis is planned for an early efficacy readout. We expect to submit the NDA in China in the second half of 2024.

Orelabrutinib for 1L MCL

We are initiating a global randomized, double-blind, multicenter Phase III study of orelabrutinib in combination with rituximab and bendamustine (BR) vs. BR in subjects with treatment-naïve mantle cell lymphoma.

MANAGEMENT DISCUSSION AND ANALYSIS

Orelabrutinib for 1L DLBCL-MCD Subtype

We have a clear, differentiated strategy for DLBCL, the largest subtype of NHL, with more than 1 million patients worldwide. We initiated our strategy to 1L DLBCL by selecting the MCD subtypes. This is a Phase III, randomized, double-blind, placebo-controlled, multicenter study evaluating the efficacy and safety of orelabrutinib plus R-CHOP versus placebo plus R-CHOP in treatment-naïve patients with MCD subtype DLBCL. The study is currently recruiting in 45 sites across China.

Approximately 40% of DLBCL patients will eventually become refractory/relapsed. This is often attributed to the heterogeneous genetic aberrations within the patient population. Recent research has been more supportive that R-CHOP+X with genetic rationale may provide synergy between multiple novel agents. Among the already classified genetic subtypes, MCD is predominantly enriched with B-cell receptor-dependent NF- κ B activation, which indicates this patient sub-group might respond well to BTK inhibitors. The pre-clinical models have demonstrated that orelabrutinib preserves NK-cell-mediated antibody-dependent cell-mediated cytotoxicity (“ADCC”) induced by anti-CD20 antibody due to less inducible T cell kinase (“ITK”) inhibition. Orelabrutinib’s improved safety profile, attributed to its high kinase selectivity also makes it a better candidate for combination therapies. These findings provide a solid rationale for exploring the combination of orelabrutinib and R-CHOP to improve treatment outcomes of the MCD subtype DLBCL.

The real-world data regarding orelabrutinib in combination with R-CHOP for MCD DLBCL were posted at the American Society of Clinical Oncology (“ASCO”) in June 2022. Fourteen patients with MCD DLBCL were included in the study. All patients received orelabrutinib 150mg once daily. Among them, 8 were treated with R-CHOP or R-EPOCH, and 6 with RICE, R-CHOP or R2 as second line therapy. The complete response rate (“CRR”) for the first-line and second-line patients were 75% and 66.67%, respectively. Reported AEs were generally manageable and resolved soon after supportive treatment. The preliminary conclusion is that orelabrutinib containing regimens demonstrated encouraging efficacy with a well-tolerated safety profile among patients with MCD subtype DLBCL. A large-scale prospective registrational clinical study is in progress, which could offer a new therapeutic option for patients with MCD subtype DLBCL.

Orelabrutinib for r/r CLL/SLL

This is an open-label, multicenter, Phase II study to evaluate the safety and efficacy following 150mg daily oral administration of orelabrutinib in r/r CLL/SLL patients. A total of 80 patients with r/r CLL/SLL were enrolled. According to the data as of 26 June 2023, the median follow-up time was 52.4 months, with 42.5% remaining on treatment. The ORR was 93.8% with 30% complete response (“CR”) as assessed by investigator. Median time for achieving first response was 1.84 months. The median duration of response (“DOR”) and progression-free survival (“PFS”) were 52 months and 50 months, respectively. Orelabrutinib showed a significant higher CR rate in r/r CLL/SLL in comparison with other BTK inhibitors at a similar median follow-up period. Long term follow up did not suggest any safety signal other than the ones observed previously. Similar to the previously reported safety results, most AEs were mild to moderate, which indicated that orelabrutinib was well tolerated.

Orelabrutinib for Primary Central Nervous System Lymphoma (“pCNSL”)

During the EHA 2023 Hybrid Congress, preliminary findings were presented from a Phase II study on the chemo-free combination of pomalidomide, orelabrutinib, and rituximab with sequential high-dose methotrexate in newly diagnosed patients with primary CNS lymphoma.

MANAGEMENT DISCUSSION AND ANALYSIS

This is the first study to treat newly diagnosed pCNSL (“**ND pCNSL**”) with a targeted therapy combination before chemotherapy. The regimen of pomalidomide, orelabrutinib, and rituximab produced a high ORR and was well tolerated. This indicates the potential for non-cytotoxic first-line therapies in treating pCNSL.

Survival outcomes of patients with r/r pCNSL remain extremely poor, lacking approved therapies or a widely accepted standard-of-care. In 2022, eight investigator-initiated studies published results showing promising data for orelabrutinib-based regimens in treating both ND pCNSL and r/r CNSL. The ORR of orelabrutinib combined with immunochemotherapy ranged from 88.9% to 100%, with a CR rate of 53.9% to 61.8% in patients with ND pCNSL. The vast majority of the patients with ND pCNSL responded well to the combination of orelabrutinib with traditional immunochemotherapy, with more than half achieving complete remission. Notably, the median PFS (“**mPFS**”) was not reached in these studies, with a 6-month PFS rate ranging from 63.6% to 100%.

In the relapse/refractory setting, approximately 60% of patients with r/r CNSL achieved remission with an ORR of 60% to 86.7%, with most of those that responded achieving complete remission. The mPFS was 9.8 months, marking a significant improvement from the historical mPFS of around 3 months.

Patients exhibiting enhanced BCR signaling, particularly those with the MYD88 mutation, showed a superior response to treatment. This aligns with the mechanism of action (“**MOA**”) of orelabrutinib, which is designed to target these specific molecular pathways. Importantly, orelabrutinib demonstrates excellent permeability across the blood-brain barrier (“**BBB**”), a critical feature for treating central nervous system conditions. An oral dose of 150mg per day resulted in a median cerebrospinal fluid concentration of 21.6ng/mL and a median BBB permeability rate of 58.6%.

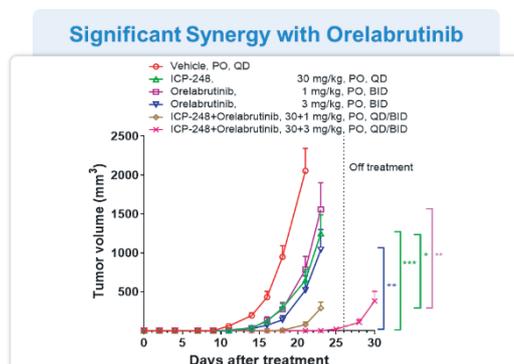
Orelabrutinib combined with immunochemotherapy was well tolerated and manageable. The safety profile observed in these studies was consistent with the results in previous clinical trials. No new safety signals has been observed in pCNSL patients so far.

Combining orelabrutinib with ICP-248(BCL-2 inhibitor)

The advent of BTK inhibitors has revolutionized the treatment landscape for B cell malignancies, especially in CLL/SLL and MCL. These inhibitors have shifted the treatment paradigm for CLL from a disease managed with repeated courses of fixed-duration chemoimmunotherapy to one that is treated with a continuous daily oral therapy. BTK inhibitors have improved PFS when compared to traditional chemoimmunotherapy in frontline CLL treatment, and have been shown to improve OS when compared to fludarabine, cyclophosphamide, and rituximab chemoimmunotherapy. Despite these advancements, BTK inhibitors do not completely eradicate the disease, and achieving disease remissions with undetectable minimal residual disease (“**uMRD**”) are rare. This necessitates ongoing treatment, increasing the risk for both resistance and chronic toxicity.

MANAGEMENT DISCUSSION AND ANALYSIS

BCL-2 is an anti-apoptotic protein that renders cells resistant to apoptosis. The BCL-2 dysregulation is a key process in the pathogenesis of B cell lymphoma.



The combination of BCL-2 inhibitors and BTK inhibitors increases the depth of response and may induce a longer duration of remission in patients with CLL/SLL and MCL. For patients with CLL/SLL, this combination strategy also provides a fixed-duration therapeutic option. We are exploring the potential of orelabrutinib combined with ICP-248 (BCL-2 inhibitor) for treating CLL/SLL and MCL. Additionally, the dual oral combination therapies aim to provide a more convenient treatment regimens.

ICP-B04 (Tafasitamab)



In the current CSCO Guidelines, tafasitamab in combination with lenalidomide was officially included as a class II recommended regimen for the treatment of adult patients with r/r DLBCL who are ineligible for ASCT.

As of the date of this report, tafasitamab has been included in the overseas special drug list in over 27 provinces and cities in mainland China including Beijing, Shanghai, Hebei, Hainan provinces, Suzhou City, Wuxi City, Foshan City, and Chengdu City, etc. This has greatly improved the accessibility of tafasitamab for patients with DLBCL. Tafasitamab, in combination with lenalidomide, has been approved for use in Hong Kong, as well as the early access program in the Greater Bay Area of mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS

We have successfully finished the patient enrollment of the Phase II pivotal trial of the tafasitamab and lenalidomide combination therapy for the treatment of r/r DLBCL and aim to submit the NDA to Center for Drug Evaluation (“CDE”) in the second quarter of 2024.

We anticipate NDA approval in the first half of 2025. This is a single-arm, open-label, multicenter Phase II clinical study evaluating the safety and efficacy of tafasitamab combined with lenalidomide for the treatment of patients with r/r DLBCL. The primary endpoint is to evaluate the ORR assessed by investigator and IRC. The secondary endpoints are DCR, DoR, PFS, time to progression (“TTP”), time to response (“TTR”), OS, and safety.

Tafasitamab, in combination with lenalidomide, has obtained accelerated approval in the U.S., and conditional marketing authorization approval in Europe for the treatment of adults with r/r DLBCL who are not eligible for autologous stem cell transplantation (“ASCT”). Tafasitamab is approved for r/r DLBCL and is the first available therapy for the second-line treatment of r/r DLBCL patients. With a similar role and more stable expression across B-NHL, this CD19 targeted immunotherapy has the potential to become another fundamental therapy for B-NHL.

The Biologics License Application (“BLA”) for the combination therapy of tafasitamab and lenalidomide was approved by the Department of Health of the Hong Kong Special Administrative Region for adult patients with r/r DLBCL who are not eligible for autologous stem cell transplantation (“ASCT”). Furthermore, under the early access program in the Boao Lecheng International Medical Tourism Pilot Zone and the Guangdong-Hong Kong-Macao Greater Bay Area (“Greater Bay Area”), prescriptions of tafasitamab in combination with lenalidomide were issued at the Ruijin Hainan Hospital and Guangdong Clifford Hospital for eligible DLBCL patients.

ICP-248

ICP-248 is a novel, orally bioavailable B-cell lymphoma-2 (“BCL-2”) selective inhibitor. BCL-2 plays a crucial role in the apoptotic pathway and is overexpressed in a variety of hematologic malignancies. BCL-2 inhibitors have demonstrated anti-tumor effects by activating the endogenous mitochondrial apoptosis pathway, leading to rapid cancer cell apoptosis. We have developed ICP-248 as a selective BCL2 inhibitor characterized by enhanced metabolic stability and reduced drug-drug interaction (“DDI”) liability. Given the outstanding safety and efficacy profile of orelabrutinib, we are confident that the combination of ICP-248 and orelabrutinib will overcome resistance issues observed in existing BCL-2 inhibitors. We intend to develop ICP-248 in combination with orelabrutinib for the treatment of CLL/SLL and other NHLs.

Currently, the Phase I trial in mainland China is progressing. This is an open-label, multicenter, Phase I dose escalation and dose expansion study to evaluate the safety and preliminary efficacy of ICP-248 in r/r B-cell malignancies in China, mainly including CLL/SLL, MCL and other NHL. Preliminary results have demonstrated a good safety profile and favorable pharmacokinetics, with high exposure at relatively low dose levels, distinguishing ICP-248 from other BCL-2 inhibitors. Thus far, seventeen patients have been dosed, and among 6 evaluated patients at the potential 100mg QD RP2D, three achieved CR in which two achieved uMRD, with an ORR of 100%. The IND for the combination therapy with orelabrutinib for 1L CLL/SLL treatment was approved by CDE in March 2024. As a core asset for our Company’s global development strategy, ICP-248 was approved for clinical trials by the FDA in January 2024.

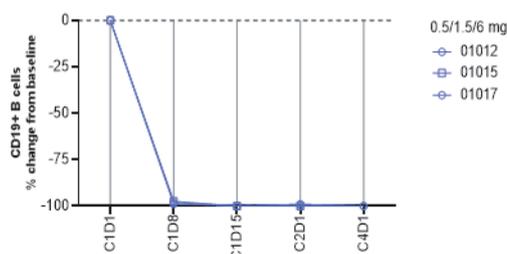
MANAGEMENT DISCUSSION AND ANALYSIS

ICP-B02 (CM355)

ICP-B02 is a CD20xCD3 bispecific antibody co-developed with KeyMed for the treatment of B-cell non-Hodgkin's lymphoma as a monotherapy or in combination with other therapies. In preclinical studies, it demonstrated stronger TDCC activities with less cytokine release as compared to its leading competitors.

As of the date of this report, we have completed the dose escalation of the intravenous infusion formulation ("IV") of ICP-B02 and are currently evaluating the subcutaneous formulation ("SC"). Encouragingly, our preliminary data for both the IV and SC formulations have shown good efficacy in patients with follicular lymphoma ("FL") and DLBCL. Remarkably, all 13 patients treated with ICP-B02 at dose ≥ 6 mg responded, achieving an ORR of 100%. In the SC group, among 9 evaluable patients, the ORR was 100.0% (9/9), with a complete response rate (CRR) of 77.8% (7/9), including 2 DLBCL patients with CR. Most responders are still under treatment with sustained responses. Based on these encouraging results, we plan to initiate a dose confirmation and expansion study in ICP-B02 in combination with other immunochemotherapies for earlier lines of treatment in NHL patients. An IND application for these combination therapies was submitted to the CDE in March 2024.

Rapid and profound depletion of peripheral B cells



ICP-B02 (SC & IV) induced a profound and sustained depletion of peripheral B cells after the first infusion in our Phase I/II clinical trial in r/r NHL patients. Given the critical role of B cells in a variety of severe autoimmune diseases, ICP-B02 may have wider applications in severe autoimmune diseases as it is more feasible and tolerable.

ICP-490

ICP-490 is a proprietary, orally available, next generation CRBN E3 Ligase modulator. As an immunomodulatory drug ("IMiD"), it modulates the immune system and influences other biological targets through targeted protein degradation ("TPD").

ICP-490, by specifically binding to the CRL4CRBN E3 Ligase complex, triggers the ubiquitination and subsequent degradation of transcription factors, including IKZF1 ("Ikaro") and IKZF3 ("Aiolos"). In the in vivo efficacy studies, ICP-490 demonstrated significant anti-tumor effects in various MM and DLBCL xenograft models. Notably, ICP-490 overcomes acquired resistance against earlier generations of CRBN modulators in both in vitro and in vivo efficacy studies. Furthermore, ICP-490 synergizes with the anti-CD38 antibody daratumumab in preclinical assays by enhancing its ADCC activity, thus providing a strong scientific rationale for exploring combinatory treatments in clinical settings.

MANAGEMENT DISCUSSION AND ANALYSIS

Preliminary data on ICP-490 was selected for oral presentation at the 2023 AACR Annual Meeting on 18 April 2023. Cell viability assays reveal robust in vitro efficacies of ICP-490 against various MM and NHL (including DLBCL) cell lines with nanomolar IC50 values. ICP-490 also exhibits potent anti-proliferative activity against lenalidomide-resistant cell lines. Importantly, while it shows a strong tumor killing effect, ICP-490 does not exhibit cytotoxicity against normal human cells. In vivo efficacy studies have further confirmed the effectiveness of ICP-490 against various MM and DLBCL xenografts models.

The immune modulation activity of ICP-490 has also been illustrated in a combinatory treatment with monoclonal antibody. A low dose of ICP-490 leads to robust induction of IL-2 and granzyme B, significantly enhancing the efficacy of anti-CD38 mAbs daratumumab in MM and NHLs. ICP-490 demonstrates synergistic tumor killing effects when combined with the BTK inhibitor orelabrutinib. These findings provide solid scientific rationales for exploring combinatory treatments in clinical settings.

As of the date of this report, we are conducting a Phase I dose escalation study in China focused on patients with MM. ICP-490 was well tolerated. This safety profile has supported the decision to continue dose escalation to the next dosage level. Preliminary efficacy of ICP-490 monotherapy was observed in one patient who achieved a minimal response (“**MR**”). Pharmacodynamic (“**PD**”) analysis revealed deeper degradation of the primary pharmacological targets Aiolos, (IKZF3) and Ikaro (IKZF1). In September 2023, the CDE granted IND approval to initiate a clinical trial of ICP-490 in combination with dexamethasone. ICP-490 shows strong potential to revolutionize treatment of MM and other hemato-oncology indications, whether as a mono therapy or in combination with other therapies.

ICP-B05 (CM369)

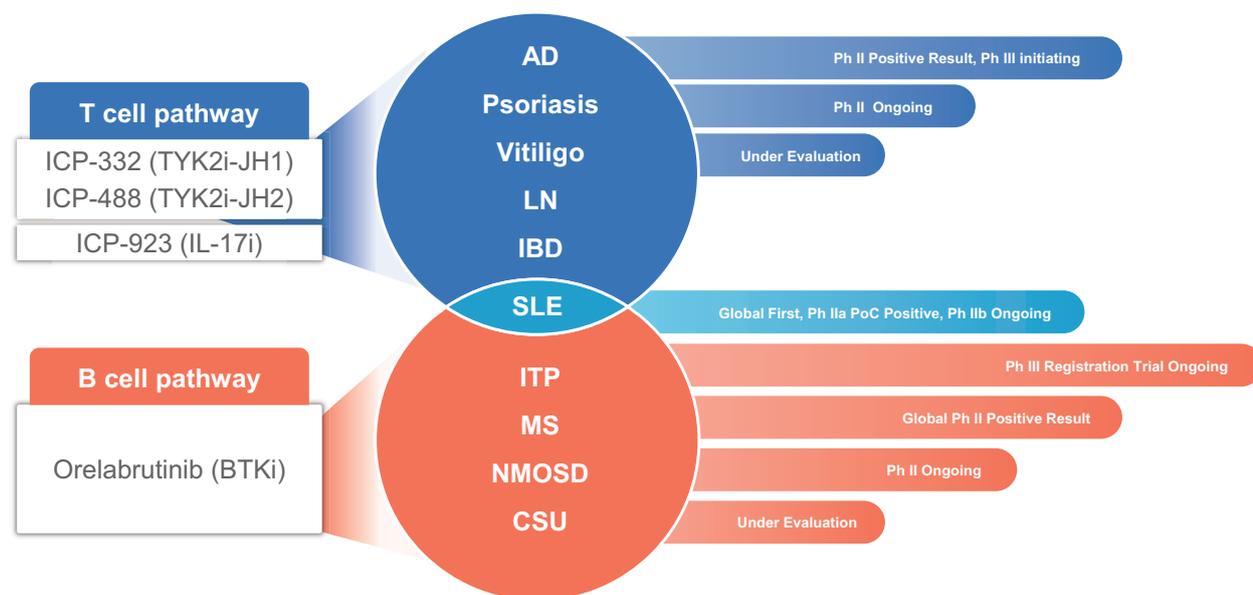
ICP-B05, an anti-C-C motif chemokine receptor 8 (“**CCR8**”) monoclonal antibody, is a potential first-in-class drug co-developed by our Company and KeyMed as a monotherapy or in combination for the treatment of various cancers. CCR8 has been shown to be selectively overexpressed on immunosuppressive regulatory T cells (“**Tregs**”) in the tumor microenvironment (“**TME**”). ICP-B05 binds to CCR8 positive Tregs and eradicates immunosuppressive Tregs through ADCC to augment the anti-tumor immunity in TME while preserving peripheral homeostasis. ICP-B05 stands as a potentially groundbreaking therapy in our arsenal against solid tumors, offering a targeted approach to deplete regulatory T cells (Tregs) within the tumor microenvironment. This specificity in targeting Tregs promises to deliver more precise anti-tumor activity compared to other available immunotherapies. Its unique mechanism not only enhances our capabilities in solid tumor management but also synergizes with our existing treatment pipelines, reinforcing our position in the field of oncology. By focusing on the optimal depletion of tumor-associated Tregs, ICP-B05 could significantly improve therapeutic outcomes and mark a significant step forward in precision immunotherapy.

Currently, we are conducting a Phase I trial to evaluate the safety, tolerability, pharmacokinetic characteristics, and efficacy of ICP-B05 in subjects with advanced solid tumors and relapsed/refractory NHL. For solid tumors, the dosage of ICP-B05 has been escalated up to 150mg, which is also the initial dose designed for NHL. ICP-B05 was well tolerated with no DLTs nor \geq grade3 treatment-related AEs (TRAEs) observed. The preliminary results demonstrated a favorable PK profile with sufficient exposure for target coverage and regulatory T-cell depletion. For NHL, the preliminary efficacy was observed in patient, who achieved a PR at the first tumor assessment. We will explore the combination of ICP-B05 with other immunotherapies in various cancer indications after collecting the monotherapy safety data.

MANAGEMENT DISCUSSION AND ANALYSIS

Developing B-cell and T-cell Pathways in Autoimmune Diseases

We have fortified our powerful discovery engine to focus on global frontier targets for the development of autoimmune therapeutics. By targeting both B-cell and T-cell pathways, our aim is to provide first-in-class or best-in-class treatments that meet vast unmet clinical needs with a promising market potential worldwide and/or in China markets.



AD: Atopic Dermatitis
LN: Lupus Nephritis
IBD: inflammatory bowel disease

SLE: Systemic Lupus Erythematosus
ITP: Idiopathic Thrombocytopenic Purpura
MS: Multiple Sclerosis

NMOSD: Neuromyelitis Optica Spectrum Disorders
CSU: Chronic Spontaneous Urticaria

Leveraging orelabrutinib's favorable safety profile, high selectivity, and central nervous system ("CNS") penetrance, we have established B-cell pathway regulation capabilities, enabling us to actively pursue its application in treating various auto-immune diseases. Orelabrutinib achieved favorable PoC results in the treatment of ITP patients, particularly in those who had responded to previous glucocorticoids ("GC")/intravenous immunoglobulin ("IVIG") therapies. In the first half of 2023, we have initiated the registrational Phase III trial in China. Based on the positive results from the Phase IIa SLE clinical trial, we believe orelabrutinib could potentially become the first-in-class BTK inhibitor for the treatment of SLE and a Phase IIb trial has been initiated in China. Furthermore, we are progressing Phase II trials in other autoimmune indications, including NMOSD, with further potential indications such as chronic spontaneous urticaria ("CSU") and hidradenitis suppurativa ("HS").

Meanwhile, we are exploring the possibility of treating autoimmune diseases induced by T-cell dysfunctions with other potential candidates. We are developing ICP-332 and ICP-488, two TYK2 inhibitors for the treatment of various T-cell mediated autoimmune diseases, such as AD, psoriasis, SLE, lupus nephritis ("LN"), Crohn's disease ("CD"), and ulcerative colitis ("UC").

With orelabrutinib as a B-cell pathway regulator and ICP-332 and ICP-488 as T-cell pathway regulators in hand, we believe we are well positioned to provide oral drug solutions for the substantially unmet medical needs in autoimmune diseases.

MANAGEMENT DISCUSSION AND ANALYSIS

B Cell Pathway — Orelabrutinib for Autoimmune Diseases

BTK is a member of the TEC family and is expressed in B lymphocytes, mast cells, macrophages, monocytes, and neutrophils. It is a key kinase in the BCR signaling pathway, and regulates B cell proliferation, survival, differentiation, and cytokine expression. The abnormal activation of BTK related signaling pathways can mediate autoimmune diseases. BTK has become a new and popular therapeutic target for autoimmune diseases.

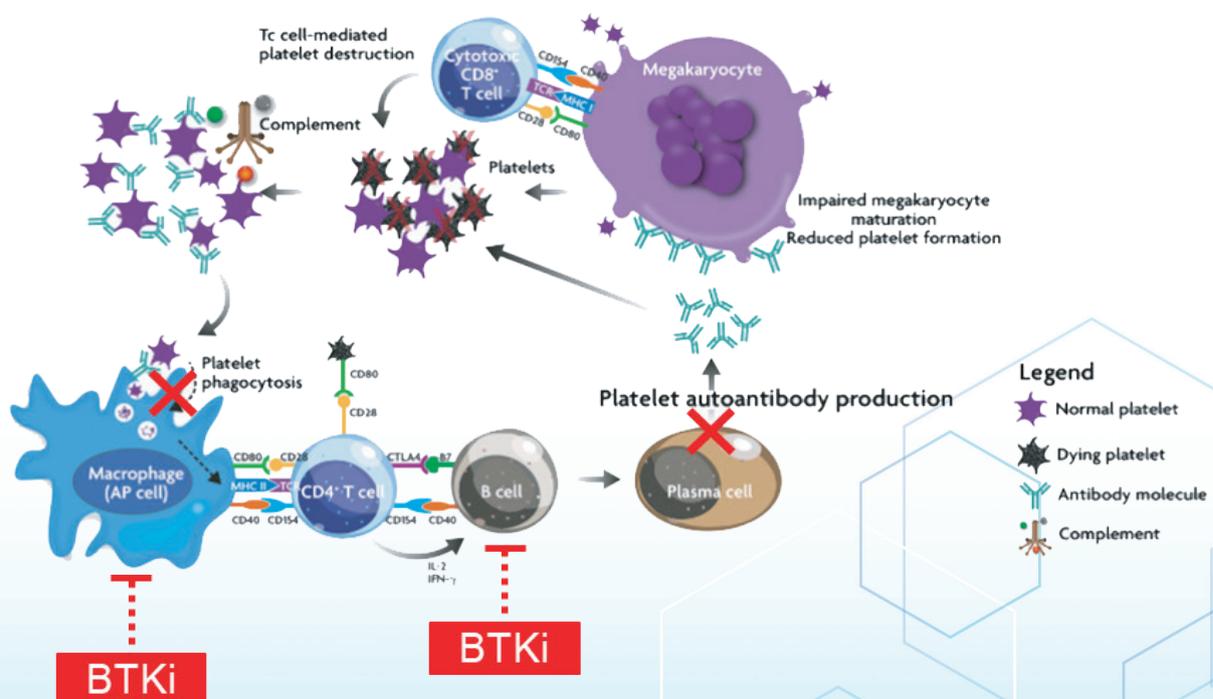
Because of orelabrutinib's high target selectivity and good safety profile, we are evaluating it as a novel therapy for the treatment of various autoimmune diseases.

Orelabrutinib for ITP

ITP, also referred to as immune thrombocytopenic purpura, is an acquired immune mediated disorder characterized by a decrease in peripheral blood platelet counts, resulting in an increased risk of bruising and bleeding. The main pathogenesis of ITP is the loss of immune tolerance to platelet auto-antigens. This immune intolerance leads to increased platelet destruction and decreased platelet production from megakaryocytes by autoantibodies and cytotoxic T lymphocytes.

ITP, which has a U.S. prevalence of 23.6 cases out of 100,000 and a China prevalence of 9.5 cases out of 100,000, represents hundreds of thousands of patients globally. Current therapies, including corticosteroids, thrombopoietin receptor agonists, anti-CD20 monoclonal antibodies, and spleen tyrosine kinase inhibitors lack long-term tolerability or durable sustained responses. New safe and effective treatment options are needed for patients who have inadequate responses to previous treatment lines.

BTK is a key kinase in the B cell receptor signaling pathway, which is essential for the activation of B lymphocytes, macrophages, and other immune cells as well as the production of antibodies in the pathological process of ITP. No BTK inhibitor has yet been approved for the treatment of patients with ITP globally. Orelabrutinib, with its high target selectivity and good safety profile, has the potential to become a novel treatment option for ITP patients.



MANAGEMENT DISCUSSION AND ANALYSIS

Current Status

In the first half of 2023, the Phase II clinical trial of orelabrutinib for the treatment of ITP was completed in mainland China. This is a randomized, multicenter, open-label Phase II study to evaluate the efficacy and safety of orelabrutinib in adult patients with persistent or chronic primary ITP and provide a basis for a Phase III study design and dose selection. The primary endpoint was the proportion of subjects with platelet count $\geq 50 \times 10^9/L$ (platelet count should be detected at least twice consecutively, with an interval of at least 7 days) without rescue medication in the 4 weeks preceding the count elevation. As of the cut-off date on 6 February 2023, 33 patients were enrolled. Both the 50mg QD and 30mg QD doses of orelabrutinib were safe in the treatment of patients with ITP. Generally, patients receiving the 50mg QD dose responded rapidly with better efficacy, especially in those who had responded to previous glucocorticoids (“GC”)/intravenous immunoglobulin (“IVIG”) therapies. Overall, 36.4% (12/33) of patients met the primary endpoint, with 40% (6/15) of patients at the 50mg cohort reaching the primary endpoint. Among the 12 patients with primary endpoint response, 83.3% (10/12) of the patients achieved a durable response defined as the percentage of patients with platelet count $\geq 50 \times 10^9/L$ for at least 4 of the 6 visits between weeks 14 and 24. Among the 22 patients who previously responded to GC or IVIG, 75.0% (6/8) of patients at the 50mg arm achieved the primary endpoint. Orelabrutinib demonstrated a favorable safety profile in the treatment of ITP, with all treatment related adverse events (“TRAEs”) being of grade 1 or 2.

On 12 June 2023, the proof of concept of the ITP Phase II result was selected as an oral presentation at the European Hematology Association (“EHA”) 2023 Hybrid Congress.

Since we have achieved PoC of orelabrutinib for the treatment of ITP, we are currently conducting a registrational trial in China with the first patient enrolled in October 2023. Patient enrollment is expected to be completed by end of 2024 or at beginning of 2025.

The favorable Phase II results demonstrated a proof of concept of orelabrutinib in ITP and provided us with the confidence to move the project forward. By leveraging the BTK inhibitor’s advantage in ITP of decreased macrophage-mediated platelet destruction and reduced production of pathogenic autoantibodies, we positioned orelabrutinib as a preferred BTK inhibitor to obtain approval for the treatment of this idiopathic disease.

Orelabrutinib for SLE

Orelabrutinib inhibits the BCR signaling cascade by binding to BTK, hence preventing the proliferation and activation of B cells in autoimmune diseases. Pre-clinical data demonstrated that orelabrutinib has dose dependent effects on the improvement of kidney function, the inhibition of arthritis, and the reduction of inflammation in SLE mouse models.

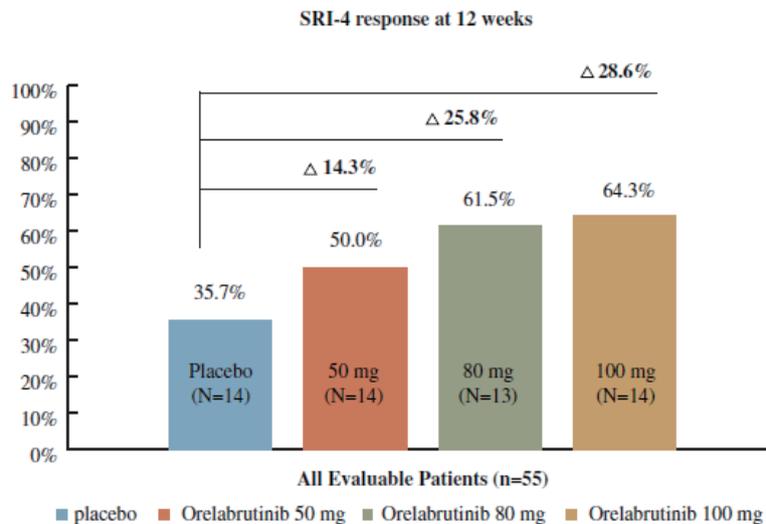
The root causes of SLE include family history, hormones, unhealthy lifestyles, certain environmental factors, drugs, and infections. The number of SLE patients in China is estimated to reach 1.06 million by 2025 with a compound annual growth rate of 0.7% from 2020 to 2025, and approximately to 1.09 million by 2030 with a compound annual growth rate of 0.5% from 2025 to 2030.

MANAGEMENT DISCUSSION AND ANALYSIS

Current Status

In China, orelabrutinib's Phase IIa trial for SLE showed positive results. This is a randomized, double-blind, placebo-controlled, dose-finding study aimed to evaluate the safety and tolerability of orelabrutinib in patients with mild to moderate SLE. The patients receiving standard therapy were randomized at a ratio of 1:1:1:1 to receive oral orelabrutinib at 50mg QD, 80mg QD, 100mg QD or placebo once daily, for 12 consecutive weeks.

The Phase IIa results showed that orelabrutinib was safe and well tolerated at all doses. A dose dependent efficacy was observed in evaluable patients treated with orelabrutinib. The SRI-4 response rates at 12-week were 35.7%, 50.0%, 61.5% and 64.3% in patients treated with placebo, 50mg/day, 80mg/day and 100mg/day of orelabrutinib, respectively. Treatment with orelabrutinib led to a reduction in levels of proteinuria, and improvement of immunologic markers, including reduced immunoglobulin G and increased complements C3 and C4. The result of this Phase IIa study was presented through a late-breaking oral presentation at 2022 European Alliance of Associations for Rheumatology ("EULAR").



Based on the Phase IIa results, we have initiated a Phase IIb study, and patients are currently being recruited across 40 sites in China. This is a randomized, double-blind, placebo-controlled, multicenter, Phase IIb study evaluating the efficacy and safety of orelabrutinib in adult patients with moderate to severe SLE. The primary purpose of the trial is to evaluate the efficacy of orelabrutinib in SLE subjects, with a secondary objective of evaluating the safety, tolerability, and impact on the quality of life of subjects with moderate to severe SLE. The patients receiving standard therapy were randomized at a ratio of 1:1:1 to receive oral orelabrutinib at 50mg, 75mg, or placebo once daily, for 48 consecutive weeks. The primary endpoint is the SRI-4 response rate with other secondary points including time to first flare, steroid dose reduction, proteinuria, change in the number of swollen and tender joints, changing from baseline in complement C3, complement C4, and anti-dsNDA antibody levels, etc. An interim data analysis for 48 weeks with 50% of the patients is scheduled, and the results will be discussed with CDE for the next steps.

Based on the Phase IIa data, orelabrutinib has the potential to become the first BTK inhibitor that controls the disease activity in SLE patients, and its oral administration should have obvious advantages over commonly used injectable SLE drugs.

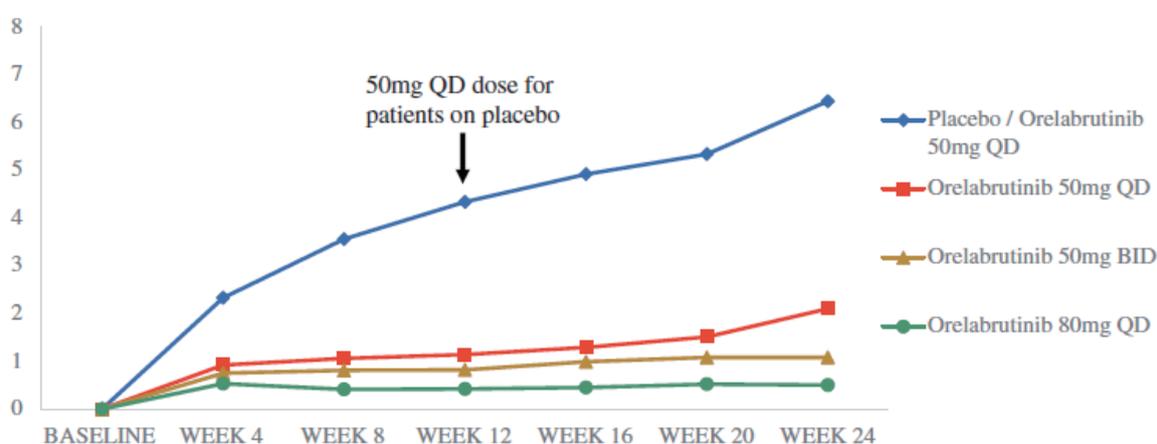
MANAGEMENT DISCUSSION AND ANALYSIS

Orelabrutinib for MS

We have completed the global Phase II clinical study to evaluate the use of orelabrutinib in patients with relapsing-remitting multiple sclerosis (“RRMS”).

The 24-week data from the MS global Phase II trial is consistent with previous reported positive 12-week data in terms of both efficacy and safety. The primary endpoint was achieved dose — dependently (C_{max} driven) in all three active orelabrutinib treatment groups. All orelabrutinib groups achieved T1 new lesion control after 4 weeks of treatment and the effect was sustained up to 24 weeks. 92.3% relative reduction was achieved in cumulative number of new Gd + T1 lesions at week 24 at 80mg QD compared to the placebo arm (the placebo arm switched to orelabrutinib 50mg QD after Week 12), which stands out as a leading efficacy when compared to other MS therapies approved or in development stages.

Adjusted Mean Cumulative Number of New Gd+ T1 Brain Lesions Up to Week 24 (PHS Population, N=115)



Note: QD=once daily, BID=twice daily, CI=confidence interval, Gd+=gadolinium-enhancing.

Cumulative number of New Gd+ T1 Lesion from Week 4 to Week 24	Placebo / Orelabrutinib 50mg QD (N=27)	Orelabrutinib 50mg QD (N=30)	Orelabrutinib 50mg BID (N=29)	Orelabrutinib 80mg QD (N=29)
Adjusted mean cumulative number (95% CI) of lesions from W4 to W24	6.45 (3.62, 11.52)	2.10 (0.62, 7.11)	1.08 (0.30, 3.81)	0.50 (0.09, 2.74)
Percent reduction		67.4 (-22.0, 91.3)	83.3 (33.2, 95.8)	92.3 (56.5, 98.6)
P-value		0.0958	0.0114	0.0037

MANAGEMENT DISCUSSION AND ANALYSIS

The 80mg QD cohort showed the highest reduction rate of cumulative number of new lesions (Gd+T1 lesions) and the best for lesion control throughout 24 weeks with lowest incidence of liver-related TEAEs, indicating its potential as an MS treatment therapy with leading efficacy. A total of two cases of ALT/AST >8xULN were reported, including one in the 50mg BID group and another in the 50mg QD group. The safety profile of 80mg QD is similar to that of placebo. We are actively working with the FDA to lift the partial clinical hold.

On 15 February 2023, Biogen terminated the collaboration and license agreement with us on orelabrutinib's global development, returning all global rights, including intellectual property, research, manufacturing, and commercial proceeds. Following the termination, InnoCare has regained all global rights granted to Biogen under the Agreement, including related intellectual property, decision-making regarding research and development, manufacturing, and commercialization, and commercial proceeds generated from orelabrutinib. We have completed the transition in May.

For details, see our announcement dated 15 February 2023 published on the websites of the Stock Exchange and the Company.

In conclusion, with the ability to cross the blood brain barrier, orelabrutinib has the potential to inhibit B cell and myeloid cell effector functions in the CNS, and may provide a clinically meaningful benefit in all forms of MS especially in SPMS and PPMS. The Phase II MS global OLE part of the study is ongoing. Given the encouraging clinical outcomes from multiple autoimmune trials, we remain confident and committed to accelerating the global development of orelabrutinib as a potential best-in-class BTK inhibitor for MS and other autoimmune diseases.

Orelabrutinib for NMOSD

NMOSD is a chronic inflammatory demyelinating autoimmune disease of the central nervous system mainly involving the optic nerve and spinal cord, which are mediated by antigen-antibodies related to humoral immunity. Clinically, it is characterized by attacks of predominantly optic neuritis and longitudinally extensive transverse myelitis. One of the latest Chinese epidemiological study based on inpatients shows that the peak incidence of the disease is 45–65 years old, the incidence rate is 0.445/100,000 people per year, and the ratio of female to male is 4.71:1.

BTK is a key kinase in B cell receptor signal transduction pathway, which is responsible for regulating B cell proliferation, differentiation, maturation and cytokine expression. Abnormal activation of BTK related signaling pathway can lead to autoantibody production and autoimmune diseases. Thus, BTK inhibitors, especially a brain penetrant BTK inhibitor such as orelabrutinib hold high potential to become a novel therapy for NMOSD.

Current Status

As of the date of this report, one investigator initiated trial (“**IIT**”) Phase II trial is ongoing, and we plan to initiate InnoCare sponsored trial when we obtain the primary results.

T Cell Pathway — TYK2 for Autoimmune Diseases

ICP-332

ICP-332 is a small molecule inhibitor of TYK2 that is being developed for the treatment of various autoimmune disorders. TYK2 is a member of the JAK family and plays a critical role in transducing signals downstream of IL-12/IL-23 family interleukin receptors as well as type I interferon (“**IFN**”) receptor. These cytokine/receptor pathways drive the functions of T helper 17 (“**TH17**”), TH1, B and myeloid cells which are critical in the pathobiology of multiple autoimmune and chronic inflammatory diseases including psoriasis, psoriatic arthritis, inflammatory bowel disease, lupus, AD, etc. ICP-332 was designed to be a potent and selective TYK2 inhibitor with 400 folds of selectivity against JAK2 to avoid the adverse events associated with nonselective JAK inhibitors. Thus, by selective inhibition of TYK2, ICP-332 may become a potential therapy for multiple autoimmune diseases, such as atopic dermatitis, psoriasis, psoriatic arthritis, systemic lupus erythematosus, IBD, dermatomyositis and uveitis, with a better safety profile.

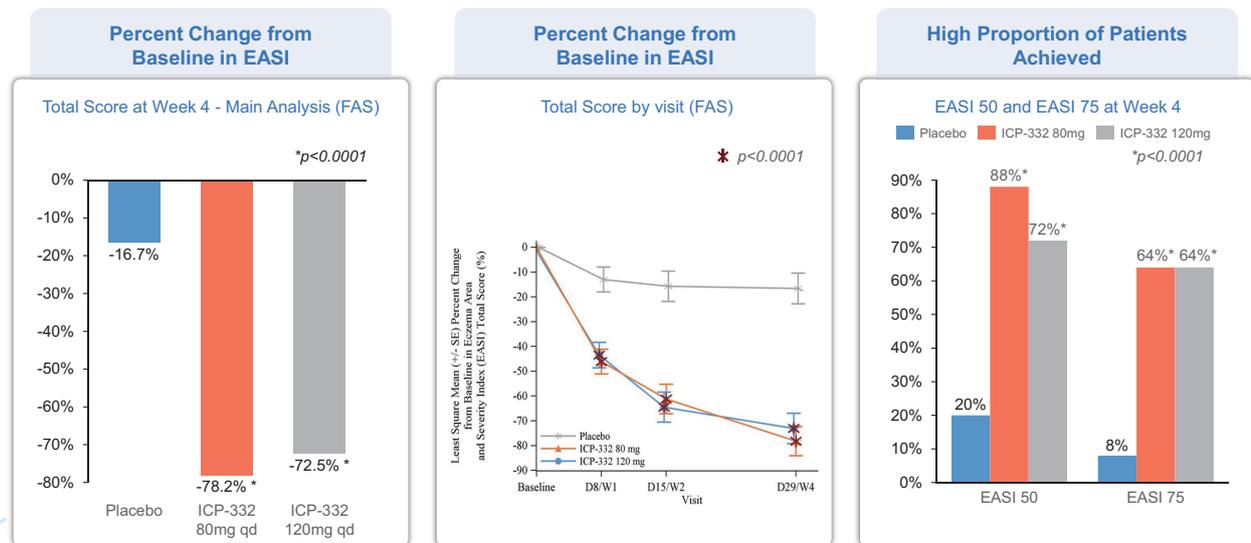
MANAGEMENT DISCUSSION AND ANALYSIS

Atopic dermatitis is one of the most common skin eczemas and causes itching, redness and inflammation. According to Pharma Intelligence, atopic dermatitis has become a major autoimmune disease, with a 12-month prevalence rate ranging from 0.96–22.6% in children and 1.2–17.1% in adults, indicating a global market potential of US\$10 billion in 2030. In China, according to Frost & Sullivan Analysis, AD patients numbered 65.7 million in 2019, and is estimated to reach 81.7 million people by 2030, reflecting a compound annual growth rate of 1.7%. For moderate and severe patients, AD could seriously impact life quality due to recurring itching, which is associated with sleep disturbances in 33% to 90% of adult patients per *J Allergy Clin Immunol Pract.* 2021 Apr; 9(4): 1488–1500. Thus, reducing itching was an urgent need for most patients with moderate to severe AD disease. With the tremendous potential to address the massive unmet medical needs of millions of patients indicated above, we anticipate ICP-332 will become a cornerstone product of our autoimmune franchise.

Current Status

We have announced the positive Phase II POC data in December 2023. The Phase II study is a randomized, double-blind, placebo-controlled trial evaluating the safety, efficacy, pharmacokinetics, and pharmacodynamics of ICP-332 in moderate-to-severe atopic dermatitis. A total of 75 adult subjects with moderate to severe AD were enrolled with 25 subjects in the 80mg QD treatment group, 120mg QD treatment group and placebo group, respectively. Patients received four weeks of treatment with a 28 day safety follow-up.

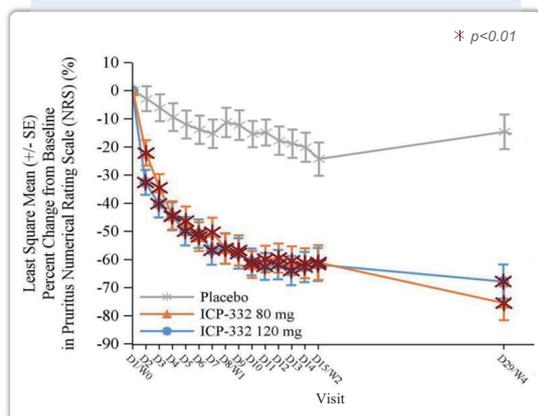
Patients with AD treated with ICP-332 for 4 weeks showed excellent efficacy and safety profiles. ICP-332 achieved multiple efficacy endpoints, including percentage reductions from baseline in Eczema Area and Severity Index (“EASI”) score, EASI 50, EASI 75, EASI 90 (improvement of at least 50%, 75%, and 90% in EASI score from baseline) and Investigator’s Global Assessment (IGA) 0/1 (score of 0 clear or 1 almost clear) in the 80mg and/or 120mg group respectively.



MANAGEMENT DISCUSSION AND ANALYSIS

Quick and Statistically Significant Response from Day 2

Pruritus Numerical Rating Scale (NRS)



Improvement of Patient Quality of Life

Dermatology Life Quality Index (DLQI) Score Change from Baseline by Visits (Full Analysis Set)

	Placebo (N=25)	ICP-332 80mg (N=25)	ICP-332 120mg (N=25)
D8/W1	-3.3(-4.8,-1.9)	-6.5(-8.0,-5.1)	-6.8(-8.4,-5.3)
	p-value	0.0027	0.0018
D15/W2	-2.2(-4.2,-0.2)	-8.7(-10.7,-6.7)	-7.9(-9.9,-5.9)
	p-value	<0.0001	0.0002
D29/W4	-1.2(-3.3,0.9)	-10.8(-12.8,-8.8)	-8.9(-11.0,-6.8)
	p-value	<0.0001	<0.0001

The mean percentage change from baseline in the EASI score reached 78.2% and 72.5% for the once-daily dosing groups of 80mg and 120mg, respectively, both with a highly statistically significance ($p < 0.0001$), compared to 16.7% for patients receiving placebo. EASI 75 reached 64% and 64% in the 80mg and 120mg dosing group respectively, compared to 8% percent for patients receiving placebo ($p < 0.0001$). In the 80mg QD treatment group, the difference from placebo reached 56% in EASI 75, 40% in EASI 90, 32% in (IGA) 0/1 and 56% in NRS ≥ 4 Improvement ($p < 0.01$).

In addition, significant improvement was observed with respect to pruritus (itch). Patients treated with ICP-332 experienced quick response in improving pruritus numerical rating from day 2 onwards both in severity and frequency across the 80/120mg ICP-332 doses, as measured by the pruritus numerical rating scale (NRS) ($p < 0.01$).

ICP-332 was safe and well tolerated in AD patients. In this study, all treatment-related adverse events (TRAEs) were mild or moderate. The overall incidence rates of TRAEs and TRAEs related to infections and infestations in the two treatment groups were comparable to the placebo group.

The result of this Phase II study was presented through a late-breaking oral presentation at 2024 American Academy of Dermatology ("AAD").

Positive results from the Phase II study of ICP-332 provides great possibilities for the effective treatment of AD and/or other autoimmune diseases with the potential best efficacy for AD. We will continue to evaluate the potential of ICP-332 in Phase III trials for atopic dermatitis and across multiple immune-mediated diseases. We expect to start the patient enrollment and the initiation of the Phase III trial for AD in China, initiate second indication in China and clinical trial in US in 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

ICP-488

ICP-488 is a small molecule inhibitor of the pseudo kinase domain JH2 of TYK2. JH2 has an important regulatory role in TYK2 kinase catalytic activity, and mutations in JH2 have been shown to be the cause of or be linked with impaired TYK2 activity. ICP-488 is a potent and selective TYK2 allosteric inhibitor that, by binding to the TYK2 JH2 domain, blocks IL-23, IL-12, type 1 IFN and other autoimmune cytokine receptors. We intend to develop ICP-488 for the treatment of autoimmune diseases such as psoriasis, psoriatic arthritis, SLE, LN, and IBD, etc. Together with ICP-332, ICP-488 will further enrich our TYK2 portfolio.

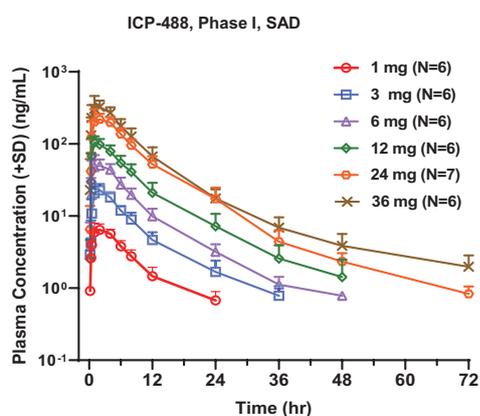
Psoriasis is an immune-mediated disease that causes raised, scaly patches on the skin due to systemic inflammation. The typical clinical manifestations are scaly plaques, localized or widely distributed and difficult to treat. The cause of psoriasis involves multiple factors such as genetics, immunity, and the environment. The immune response is mainly mediated by T lymphocytes and participated by a variety of immune cells. The immune pathways related to interleukin 23 (IL-23) and helper T cells 17 (Th17) cells serve as the key regulator of psoriasis. According to World Psoriasis Day consortium, over 125 million people worldwide had psoriasis in 2022 with 2%-3% of total population.

As of the date of this report, we have finished the Phase I trial of ICP-488 in healthy subjects and patients with psoriasis. This study is a randomized, double-blind, placebo-controlled, parallel group, single and multiple ascending dose Phase I study to evaluate the safety, tolerability, pharmacokinetics and pharmacodynamics of ICP-488 in healthy subjects and patients with moderate to severe psoriasis.

The study consisted of single (1–36mg) and multiple (3–12mg once-daily) ascending dose regimens. The study also assessed the effect of food on ICP-488 exposure. Safety and PK were evaluated for both healthy participants and psoriasis patients, while efficacy was assessed in psoriasis patients.

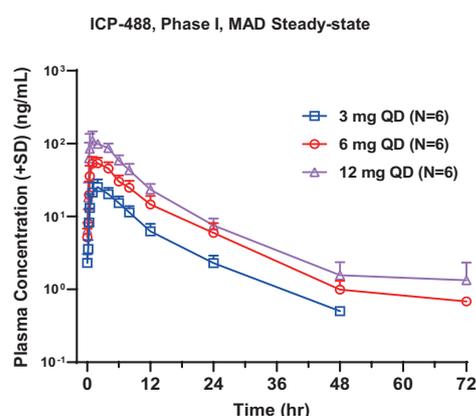
Dose Proportional and Linear PK in SAD

- Linear pharmacokinetics in SAD
- The mean half-life: 7.2-11.2 hrs



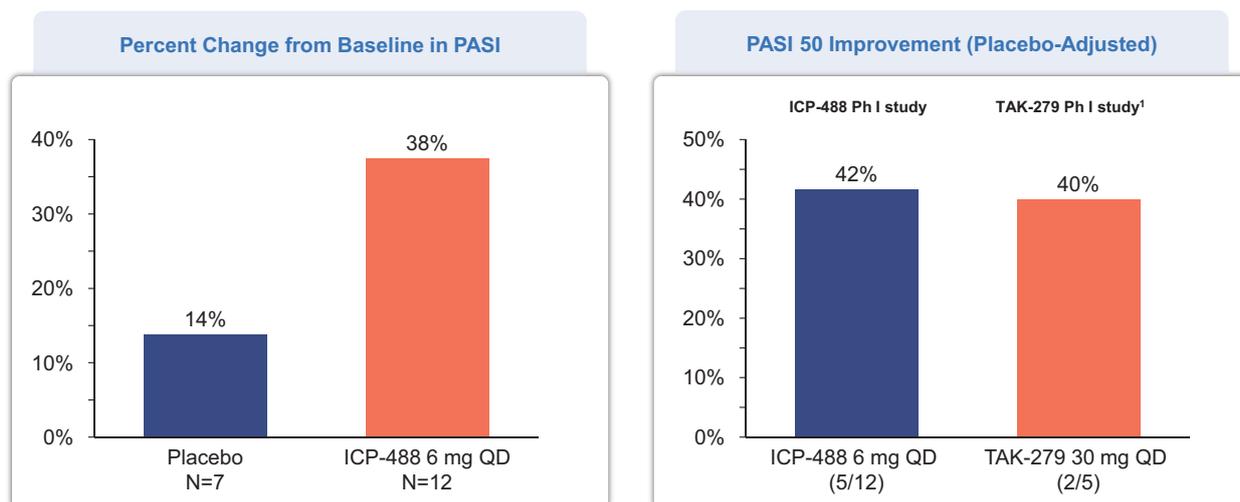
Dose Proportional and Linear PK in MAD

- C_{av} at 6 mg QD reached the IC_{50} of TYK2-mediated signaling inhibition



MANAGEMENT DISCUSSION AND ANALYSIS

Following a single dose of ICP-488 administration (1–36 mg), ICP-488 plasma exposures were approximately dose-proportional. There was no apparent accumulation of ICP-488 observed (<1.5-fold) in MAD part (3–12 mg once-daily). No clinically significant differences in the pharmacokinetics of ICP-488 was observed following co-administration with standard high-fat, high-calorie meals.



p=0.0870 which was less than two-sided alpha of 0.1
PASI: Psoriasis Area and Severity Index
¹ Nimbus 2022-05-19 SDI NDI-034958 Phase Ib Results Poster.pdf

The least-squares means percentage change from baseline in the Psoriasis Area and Severity Index (“**PASI**”) score, a measure of the area and severity of psoriasis, indicated a significant preliminary difference between the ICP-488 6mg once-daily dosing group and the placebo group at week 4 (37.5% vs 13.8%, p=0.0870 which was less than two-sided alpha of 0.1). PASI 50 assessments demonstrated a 42% improvement with treatment of ICP-488 at 6mg QD compared with placebo (0%). All TEAEs and TRAEs were mild or moderate with same incidence rate between the ICP-488 arm and placebo arm.

The PK, safety, and efficacy profiles of ICP-488 supported advancing it to Phase II clinical trials in psoriasis patients.

The Phase II study of ICP-488 in psoriasis is ongoing, we aim to finish patient enrollment and have the topline results by the end of 2024.

MANAGEMENT DISCUSSION AND ANALYSIS

BUILDING A COMPETITIVE DRUG PORTFOLIO FOR SOLID TUMOR TREATMENT

We strive to expand the breadth of our pipeline to cover solid tumor disease areas through a combination of targeted therapy and immune-oncology approaches. The lack of label information in drugs for children, inadequacy of age-appropriate dosage forms and strengths, and shortage of pediatric drugs are some of the problems commonly faced in pediatric medicine. We believe the potential best-in-class molecule, ICP-723, will enable us to establish a strong presence in the field of solid tumor treatment.

To benefit more patients, we have accelerated the global clinical study to evaluate the anti-tumor activity and safety of ICP-189 in combination with furmonertinib in patients with advanced non-small cell lung cancer (“**NSCLC**”) through a clinical collaboration. Furthermore, our rapidly advancing early-stage pipeline, featuring cornerstone therapies like ICP-B05 and ICP-033 for immune-oncology and targeting tumor driver genes, has enabled us to offer a competitive treatment solution for a wide range of solid tumors, catering to patients in both China and around the world.

ICP-723 (Zurletrectinib)

ICP-723 is a second-generation small molecule pan-inhibitor of tropomyosin-related kinase (“**pan-TRK inhibitor**”) designed to treat patients with NTRK gene fusion-positive cancers who were TRK inhibitor treatment-naive or who have developed resistance to the first generation TRK inhibitors, regardless of cancer types. First generation pan-TRK inhibitors have shown rapid and durable responses in patients with TRK gene fusions, however, patients can develop acquired resistance. Preclinical data showed that ICP-723 markedly inhibited the activity of the wild type TRKA/B/C as well as mutant TRKA with resistant mutation G595R or G667C. This finding provides strong evidence that ICP-723 could overcome acquired resistance to the first generation TRK inhibitors.

Mechanism of Action

The TRK family consists of three proteins referred to as TRKA, TRKB and TRKC, respectively, which are encoded by neurotrophic receptor tyrosine kinase genes NTRK1, NTRK2 and NTRK3, respectively. TRKs play an important role in maintaining normal nervous system function. Unwanted joining of separated NTRK genes, or NTRK gene fusions, have been found to contribute to tumorigenesis in a variety of different cancers, with high prevalence in infantile fibrosarcoma, salivary gland carcinomas and thyroid carcinoma. NTRK fusions have also been detected at lower frequencies, in soft-tissue sarcomas, thyroid cancer, mammary analogue secretory carcinoma of salivary glands, lung cancer, colorectal cancer, melanoma, breast cancer, etc.

Current Status

We are currently conducting a registrational trial in mainland China of ICP-723 in adult and adolescent patients (12 years old \leq age $<$ 18 years old) with advanced solid tumor harboring NTRK gene fusion. Furthermore, the IND for additional pediatric population (2–12 years old) was approved by the CDE in July 2023.

A Phase II registrational trial has been initiated in mainland China for ICP-723 in adult and adolescent patients (12+ years of age) with advanced solid tumors harboring NTRK gene fusion. We expect to complete the patient enrollment in the next few months and submit the NDA in mainland China by the end of 2024 or early 2025. Thus far, we have observed an efficacy of 80%–90%. Zurletrectinib was shown to overcome acquired resistance to 1st generation TRK inhibitors, bringing hope to patients who failed prior TRKi therapy. Furthermore, the IND for the pediatric population (2 years old \leq age $<$ 12 years old) was approved by CDE in July 2023, and pediatric patients enrollment is ongoing with 1 PR observed.

ICP-189

ICP-189 is a potent oral allosteric inhibitor of SHP2 with reliable selectivity over other phosphatases. It is being developed for the treatment of solid tumors as a potential cornerstone therapy in combinations with other antitumor agents. SHP2 is a key upstream regulator of the RAS-MAPK pathway and thus plays an essential role in the signaling by multiple oncogenic driver kinases, as well as a key signal transducer of PD-1 signaling, making SHP2 inhibitors an ideal partner for combination with multiple targeted and immune-oncology therapies.

In preclinical efficacy studies, ICP-189 demonstrated significant anti-tumor effects in various xenograft models as monotherapy. In preclinical studies, ICP-189 has also shown promising activity in combination with a range of targeted therapies and immunotherapies, including inhibitors of Epidermal Growth Factor Receptor (“**EGFR**”), KRAS, MEK and PD-1. The in vivo efficacy of ICP-189 was confirmed by pharmacodynamic modulations, where ICP-189 exposure levels correlated with reduced p-ERK and DUSP6 mRNA levels in tumors.

We are conducting a Phase Ia dose escalation study to evaluate the safety, tolerability, pharmacokinetics, and preliminary anti-tumor activity of ICP-189 in patients with advanced solid tumors in China. As of the date of this report, we completed the dose escalation up to the 120mg QD cohort with no DLT nor \geq grade3 treatment-related AEs (TRAEs) observed. The patient enrollment at the 160mg QD dose is ongoing. ICP-189 demonstrated dose proportional pharmacokinetics and long half-life. At the 120mg dose, ICP-189 achieved sufficient exposure to effectively target IC90 against DUSP6, a downstream biomarker of MAPK pathway. Preliminary efficacy was observed in ICP-189 monotherapy, 1 patient with cervical cancer in the 20mg dose cohort achieved PR which sustained for 14 cycles. We anticipate having the Phase Ia data readout in 2024.

Multiple ICP-189 combinations, including treatment with third-generation EGFR inhibitor in lung cancer and anti-PD-1 antibody in multiple cancer types, will be explored in the Phase Ib trial. On 14 July 2023, InnoCare and ArriVent Biopharma (“**ArriVent**”), a clinical stage company dedicated to accelerating the global development of innovative biopharmaceutical therapeutics, announced a clinical development collaboration to evaluate the combination of InnoCare’s novel SHP2 allosteric inhibitor, ICP-189, with ArriVent’s furmonertinib, a highly brain-penetrant, broadly active mutation-selective EGFR inhibitor in patients with advanced non-small cell lung cancer (“**NSCLC**”). Preclinical studies demonstrated that the combination of ICP-189 and furmonertinib could overcome the resistance to third-generation EGFR inhibitors.

As of the date of this report, the Phase Ib trial of ICP-189 combined with EGFRi is ongoing with first patient dosed in March 2024. The combination of furmonertinib with ICP-189 could be another potential treatment option to improve the lives of people living with advanced or metastatic lung cancer.

At the end of the first quarter of 2023, the IND approval of ICP-189 was granted by the FDA for initiating clinical trials in the U.S..

ICP-192 (Gunagratinib)

Gunagratinib is a potent and highly selective pan-fibroblast growth factor receptors (“**pan-FGFR**”) inhibitor that we are developing for the treatment of various types of solid tumors. Studies have shown that mutations and aberrant activation of FGFRs are implicated with the development of various cancers, including bile duct, breast, lung, head and neck, gastric and urothelial cancers, accounting for approximately 7.1% of solid tumors.

MANAGEMENT DISCUSSION AND ANALYSIS

Current Status

Gunagratinib is a novel pan-FGFR inhibitor that potently and selectively inhibits FGFR activities irreversibly by covalent binding. Preclinical data showed that gunagratinib overcomes the acquired resistance to the first generation reversible FGFR inhibitors, e.g., infigratinib.

In the middle of January 2023, we presented the ICP-192 data from an ongoing Phase IIa dose expansion study of gunagratinib in patients with cholangiocarcinoma (“CCA”). 18 CCA patients were enrolled, and 17 patients had at least one tumor assessment. The median follow-up was 5.57 months. The ORR was 52.9% (9 out of 17 patients) and the DCR was 94.1% (16 out of 17 patients). The median progression free survival (“mPFS”) was 6.93 months (95% CI, 5.42-not reached) (not mature at cutoff). No patient discontinued treatment due to TRAE and there was no treatment-related death. Thus, gunagratinib is safe and well-tolerated with high response rate (52.9%) compared to other approved FGFR inhibitors in previously treated patients with locally advanced or metastatic CCA harboring FGR2 gene fusions or rearrangements. We have started the Phase II registrational trial in mainland China in the first half of 2023.

ICP-033

ICP-033 is a multi-kinase inhibitor mainly targeting discoidin domain receptor 1 (“DDR1”) and vascular endothelial growth factor receptor (“VEGFR”) that inhibits angiogenesis and tumor cell invasion, normalizes abnormal blood vessels, and reverses the immunosuppressive state of the tumor microenvironment. Preclinical studies have shown that ICP-033 exhibits strong anti-tumor effects both in vivo and in vitro. ICP-033 is intended to be used alone or in combination with immunotherapies and other targeted drugs for liver cancer, renal cell carcinoma, colorectal cancer, and other solid tumors.

As of the date of this report, ICP-033 Phase I trial is ongoing in China.

Beside the above-mentioned three focused therapeutics areas, with a proven record in small molecule R&D, we are establishing our internal biological drug R&D capability through internal and external efforts. We are also actively considering other new drug modalities such as PROTAC, XDC, molecule glue, etc.

MANUFACTURING

Guangzhou Manufacturing Facility

Our 50,000 m² small molecule in-house Guangzhou manufacturing facility (“**Guangzhou Base**”) complies with GMP requirements of the U.S., Europe, Japan, and China, and have an annual production capacity of one billion pills. We have successfully obtained a manufacturing license for the facility. Upon receiving the approval from the China NMPA to begin the production of commercial supply of our self-developed BTK inhibitor orelabrutinib at the Guangzhou Base, we have begun manufacturing orelabrutinib at the Guangzhou small molecule production facility, which was released to the commercial market since August 2022.

Improving the solubility of poorly soluble drugs has become a focus and challenge in the research and development of innovative drug formulation. Our Guangzhou Base has built a technical platform to solve such problems, including the establishment of international advanced production lines of spray dried solid dispersion and solid dosage forms, and equipped with three major technology platforms, namely the solubilization preparation technology for poorly soluble drugs, the release preparation technology for oral solid dosage forms and the targeted drug delivery technology, thereby solving the common problems faced by the industry. Our solid dispersion technology is the core technology in the solubilization process, which can accelerate the solubility and dissolution rate of poorly soluble drugs, thus improving the bioavailability of drugs and better catering for the needs of the development and production of new drugs. In the first half of 2023, our Guangzhou Base was honored by the Guangzhou Government as the Guangdong Engineering Technology Research Center of Insoluble Drug Innovation Preparation (廣東省難溶性藥物創新製劑工程技術研究集中心) and Guangdong Specialized and Sophisticated SMEs (廣東省專精特新中小企業).

Additionally, we have successfully completed the second phase of construction, and the facility is now transitioning into the operational stage. The third phase of construction is planned to support the upcoming new product launches in 2025 and beyond. Both projects create an additional 30,000 m² of production area to support our growing drug pipeline and continued business expansion.

Beijing Manufacturing Facility

We established a large molecules CMC pilot facility which is poised to enter the operational phase for early clinical supplies in Changping, Beijing. Meanwhile, a 70,381 m² plot of land in Beijing, adjacent to our Company’s headquarter inside the Life Science Park, was selected to build a landmark R&D center and large molecule production facility.

OTHER CORPORATE DEVELOPMENTS

The Company satisfied the market capitalization/revenue test under Rule 8.05(3) of the Listing Rules. Thus, the HKEx has granted approval for the dis-application of Rules 18A.09 to 18A.11 of the Listing Rules (the “**Relevant Rules**”) to the Company. As a result of the dis-application of the Relevant Rules, the “B” marker has no longer been affixed to the Company’s English and Chinese stock short name from 12 May 2023.

For details, please see the announcement dated 9 May 2023 published on the websites of the Stock Exchange and the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS AFTER THE END OF THE REPORTING PERIOD

Subsequent to 31 December 2023, the following significant events took place:

From 12 January 2024 to 23 February 2024, the Company repurchased an aggregate of 2,198,000 shares on the Stock Exchange at the highest and lowest prices of HK\$6.00 and HK\$4.54 per share, respectively. The aggregate purchase price paid for the share repurchase was approximately HK\$11.3 million.

As at the date of this report, a total of 548,000 Shares repurchased in January 2024 have been cancelled on 7 February 2024 and a total of 1,650,000 Shares repurchased in February 2024 have not yet been cancelled.

FINANCIAL REVIEW

Revenue

	Year Ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Revenue from continuing operations				
Net sales of drugs	671,582	90.9	566,755	90.6
R&D service and IP transfer	66,955	9.1	58,649	9.4
Total Revenue	738,537	100.0	625,404	100.0

Total revenue increased by 18.1% from RMB625.4 million for the year ended 31 December 2022 to RMB738.5 million for the year ended 31 December 2023. Net sales of drugs increased by 18.5% from RMB566.8 million for the year ended 31 December 2022 to RMB671.6 million for the year ended 31 December 2023.

Gross Profit and Gross Profit Margin

	Year Ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Sales of drugs	581,114	95.2	471,170	97.8
R&D services and IP transfer	28,988	4.8	10,837	2.2
Gross Profit	610,102	100.0	482,007	100.0

Gross Profit increased by 26.6% to RMB610.1 million for the year ended 31 December 2023 from RMB482.0 million for the year ended 31 December 2022. Gross profit margin was 82.6% for the year ended 31 December 2023, representing an increase of 5.5% as compared with 77.1% for the year ended 31 December 2022. The gross profit margin improvement was primarily due to the increased sales volume of orelabrutinib and reduction in the unit cost of sales. The reduction of unit cost of sales is attributed to the more efficient manufacture process implemented at Guangzhou facility during the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Segmental Information

The Group is engaged in biopharmaceutical research and development, manufacturing, commercialization and services, which are 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.

Other Income and Gains

Other income and gains increased from RMB198.2 million for the year ended 31 December 2022 to RMB244.2 million for the year ended 31 December 2023, primarily attributable to an increase amounting to RMB55.4 million in the bank interest income to RMB192.3 million for the year ended 31 December 2023 from RMB136.9 million for the year ended 31 December 2022.

Research and Development Expenses

Research and development expenses increased by 17.5% to RMB751.2 million for the year ended 31 December 2023 from RMB639.1 million for the year ended 31 December 2022, primarily due to the spending increase for clinical trials with significant progress made in multiple pipelines and strategic investment in early stage candidates poised to become future assets.

	Year Ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Direct clinical trial and third-party contracting expense	291,712	38.8	196,826	30.8
Employee expense	255,436	34.0	223,095	34.9
Share-based compensation	29,045	3.9	58,164	9.1
Depreciation and amortization	59,997	8.0	43,083	6.7
Others	114,986	15.3	117,971	18.5
Research and development expenses	751,176	100.0	639,139	100.0

- (i) RMB94.9 million increase of direct clinical trial and third party contracting expense from RMB196.8 million to RMB291.7 million;
- (ii) RMB32.3 million increase of R&D employees expense from RMB223.1 million to RMB255.4 million;
- (iii) RMB29.2 million decrease of share-based compensation from RMB58.2 million to RMB29.0 million;
- (iv) RMB16.9 million increase of depreciation and amortization from RMB43.1 million to RMB60.0 million; and
- (v) RMB3.0 million decrease of other R&D expenses such as trial materials, consumables and energy, etc., from RMB118.0 million to RMB115.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses increased by RMB11.9 million from RMB181.6 million for the year ended 31 December 2022 to RMB193.5 million for the year ended 31 December 2023, primarily attributable to RMB10.8 million substitute payment to terminate the IP transfer agreement between InnoCare and BioDuro.

	Year Ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Employee expense	79,904	41.3	78,008	43.0
Share-based compensation	27,836	14.4	34,357	18.9
Professional fees	31,553	16.3	35,159	19.4
Depreciation and amortisation	16,737	8.6	11,297	6.2
Taxes and surcharges	9,704	5.0	6,895	3.8
Substitutes of interest distribution on terminating BTK agreement	10,766	5.6	—	—
Others	17,020	8.8	15,840	8.7
Administrative Expenses	193,520	100.0	181,556	100.0

Selling and Distribution Expenses

Selling and Distribution expenses decreased from RMB438.6 million for the year ended 31 December 2022 to RMB366.9 million for the year ended 31 December 2023, primarily due to less spending on market research, market promotion and education with improvement of operational efficiency.

	Year Ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Market research, market promotion and education	171,829	46.8	234,345	53.4
Employee expense	155,115	42.3	143,105	32.6
Share-based compensation	8,223	2.2	36,956	8.4
Others	31,724	8.7	24,205	5.6
Selling and Distribution Expenses	366,891	100.0	438,611	100.0

Other Expenses

Other expenses decreased from RMB291.2 million for the year ended 31 December 2022 to RMB92.7 million for the year ended 31 December 2023, the loss is mainly arised from the unrealized foreign exchange loss due to USD appreciation against RMB when exchanging the overseas company's RMB balance to its functional currency USD. The reduction of this loss in 2023 was driven by a lesser appreciation of the US dollar against the RMB.

MANAGEMENT DISCUSSION AND ANALYSIS

Fair value changes of convertible loan

Fair value changes of convertible loan with Guangzhou Kaide changed from a gain of RMB3.4 million for the year ended 31 December 2022 to a loss of RMB54.0 million for the year ended 31 December 2023.

Share of losses of joint ventures

Share of losses of joint ventures was RMB4.9 million for the year ended 31 December 2023 comparing to a loss of RMB9.7 million for the year ended 31 December 2022.

Finance Costs

Finance costs increased from RMB17.0 million for the year ended 31 December 2022 to RMB35.1 million for the year ended 31 December 2023, primarily attributable to the increasing discounted interests with more affected periods in 2023 of other current liability and long term payables compared with last year.

Analysis of Key Items of Financial Position

Net Current Assets

The following table sets forth our current assets and current liabilities as of the dates indicated:

	As of 31 December 2023 RMB'000	2022 RMB'000
CURRENT ASSETS		
Trade and bills receivables	307,638	127,825
Prepayments, other receivables and other assets	113,994	95,344
Inventories	119,095	65,322
Financial assets at fair value through profit or loss	—	313,290
Cash and bank balances	8,224,596	8,697,927
Total current assets	8,765,323	9,299,708
CURRENT LIABILITIES		
Interest-bearing bank borrowings	5,000	—
Trade payables	134,905	118,597
Contract liabilities	—	4,242
Other payables and accruals	667,717	727,552
Deferred income	12,008	7,757
Lease liabilities	23,233	20,112
Convertible loan	1,251,131	1,197,168
Total current liabilities	2,093,994	2,075,428
NET CURRENT ASSETS	6,671,329	7,224,280

MANAGEMENT DISCUSSION AND ANALYSIS

We had net current assets of RMB6,671.3 million as of 31 December 2023, which was primarily attributable to cash and bank balances of RMB8,224.6 million, trade and bills receivables of RMB307.6 million, prepayments, other receivables and other assets of RMB114.0 million and inventories of RMB119.1 million, which was partially offset by other payables and accruals of RMB667.7 million, trade payables of RMB134.9 million and convertible loan of RMB1,251.1 million.

Trade and bills receivables

Trade and bills receivables mainly consist of the receivables by selling drugs and other receivables from providing R&D services. 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:

	As of 31 December	
	2023	2022
	RMB'000	RMB'000
Within 3 months	248,942	127,822
3 months to 6 months	58,696	3
Trade and bills receivables	307,638	127,825

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally one to three months, and expanding up for some customers. The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. The Group's major customers are state-owned large-scale drug distributors located in the PRC with whom the Group has been cooperating since 2021. The Group considers that such practice is in line with the unique norm of the bio-pharmaceutical industry in the PRC where primary drug distributors are state-owned enterprises. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

Prepayments, other receivables and other assets

Prepayments, other receivables and other assets increased from RMB95.3 million as of 31 December 2022 to RMB114.0 million as of 31 December 2023, primarily due to (i) RMB5.4 million increase in prepayments from RMB33.6 million as of 31 December 2022 to RMB39.0 million as of 31 December 2023; and (ii) RMB17.5 million increase in interest receivable from RMB45.0 million as of 31 December 2022 to RMB62.5 million as of 31 December 2023.

	As of 31 December	
	2023	2022
	RMB'000	RMB'000
Prepayments	39,044	33,557
Interest receivable	62,540	44,987
Tax recoverable	10,390	12,147
Other receivables	2,020	4,653
Prepayments, other receivables and other assets	113,994	95,344

MANAGEMENT DISCUSSION AND ANALYSIS

Inventories

To prepare for the future sales growth, the inventories, which mainly include raw materials, consigned processing material and finished goods, increased from RMB65.3 million as of 31 December 2022 to RMB119.1 million as of 31 December 2023.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are wealth management products denominated in RMB, measured at fair value and whose changes are included in profit or loss, with Nil in current assets as of 31 December 2023, compared to RMB313.3 million in current assets as of 31 December 2022 because of redemption during the year.

Trade Payables

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

	As of 31 December 2023	2022
	RMB'000	RMB'000
Within 1 year	124,207	111,186
1 year to 2 years	10,432	7,335
2 years to 3 years	199	66
Over 3 years	67	10
Trade Payables	134,905	118,597

Other Payables and Accruals

Other payables and accruals decreased from RMB727.6 million as of 31 December 2022 to RMB667.7 million as of 31 December 2023, primarily due to (i) a decrease in payable for property, plant and equipment from 104.1 million as of 31 December 2022 to RMB58.2 million as of 31 December 2023; (ii) a decrease in individual income tax and other taxes from RMB32.6 million as of 31 December 2022 to RMB15.3 million as of 31 December 2023; (iii) a decrease in accruals from RMB51.4 million as of 31 December 2022 to RMB38.3 million as of 31 December 2023; and offset by (iv) an increase in other current liability from RMB459.5 million as of 31 December 2022 to RMB476.3 million as of 31 December 2023.

	As of 31 December 2023	2022
	RMB'000	RMB'000
Payable for property, plant and equipment	58,190	104,050
Payroll payables	52,999	57,014
Individual income tax and other taxes	15,253	32,580
Sales rebate	11,853	7,628
Accruals	38,336	51,391
Other current liability	476,336	459,517
Others	14,750	15,372
Other Payables and Accruals	667,717	727,552

MANAGEMENT DISCUSSION AND ANALYSIS

Indebtedness and finance lease

The following table sets forth the breakdown of our indebtedness as of the dates indicated:

	As of 31 December	
	2023	2022
	RMB'000	RMB'000
Included in current liabilities		
Interest-bearing bank borrowings	5,000	—
Lease liabilities	23,233	20,112
Other current liability	476,336	459,517
Convertible loan	1,251,131	1,197,168
Included in non-current liabilities		
Interest-bearing bank borrowings	26,300	—
Lease liabilities	43,647	35,439
Long term payables	305,577	287,761
Total indebtedness	2,131,224	1,999,997

Total indebtedness increased from RMB2,000.0 million as of 31 December 2022 to RMB2,131.2 million as of 31 December 2023, mainly due to the increase of other current liability, convertible loan, long term payables and interest-bearing bank borrowings.

Deferred income

Total deferred income, classified in current liabilities and non-current liabilities, decreased from RMB286.0 million as of 31 December 2022 to RMB280.9 million as of 31 December 2023, mainly due to government grants recognized in profit.

Property, Plant and Equipment

Property, plant and equipment increased from RMB653.2 million as of 31 December 2022 to RMB759.8 million as of 31 December 2023, which is mainly caused by increase of buildings, plant and machinery for both Beijing Tiancheng Pharma Tech Co., Ltd. and Guangzhou InnoCare Pharma Tech Co., Ltd.

Right-of-use Assets

Right of use assets increased from RMB284.1 million as of 31 December 2022 to RMB293.8 million as of 31 December 2023, which is mainly caused by the addition of right-of-use assets, partially offset by the normal amortization.

Other Intangible Assets

Other intangible assets decreased from RMB41.3 million as of 31 December 2022 to RMB39.0 million as of 31 December 2023 was mainly due to the amortization of the intangible assets.

Investments in Joint Ventures

Investments in joint ventures decreased from RMB11.7 million as of 31 December 2022 to RMB5.7 million as of 31 December 2023 mainly because the share of loss of the joint venture increased.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Non-Current Assets

Other non-current assets, which were mainly the prepayments for property, plant and equipment etc., increased from RMB28.0 million as of 31 December 2022 to RMB52.4 million as of 31 December 2023.

Key Financial Ratios

The following table sets forth our selected key financial ratio:

	As of 31 December 2023	2022
Current ratio	4.2	4.5

Current ratio equals current assets divided by current liabilities as of the end of the year.

The decrease in current ratio was primarily due to the decrease of cash and bank balances from RMB8,697.9 million to RMB8,224.6 million, the decrease of financial assets at fair value through profit or loss from RMB313.3 million to nil and the increase of convertible loan from RMB1,197.2 million to RMB1,251.1 million, partially offset by the increase of trade and bills receivables from RMB127.8 million to RMB307.6 million, the increase of inventories from RMB65.3 million to RMB119.1 million and the decrease of other payables and accruals from RMB727.6 million to RMB667.7 million.

LIQUIDITY AND FINANCIAL RESOURCES

We expect our liquidity requirements to be satisfied by a combination of cash generated from operating activities, bank and other borrowing facilities, other funds raised from the capital markets from time to time and the net proceeds from the IPO and the RMB Share Issue. We will continue to evaluate potential financing opportunities based on our need for capital resources and market conditions.

On 23 March 2020, 250,324,000 Shares of US\$0.000002 each were issued at a price of HK\$8.95 per Share in connection with the Company's Listing on the Hong Kong Stock Exchange. The proceeds of HK\$3,883 representing the par value of shares, were credited to the Company's share capital. The remaining proceeds of HK\$2,240.4 million (before deduction of the expenses relating to the Company's IPO) were credited to the share premium account. The translation from U.S. dollar to Hong Kong dollar is made at the exchange rate set forth in the H.10 weekly statistical release of the Federal Reserve System of the U.S. as of 23 March 2020.

On 15 April 2020, the international underwriters of the Global Offering exercised the overallotment option in full, pursuant to which the Company is required to allot and issue the option shares, being 37,548,000 Shares, representing approximately 15% of the maximum number of shares initially available under the Global Offering, at the offer price under the Global Offering. The net proceeds from the exercise of the over-allotment option were approximately HK\$322.59 million (after deducting the commissions and other offering expenses payable by the Company in relation to the exercise of the over-allotment option).

On 10 February 2021, pursuant to two subscription agreements entered between the Company and certain investors, a total of 210,508,000 Shares of the Company were subscribed at a subscription price of HK\$14.45 per subscription share. For further details, please refer to the announcements of the Company dated 3 February 2021 and 10 February 2021, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

On 21 September 2022, 264,648,217 RMB Shares of US\$0.000002 each were issued at a price of RMB11.03 per RMB Share and listed on the STAR Market. Net proceeds after deducting underwriting discounts and commission and offering expenses were RMB2,778.82 million. As required by the PRC securities laws, the net proceeds from the RMB Share Issue must be used in strict compliance with the planned uses as disclosed in the PRC prospectus as well as the Company's proceeds management policy for the RMB Share Issue approved by the board of directors.

As of 31 December 2023, cash and bank and wealth management product balances were RMB8,224.6 million, as compared to RMB9,011.2 million as of 31 December 2022. The decrease was mainly due to the operating activities. Our primary uses of cash are to fund research and development efforts of new drug candidates, sales promotion, working capital and other general corporate purposes. Our cash and cash equivalents are held in RMB, USD, AUD and HKD.

Save as disclosed in this report, during the Reporting Period and until the date of this report, the Company has not made any issue of equity securities for cash.

For more details relating to the Company's cash position, level of borrowings, and capital expenditure commitments, please refer to the Notes 23, 27, 29, 30 and 37 to the consolidated financial statements of the Group of this report.

ORDER BOOK

Due to its business nature, the Group has no order book at 31 December 2023.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Subscription of Wealth Management Products

Between 8 October 2021 and 29 December 2021, the Company, through its subsidiaries, subscribed for certain wealth management products issued by China Merchants Bank Co., Ltd. and administered by CMB Wealth Management Company Limited, for an aggregate principal amount of RMB715 million. The relevant wealth management products are non-principal guaranteed with floating return, and with moderately low risk. As of 31 December 2023, we have fully redeemed the principal amount of RMB715 million, accordingly, the aggregated outstanding principal amount of the Group's Wealth Management Products was Nil, and the subscriptions generated an investment income of RMB10.5 million during the Reporting Period.

Saved as disclosed above, as of 31 December 2023, we did not hold any significant investments of the Company. For the Reporting Period, we did not have any material acquisitions or disposals of subsidiaries, associates and joint ventures of the Company. We did not have any future plans for material investments and capital assets as of 31 December 2023.

GEARING RATIO

The gearing ratio (calculated as total debt (includes other current liability, loans and borrowings and convertible loan) divided by total assets and multiplied by 100%) as of 31 December 2023 was 20.8% (31 December 2022: 18.8%).

The Board and the Audit Committee constantly monitor current and expected liquidity requirements to ensure that the Company maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term.

BANK LOANS AND OTHER BORROWINGS

As of 31 December 2023, we had RMB1,251.1 million of convertible loan with Guangzhou Kaide, RMB305.6 million of long term payable with Beijing Changxin Construction Investment Co., Ltd, RMB31.3 million of interest-bearing borrowings with Bank of Beijing and RMB476.3 million of other current liability with GZHT Technology Holdings, land use right of RMB156.8 million was mortgaged to Beijing Changxin Construction Investment Co., Ltd. We signed a loan agreement with Bank of Beijing in May 2023, with the banking facility of RMB400.0 million. As of 31 December 2023, RMB33.8 million was withdrawn and the unutilized banking facility was RMB366.2 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, unutilized banking facilities, bank overdrafts or other similar indebtedness, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees.

CONTINGENT LIABILITIES

As of 31 December 2023, we did not have any material contingent liabilities.

FOREIGN EXCHANGE RISK

Our financial statements are presented in RMB, but certain of our cash and cash equivalents, time deposits, trade and other receivables, trade and other payables 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.

LIQUIDITY RISK

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by its management to finance the operations and mitigate the effects of fluctuations in cash flows.

CHARGE ON GROUP ASSETS

Except for the mortgage on land use right under the paragraph of "Bank Loans and Other Borrowings", there was no pledge of the Group's assets as of 31 December 2023.

FINAL DIVIDEND

The Board has resolved not to recommended the payment of final dividend for the year ended 31 December 2023 (2022: Nil).

As of 31 December 2023, there was no arrangement under which a shareholder had waived or agreed to waive any dividends.

EMPLOYEES AND REMUNERATION

As of 31 December 2023, the Group had a total of 1,089 employees. The following table sets forth the total number of employees by function:

	Number of employees	% of total
Function		
Research and development	474	43.5%
Manufacturing	200	18.4%
Selling and marketing	306	28.1%
General and administrative	109	10%
Total Employees	1,089	100%

Our employees' remuneration comprises salaries, bonuses, employee provident fund and social security scheme and other welfare payments. In accordance with applicable Chinese laws, we have provided social security insurance (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing funds for our employees.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Dr. Jisong Cui, Ph.D. (崔霏松), aged 60, has been a Director since 3 November 2015 and our Chief Executive Officer since 18 August 2016. Dr. Cui was re-designated as an Executive Director and was appointed as the Chairperson of the Board on 27 September 2019. Dr. Cui has been one of the key management members of the Company and has been actively involved in its business, strategy and operational management since its establishment. Dr. Cui is also the chairperson of the Nomination Committee and a member of the Compensation Committee.

Dr. Cui has over 20 years of experience in research and development and company management in the pharmaceutical industry. She began her career at Merck & Co., where she worked from October 1996 to October 2010, and eventually became the head of its Early Development Teams in the U.S.. From August 2011 to August 2015, Dr. Cui served as the CEO and CSO of BioDuro LLC., a PPD(r) Company. She was also elected the 17th president and first female president of the Sino-American Pharmaceutical Association. Dr. Cui has also published more than 50 articles in peer-reviewed journals including Nature, Blood, Proceedings of the National Academy of Sciences and Journal of Biological Chemistry. Moreover, Dr. Cui is the major patentee of three patents, namely Transgenic mice expressing APC resistance Factor V., cloning and expression of dog gonadotropin releasing hormone receptor and DNA encoding monkey gonadotropin releasing hormone receptor.

Dr. Cui received her Bachelor's degree in microbiology from Shandong University in July 1983. She obtained her Doctor of Philosophy degree in biological sciences from Purdue University in December 1992. She completed her post-doctoral training in cardiovascular research at The Howard Hughes Medical Institute in September 1996.

Dr. Renbin Zhao, Ph.D. (趙仁濱), aged 55, has been a Director since 3 November 2015. Dr. Zhao was re-designated as an Executive Director focusing on biology and clinical development strategy on 27 September 2019. Dr. Zhao has been one of the key management members of the Company and has been actively involved in its business, strategy and operational management since its establishment. Dr. Zhao is the spouse of Dr. Yigong Shi.

From August 2002 to December 2008, Dr. Zhao served in a number of positions, including as a senior scientist, staff scientist and principal scientist at Johnson and Johnson (Discovery). Dr. Zhao joined Shenzhou Tianchen Technology Inc. in March 2010 and served as an investigator from June 2011 to March 2013. From March 2013 to August 2015, Dr. Zhao served as a director of discovery biology at BioDuro. From August 2015 to April 2018, Dr. Zhao served as a senior director of biology in the Company.

Dr. Zhao received her Bachelor's degree in biological sciences and biotechnology from Tsinghua University in July 1991 and obtained her Doctor's degree in the Biochemistry and Molecular Biology program from School of Medicine of Johns Hopkins University in May 1999.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Dr. Yigong Shi, Ph.D. (施一公), aged 56, has been a Director since 28 November 2018. Dr. Shi was re-designated as a Non-executive Director and was appointed as the president of our Scientific Advisory Board on 3 November 2015. Dr. Shi is the spouse of Dr. Renbin Zhao.

Dr. Shi is a globally renowned structural biologist whose research has advanced scientific understanding in the molecular mechanisms behind cell apoptosis. From February 1998 to December 2008, Dr. Shi served in a number of positions, including as an assistant, associate and full professor at Princeton University. Since November 2007, he served in a number of positions at Tsinghua University, including as the dean of the School of Life Sciences, vice president of Tsinghua University and university professor. His drive to enhance global education led him to becoming a founder of Westlake University, at which university he has been serving as the first president since April 2018.

Dr. Shi has received numerous memberships and qualifications as well as awards for his achievements. He has memberships or qualifications from Academician of the Chinese Academy of Sciences, Honorary Foreign Member of the American Academy of Arts and Sciences, Foreign Associate of National Academy of Sciences of the U.S. and Foreign Associate of European Molecular Biology Organisation.

Dr. Shi also received awards and honours including:

- The National Science Fund for Distinguished Young Scholars in 2008, The Irving Sigal Young Investigator Award in 2003;
- The Raymond & Beverly Sackler International Prize in Biophysics, Tel Aviv University, Israel in 2010;
- The Qiu Shi Outstanding Scientist Award, Qiushi Foundation, Hong Kong in 2010;
- The CC Tan Life Science Achievement Award, Shanghai, China in 2010;
- The Gregori Aminoff Prize, Royal Swedish Academy of Sciences in 2014;
- The Ho Leung Ho Lee Award for Achievement in Science and Technology, in 2016;
- The National Innovation Award in 2017; and
- Future Science Prize in Life Sciences in 2017.

The major publications of Dr. Shi in recent years include:

- "Structures of the Human Spliceosomes Before and After Release of the Ligated Exon";
- "Structures of the Catalytically Activated Yeast Spliceosome Reveal the Mechanism of Branching";
- "Recognition of the Amyloid Precursor Protein by Human-Secretase";
- "Structural Basis of Notch Recognition by Human-Secretase";
- "Structure of a Human Catalytic Step I Spliceosome";

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

- “Structures of the Fully Assembled Saccharomyces Cerevisiae Spliceosome Before Activation”;
- “Structure of the Human PKD1/PKD2 Complex”; and
- “Structures of the Human Pre-Catalytic Spliceosome and its Precursor Spliceosome.”

Dr. Shi received his Bachelor’s degree in biological sciences and biotechnology from Tsinghua University in July 1989 and obtained his Doctor’s degree in biophysics and biophysical chemistry at School of Medicine of Johns Hopkins University in May 1995.

Mr. Ronggang Xie (謝榕剛), aged 38, has been serving as a Non-executive Director since 31 March 2021 and a member of the Audit Committee. Mr. Xie has around 10 years of investment experience. He obtained a bachelor’s degree and a Master’s degree in biomedical engineering from Southeast University, the PRC in 2008 and 2011, respectively. Mr. Xie worked at Oriza Cowin from January 2011 to July 2015. He served as a senior investment manager at Loyal Valley Capital from 2015 and was promoted to managing director and partner in 2018 and 2020, respectively. Mr. Xie has been serving as a director of Shanghai Allist Pharmaceutical Technology Co., Ltd. (a company whose shares are listed on the Shanghai Stock Exchange, stock code: 688578) since 28 November 2019. He also has been serving as a non-executive director of Akeso, Inc (a company whose shares are listed on the Stock Exchange, stock code: 09926) since 19 August 2020, and has been serving as a non-executive director of CARsgen Therapeutics Holdings Limited (a company whose shares are listed on the Stock Exchange, stock code:02171) since 18 September 2020.

Mr. Ming Jin (金明), aged 50, has been serving as a Non-executive Director since 31 March 2022. Mr. Jin currently serves as a partner in Beijing Hangkang Venture Capital Management Co. Ltd. (北京漢康創業投資管理有限公司), has been appointed as a Non-executive Director with effect from 31 March 2022. Mr. Jin has 20 years of experience in the pharmaceutical industry and biotechnology industry and 7 years of investment experience. From August 2000 to June 2004, he worked at Shanghai Sunway Biotech Co., Ltd.. From July 2004 to April 2012, he worked at Tianjin Greenbio Material Co., Ltd.. From May 2012 to June 2017, Mr. Jin worked at Hangzhou Converd Co., Ltd. (杭州康萬達醫藥科技有限公司). He has been an investment director of Hankang Capital since 2017 and was promoted to managing director and partner thereof in 2018 and 2020, respectively.

Mr. Jin obtained a bachelor’s degree in biological science from Zhejiang University, the People’s Republic of China in 1997 and a master’s degree in genetics from the Academy of Military Medical Sciences (軍事醫學科學院), the People’s Republic of China in 2000, respectively.

Independent Non-executive Directors

Ms. Lan Hu (胡蘭), aged 52, was appointed as an Independent Non-executive Director of the Company on 11 March 2020. Ms. Hu is also the chairperson of each of the Audit Committee and Compensation Committee and a member of the Nomination Committee.

Ms. Hu has more than 20 years of experience in accounting. Ms. Hu has served as an independent non-executive director in TOT BIOPHARMA International Company Limited, a company whose shares are listed on the Hong Kong Stock Exchange (stock code: 1875). Prior to that, Ms. Hu was the partner of the consulting services department of PricewaterhouseCoopers between July 2008 and June 2018, and she worked at PricewaterhouseCoopers from July 2002. Ms. Hu worked at Arther Andersen from July 1994 to June 2002.

Ms. Hu received her Bachelor’s degree in industrial accounting from Beijing Machinery and Industrial Institute in Beijing in July 1994 and obtained her Master of business administration degree from the University of Buffalo, the State University of New York in February 2005. Ms. Hu gained her CICPA qualification in March 1997.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Kaixian Chen Ph.D. (陳凱先), aged 78, was appointed as an Independent Non-executive Director of the Company on 11 March 2020. Dr. Chen is also a member of each of the Audit Committee, the Nomination Committee and the Compensation Committee.

Since 1990, Dr. Chen has been a professor of the Shanghai Institute of Materia Medica, Chinese Academy of Sciences, and has served as its director between 1996 and 2004, and was appointed as director of its academic committee between 2005 and 2014, and was appointed as director of its degree committee between 2014 and 2018. He has also been a professor of the Shanghai University of Traditional Chinese Medicine since 2005, served as president of the university from 2005 to 2014.

Dr. Chen held or currently holds professional memberships and qualifications in different capacities with numerous organisations in the PRC, including:

- as an academican of the Chinese Academy of Sciences (中國科學院) since 1999;
- as deputy president of the Chinese Pharmaceutical Association (中國藥學會) (“CPA”) between 2007 and 2016, as a director of Medicinal Chemistry Division, CPA (中國藥學會藥物化學專業委員會) between 2007 and 2020, and as supervisors of CPA (中國藥學會監事會) between 2016 and 2022;
- as chairman of the Shanghai Association of Science and Technology (上海市科學技術協會) from 2011 to October 2018;
- as editor in chief of Progress in Pharmaceutical Sciences, Chinese Journal of New Drugs and Clinical Remedies (藥學進展、中國新藥與臨床雜誌); and
- as executive member and vice-chairman of the National Pharmacopoeia Commission of China (國家藥典委員會) between 2017 and 2022.

Dr. Chen served as an independent non-executive director of Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (a company whose shares are listed on the Hong Kong Stock Exchange with stock code: 1349) between 2014 and 2015, and has served as an independent non-executive director of Zai Lab Limited (a company whose shares are listed on the NASDAQ with ticker symbol ZLAB and the Hong Kong Stock Exchange with stock code: 9688) and as an independent non-executive director of Innovent Biologics Inc. (a company whose shares are listed on the Hong Kong Stock Exchange with stock code: 1801) since October 2018, and has served as an independent non-executive director of Jiangsu Kanion Pharmaceutical Co. Ltd., a company whose shares are listed on the Shanghai Stock Exchange (stock code: 600557), since December 2019.

Dr. Chen received his Bachelor’s degree in radiochemistry from Fudan University in August 1968 and his Master’s degree in quantum chemistry and structural chemistry and Ph.D. in quantum chemistry from the Shanghai Institute of Materia Medica, Chinese Academy of Sciences in February 1982 and February 1985, respectively.

Dr. Dandan Dong, Ph.D. (董丹丹), aged 40, has been serving as an Independent Non-Executive Director of the Company since 11 October 2023. She currently serves as the chief business officer of ArriVent Biopharma, Inc. Prior to joining ArriVent Biopharma, Inc., Dr. Dong worked at Vivo Capital LLC from August 2011 to July 2021, and has held various positions there, including the managing director of Vivo Capital LLC and a managing member of the general partner of Vivo PANDA Fund and Vivo Innovation Fund II, Vivo Capital’s early-stage investment vehicles. From November 2018 to December 2023, Dr. Dong has been serving as a director of VISEN Pharmaceuticals which as of the date of this report is in the course of seeking listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Dong obtained her Bachelor's degree in life science from Sichuan University in July 2006. She completed the Pre-doctoral Fellowship program in infectious disease at New York University in July 2008, and obtained her Ph.D. degree in molecular microbiology from Fudan University in July 2011.

SENIOR MANAGEMENT

Our senior management team, in addition to our Directors listed above, is as follows:

Dr. Jisong Cui, Ph.D. (崔霽松), aged 60, is our Executive Director, the Chairperson of the Board and the Chief Executive Officer. Dr. Cui is primarily responsible for the overall strategic planning and business direction of the Group and operational management of the Group. Please see her biography in the part headed "Directors — Executive Directors" in this section.

Dr. Xiang-Yang Zhang (張向陽), aged 62, has been appointed as the Chief Medical Officer of the Company since 1 March 2021. Dr. Zhang is primarily responsible for leading clinical development and participating in overall strategic planning and business direction of the Group.

Dr. Zhang has more than 30 years working experience in clinical practice, academic research, and pharmaceutical drug discovery and development, including over 20 years' pharmaceutical R&D experience, spanning from drug discovery, early and late drug development through life cycle management in both large pharma and biotech companies with increasing leadership responsibilities.

Dr. Zhang began his career at Merck & Co., where he served as research scientist in Department of Immunology and Allergy from 1999 to 2004, and then he served in a number of positions in several multinational companies and institution, including as clinical pharmacology fellow and principal investigator in National Institute of Health, clinical leader and medical monitor of Translational Medicine and Early Clinical Development in Johnson and Johnson, medical director of Early Clinical Development in Bristol-Myers Squibb, senior medical director of Translational Medicine and Clinical Development in GlaxoSmithKline from 2004 to 2017. He served as the chief medical officer and on the board of directors in Hengrui Therapeutics Inc. (HTI) Princeton from May 2017 to February 2018, and was promoted to chief executive officer in March 2018.

Dr. Zhang received his Medical Degree from the Third Military Medical University, Chongqing, China in 1984. He completed his post-doctoral training at UCLA School of Medicine in 1993 and Michigan State University in 1998. After passing the United States Medical License Examination (USMLE), Dr. Zhang completed his medical fellowship training at Clinical Center, National Institute of Health, Bethesda, MD. USA in 2006. He was elected as a Fellow of the American College of Clinical Pharmacology (FCP) in 2012.

Dr. Xiangyang Chen, Ph.D. (陳向陽), aged 57, is our Chief Technology Officer. Dr. Chen is primarily responsible for drug discovery and development in therapeutic areas of (immuno-) oncology and autoimmune diseases of the Group. Dr. Chen applies his expertise from therapeutic program selection and execution to medicinal molecule design and candidate deliverable, to process development and IND-enabling, and has played a key role in every important stage of the Company's growth and development. Dr. Chen owns 23 patent applications and 17 peer reviewed publications.

From July 1994 to November 1999, Dr. Chen was a postdoctoral researcher in Biochemistry at Albert Einstein College of Medicine. From December 1999 to March 2010, Dr. Chen served as principal scientist at Pfizer Inc. Between January 2011 to September 2015, Dr. Chen served as director, senior director and executive director in the department of medicinal chemistry at BioDuro.

Dr. Chen received his Bachelor of Science degree in applied chemistry from Peking University in July 1987 and obtained his Doctor's degree in chemistry from Emory University in August 1994.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Xin Fu (傅欣), aged 46, has served as the Chief Financial Officer of the Company since 18 December 2023.

Mr. Xin Fu has over 20 years of financial management experience, including 15 years of experience in healthcare industry. From July 2020 to December 2023, Mr. Xin Fu served as the senior vice president and Chief Financial Officer of JW Therapeutics. Before that, he served various leadership positions at Pfizer China and responsible for finance and compliance. From July 2018 to July 2020, he was the chief financial officer of Pfizer Investment Co., Ltd.; from April 2017 to June 2018, he served as the chief compliance officer; from April 2016 to April 2017, he was the acting chief financial officer; from June 2011 to March 2016, he worked as head of business finance and tax; from September 2008 to May 2011, he served as the China tax leader. Prior to joining Pfizer China, Mr. Xin Fu was a tax manager at KPMG Huazhen LLP from July 2001 to November 2007.

Mr. Xin Fu obtained a bachelor's degree in accounting from Fudan University in July 2001 in the PRC. He has been a Certified Management Accountant since 2015.

REPORT OF DIRECTORS

PRINCIPAL ACTIVITIES

We are a commercial stage biopharmaceutical company committed to discovering, developing and commercializing potential best-in-class and/or first-in-class drugs for the treatment of cancer and autoimmune diseases. Led by a well-known management team of seasoned industry executives, we have built a biopharmaceutical platform with strong in-house R&D capabilities. Our vision is to become a global biopharmaceutical leader that develops and delivers innovative therapies for patients worldwide.

Leveraging our management team's global vision and local expertise, we have built a differentiated and balanced drug portfolio, and launched the first product in the market. Our drug candidates target both novel and evidence-based biological pathways. Our discovery and development efforts are focused on drug candidates with evidence-based targets that have the potential to be best-in-class from a safety and efficacy perspective. We also devote significant efforts in identifying novel targets and developing therapies with global breakthrough potential.

There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2023. Please refer to note 1 to the consolidated financial statements of the Group on pages 124 to 125 for details of the principal activities of the principal subsidiaries of the Group.

RESULTS

The results of the Group for the year ended 31 December 2023 are set out in the consolidated financial statements of the Group on pages 116 to 123 of this report.

SHARE CAPITAL

Details of the issued shares of the Company during the year ended 31 December 2023 are set out in note 32 to the consolidated financial statements of the Group in this report.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group during the year ended 31 December 2023 are set out in the Consolidated Statement of Changes in Equity on page 120 of this report.

The Company did not have any reserve available for distribution to Shareholders as of 31 December 2023.

FINANCIAL SUMMARY

The Company's Shares were listed on the Hong Kong Stock Exchange on 23 March 2020 and the RMB Shares were listed on the STAR Market on 21 September 2022. A summary of the published results and of the assets, liabilities and equity of the Group for the last five financial years, as extracted from the published audited financial information and financial statements, is set out on page 15 of this report.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment increased from RMB653.2 million as of 31 December 2022 to RMB759.8 million as of 31 December 2023, which is mainly caused by increase of buildings, plant and machinery for both Beijing Tiancheng Pharma Tech Co., Ltd. and Guangzhou InnoCare Pharma Tech Co., Ltd.

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2023 are set out in note 13 to the consolidated financial statements of the Group in this report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on the information that is publicly available within the Company and to the knowledge of the Directors, the Company's public float complies with the requirements of Rule 8.08 of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

USE OF NET PROCEEDS

Use of Net Proceeds from the IPO

The Shares were listed on the Main Board of the Stock Exchange on the Listing Date. The Group received net proceeds (after deduction of underwriting commissions and related costs and expenses) from the IPO and the exercise of over-allotment option of approximately HK\$2,415.67 million. Up to 31 December 2023, HKD1,499.6 million, or 62.1% out of the net proceeds have been utilized. The remaining proceeds will be used in the following one to three years. The completion time for usage of proceeds is determined based on the Company's actual business needs and future business development.

	Use of proceeds as stated in the Prospectus (in HK\$'000) (approximate)	Net proceeds unutilized as of 1 January 2023 (in HK\$'000) (approximate)	Actual use of proceeds during the Reporting Period (in HK\$'000) (approximate)	Net proceeds unutilized as of 31 December 2023 (in HK\$'000) (approximate)	Expected timeline for usage of proceeds
50% for ongoing and planned clinical trials, preparation for registration filings and potential commercial launches (including sales and marketing) of orelabrutinib concurrently in both China and the U.S.	1,207,835	411,998	150,448	261,550	The amount is expected to be fully utilized before the second half of 2026
40% for our other clinical stage product candidates*	966,268	696,201	63,004	633,197	The amount is expected to be fully utilized before the second half of 2026
10% for working capital and general corporate purposes	241,567	47,316	26,016	21,300	The amount is expected to be fully utilized by the end of 2024
Total	2,415,670	1,155,515	239,468	916,047	

* Please refer to the annual report of the Company dated 26 April 2023 for the adjustment made to the categorization of the use of net proceeds from the IPO and the reasons thereof .

REPORT OF DIRECTORS

Use of Net Proceeds from Subscription Agreements in February 2021

On 2 February 2021, the Company and certain investors had entered into two subscription agreements pursuant to which the Company has conditionally agreed to allot and issue and the investors, namely Gaoling Fund L.P., YHG Investment L.P. and Vivo Opportunity Fund, L.P., have conditionally, on a several but not joint basis, agreed to subscribe for an aggregate of 210,508,000 Shares of the Company, representing approximately 16.33% of the then total issued shares of the Company as at the date of the subscription agreements and approximately 14.04% of the total issued shares of the Company as enlarged by the allotment and issue of the subscription shares, at the subscription price of HK\$14.45 per subscription share. The aggregate nominal value of the subscription shares under the subscription was US\$421.02. The net price of each subscription share based on the net proceeds of approximately HK\$3,041.44 million and 210,508,000 subscription shares were estimated to be approximately HK\$14.45. The closing price as quoted on the Stock Exchange on 2 February 2021 was HK\$15.72 per Share. The gross proceeds and net proceeds from the issued subscription shares were approximately HK\$3,041.84 million and HK\$3,041.44 million, respectively. The above-mentioned subscription was completed on 10 February 2021. Such use of proceeds will be in line with the planned use according to the intentions previously disclosed by the Company and it is expected there will be no significant change or delay.

The table below sets out the planned applications of the proceeds and actual usage up to 31 December 2023:

Intended use of proceeds	Proceeds from the subscription (in HK\$'000) (approximate)	Actual use of proceeds from closing of the subscriptions to 31 December 2022 (in HK\$'000) (approximate)	Net proceeds unutilized as of 1 January 2023 (in HK\$'000) (approximate)	Actual use of proceeds during the Reporting Period (in HK\$'000) (approximate)	Net proceeds unutilized as of 31 December 2023 (in HK\$'000) (approximate)	Expected timeline for usage of proceeds
(i) R&D cost, which includes, expanding and accelerating ongoing and planned clinical trials in domestic and international regions, and expanding and accelerating internal discovery stage programs (including the multiple IND-enabling stage candidates in our pipeline)	N/A ^(Note 1)	231,104	N/A ^(Note 1)	10,871	N/A ^(Note 1)	All remaining proceeds are expected to be fully utilized before 2027 in accordance with the intended use of proceeds the respective exact sum of which will depend on the Company's actual business needs with reference to evolving market conditions ^(Note 2)
(ii) Retain and recruiting domestic and international talents to strengthen the Group's capabilities in discovery, clinical, business development and commercialization functions (including commercial team expansion to ensure successful launches of orelabrutinib and subsequent products)		522,373		116,076		
(iii) Reserve fund for any potential external collaboration and in-licensing opportunities		272,889		304		
(iv) To use as working capital and other general corporate purpose		678,132		44,149		
Total	3,041,440	1,704,498	1,336,942	171,400	1,165,542	

Note:

1. Pursuant to the subscription agreements dated 2 February 2021, there is no allocation on how the proceeds would be applied to each intended use. Accordingly, there were no numerical value applicable to the relevant columns.
2. It was disclosed in the quarterly report of the Company dated 13 November 2023 that the remaining proceeds would be fully utilized in three years since 23 March 2021. The delay in use of proceeds was due to adjustments to the strategies of (i) the Group's talent recruitment and (ii) business expansion in response to the evolving market dynamics and sentiments over the relevant time.

Use of Net Proceeds from RMB Share Issue

On 21 September 2022, the RMB Shares were listed on the STAR Market. The gross proceeds amounted to approximately RMB2,919.07 million. After deducting issuance expenses of RMB140.25 million in accordance with the related requirements, the net proceeds amounted to approximately RMB2,778.82 million. The net proceeds raised from the RMB Share Issue have been used and will be used in accordance with the intended uses disclosed in the Company's RMB Share prospectus dated 16 September 2022, which has been attached to the overseas regulatory announcement of the Company dated 16 September 2022.

As at 31 December 2023, the net proceeds of the RMB Share Issue had been utilised as follows:

	Proceeds from the subscription (in RMB'000) (approximate)	Net proceeds unutilized as of 1 January 2023 (in RMB'000) (approximate)	Actual use of proceeds during the Reporting Period (in RMB'000) (approximate)	Net proceeds unutilized as of 31 December 2023 (in RMB'000) (approximate)	Expected timeline for usage of proceeds
New drug research and development ("R&D") projects	1,494,220.6	1,494,220.6	251,353.3	1,242,867.3	Expected to be fully utilized by 2027, and subject to, among other things, change of market conditions
Upgrade of drug R&D platform	116,146.6	116,146.6	90,268.5	25,878.1	Expected to be fully utilized by 2027, and subject to, among other things, change of market conditions
Construction of marketing network	273,851.4	273,851.4	114,706.7	159,144.7	Expected to be fully utilized by 2027, and subject to, among other things, change of market conditions
Construction of IT system	60,952.3	60,952.3	28,656.2	32,296.1	Expected to be fully utilized by 2027, and subject to, among other things, change of market conditions
Replenishment of cash flow	833,644.7	833,644.7	468,728.4	364,916.3	Expected to be fully utilized by 2027, and subject to, among other things, change of market conditions
Total	2,778,815.6	2,778,815.6	953,713.1	1,825,102.5	

REPORT OF DIRECTORS

ANNUAL GENERAL MEETING

The forthcoming annual general meeting (“**AGM**”) of the Company will be held on Thursday, 27 June 2024. The notice of the AGM will be published and dispatched in due course in the manner as required by the Listing Rules.

CLOSURE OF THE REGISTER OF MEMBERS

For the purpose of determining the shareholders’ eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 24 June 2024 to Thursday, 27 June 2024, both days inclusive, during which no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all duly completed share transfer forms accompanied by the relevant share certificates, must be lodged with the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 21 June 2024.

BUSINESS REVIEW

Overview and Performance of the Year

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 and an indication of likely future developments in the Group’s business is set out in the sections headed “Chairperson’s Statement” and “Management Discussion and Analysis” of this report. These discussions form part of this report. Events affecting the Company that have occurred since the end of the Reporting Period is set out in the section headed “Events After the End of the Reporting Period” in this report.

Key Relationship with Stakeholders

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

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

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

For details of an account of the Company's key relationships with its employees, customers and suppliers and others that have a significant impact on the Company is set out in the "Environmental, Social and Governance Report" of the Company which is filed with HKEx on 26 April 2024.

Environmental Policies and Performance

The Group is committed to fulfilling social responsibility, promoting employee benefits and development, protecting the environment, and giving back to the community and achieving sustainable growth.

In accordance with Rule 13.91 and the Environmental, Social and Governance Reporting Guide contained in Appendix C2 of the Listing Rules, the "Environmental, Social and Governance Report" of the Company is filed with HKEX on 26 April 2024.

Compliance with Relevant Laws and Regulations

The Group has complied with the requirements under the Companies Ordinance, the Listing Rules, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**") and the CG Code for, among other things, the disclosure of information and corporate governance. The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Model Code. For further details, please refer to the section headed "Compliance with the Corporate Governance Code" in this section. The Group has also complied with other relevant laws and regulations that have a significant impact on the operations of the Group. Please refer to the section headed "Regulatory Environment" in the Prospectus for details.

Key Risks and Uncertainties

There are certain key risks and uncertainties involved in our operations, some of which are beyond our control. Set out below are the material risks and uncertainties that we face:

- our financial position;
- our ability to obtain additional financing to fund our operations;
- our ability to development and commercialize our drug candidates, all of which are in pre-clinical or clinical development;
- our ability to identify additional drug candidates;
- our success in demonstrating safety and efficacy of our drug candidates to the satisfaction of regulatory authorities or produce positive results in our clinical trials;
- material aspects of the research, development and commercialization of our products being heavily regulated;
- in conducting drug discovery and development, we face potential liabilities, in particular, product liability claims, or lawsuits could cause us to incur substantial liabilities;
- lengthy, time-consuming and inherently unpredictable regulatory approval processes of the regulatory authorities for our drug candidates;
- changes in the political and economic policies of the PRC government may materially and adversely affect our business, financial condition and results of operations and may result in our inability to sustain our growth and expansion strategies;

REPORT OF DIRECTORS

- our business benefits from certain discretionary financial incentives granted by local governments. Expiration of, or changes to, these incentives or policies would have an adverse effect on our results of operations;
- competition in the pharmaceutical industry where the Group serves;
- our ability to obtain and maintain patent protection for our drug candidates;
- Post COVID-19 pandemic still raging and world order crisis unresolved; and
- Our EHS department formulated training system and current mechanism may cover the daily safety inspection and quarterly safety inspection at this stage and may require further development regarding EHS risks.

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

PROSPECTS

A description of the future development in the Company's future business is provided in the sections headed "Chairperson's Statement" and "Management Discussion and Analysis" of this report.

2024 OUTLOOK AND FUTURE DEVELOPMENT

As we approach our ninth year since the Company's establishment, we anticipate that 2024 will continue to be promising for our commercialized products and pivotal stage pipeline. It marks a transformative year for the Company, transitioning from InnoCare version 1.0 to 2.0. This transformation will be characterized by further expansion of our global R&D footprint, commercialization, and manufacturing capabilities. To accomplish our vision of becoming a global biopharmaceutical leader that develops and delivers innovative therapies for patients worldwide, we will focus on pursuing the following aspects:

Building A Leading Franchise in Hemato-oncology

With orelabrutinib as our backbone therapy and supported by our extensive pipeline in hemato-oncology — including ICP-248, ICP-B02, Tafasitamab, ICP-490, ICP-B05, and potential future developments from both internal and external sources — we aim to become a leading player in the global hemato-oncology field. Our focus includes covering the MM and NHL markets in China and worldwide. Leveraging the strong sales momentum from its second year in the NRDL and the approval for the new indication of r/r MZL, we will continue to accelerate the sales of orelabrutinib (宜諾凱®) in China. Our broad clinical program aims to expand orelabrutinib's indications in China for a range of B-cell malignancies, including its use as a first-line treatment for CLL/SLL, MCL, and the MCD subtype of DLBCL, etc. Concurrently, we are advancing efforts to secure orelabrutinib's timely approval in the U.S. for r/r MCL and actively pursuing potential combination therapy partners to maximize the value of its superior clinical profile in NHL markets outside of China.

Developing B-cell and T-cell Pathways in Autoimmune Diseases

Orelabrutinib's favorable safety profile and established capability in regulating the B-cell pathway have enabled us to aggressively pursue its application in treating various autoimmune diseases.

We have successfully accomplished the PoC of orelabrutinib in the ITP Phase II trial in mainland China, and the Phase III registrational trial is currently ongoing.

Based on the positive results from the Phase IIa SLE clinical trial, we believe orelabrutinib could potentially become the first-in-class BTK inhibitor for the treatment of SLE and we are actively moving forward with the Phase IIb trial in China and other development schemes. Furthermore, we have initiated Phase II trials in other autoimmune indications including NMOSD, and are evaluating CSU and Hidradenitis Suppurativa, among others.

In addition to orelabrutinib, we are exploring treatments for autoimmune diseases caused by T-cell dysfunctions with other potential candidates, addressing significant unmet clinical needs. As a recognized potential blockbuster novel target, we have successfully obtained the Phase II PoC readout of ICP-332 in AD and early PoC of ICP-488 in psoriasis. We plan to further evaluate various T-cell mediated autoimmune diseases, including SLE, LN, and IBD.

With orelabrutinib as a B-cell pathway regulator, and ICP-332, ICP-488 and ICP-923 as T-cell pathway regulators, we believe we are well-positioned to offer oral drug solutions for the significant unmet medical needs in autoimmune diseases.

Building A Competitive Drug Portfolio for Solid Tumor Treatment in China and Worldwide

We strive to expand the breadth of our pipeline to cover solid tumor disease areas through a combination of targeted therapy and immune-oncology approaches. The inadequacy of age-appropriate dosage forms and strengths, along with a shortage of pediatric drugs, are key issues commonly encountered in pediatric medicine. We believe the potential best-in-class molecule, ICP-723, will enable us to establish a strong presence in the field of solid tumor treatment. To benefit a broader range of patients, our rapidly maturing early-stage pipeline, including cornerstone therapies like ICP-189, ICP-B05, and the ICP-033 immune-oncology treatment, aims to offer competitive treatment solutions for a wide array of solid tumors to patients both in China and globally.

Continuing To Expand Our Pipeline Through In-House Discovery and Business Development Efforts

We will continue to develop our multiple candidates currently at the IND-enabling stage and generate new molecular entities from our proven in-house drug discovery platform.

To further enhance our pipeline and optimize our operational efficiency, we will actively pursue in-licensing and clinical collaboration opportunities that will complement our existing portfolio. A strong emphasis will be placed on licensing assets that could allow us to fully leverage our established clinical development, commercialization, and manufacturing capabilities, and those that have potential synergies with our current pipeline for combination therapies.

Establishing In-House Biological Drug R&D Capability Through Internal and External Efforts

With the long-term goal of becoming a world leading biopharma company, we believe it is necessary to build our internal biological drug R&D capability. Collaborative activities surrounding ICP-B02, ICP-B05, and Tafasitamab have clearly demonstrated our commitment and provided us a great starting point. Building an internal talent team with the necessary infrastructure for biological drugs is well underway.

REPORT OF DIRECTORS

DIRECTORS

The Directors during the year ended 31 December 2023 and up to the date of this report are:

Executive Directors

Dr. Jisong Cui (*Chairperson and Chief Executive Officer*)

Dr. Renbin Zhao

Non-executive Directors

Dr. Yigong Shi

Mr. Ronggang Xie

Mr. Ming Jin

Mr. Shan Fu (*resigned with effect from 27 March 2023*)

Independent Non-executive Directors

Ms. Lan Hu

Dr. Kaixian Chen

Dr. Zemin Jason Zhang (*resigned with effect from 14 July 2023*)

Dr. Dandan Dong (*appointed with effect from 11 October 2023*)

In accordance with article 114 (a) of the Articles of Association, one-third of the Directors shall retire by rotation at every annual general meeting and, being eligible, offer themselves for re-election.

In accordance with article 118 of the Articles of Association, any Director appointed to fill a casual vacancy or as an addition to the existing Board of Directors will hold office until the first annual general meeting of the Company after his appointment and be eligible for re-election at that meeting.

In accordance with article 117 of the Articles of Association, subject to the provisions of the Articles of Association and the Companies Law (2013 Revision) (as consolidated and revised) of the Cayman Islands, the Company may by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors.

Details of the Directors to be re-elected at the forthcoming AGM will be set out in the circular to Shareholders to be sent in due course in the manner as required by the Listing Rules.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 56 to 61 of this report. Save as disclosed in this report and during the Reporting Period, there are no other changes to the Directors' information as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors and Non-executive Directors has entered into a service agreement with the Company under which the initial term of their service agreement shall commence from the respective date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice.

Each of our Independent Non-executive Directors has entered into an appointment letter with the Company under which the initial term of their appointment letters shall commence from the respective date of their appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing.

None of the Directors has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE FROM THE INDEPENDENT NON-EXECUTIVE DIRECTORS

We have received from each of the Independent Non-executive Directors, namely Ms. Lan Hu, Dr. Kaixian Chen and Dr. Dandan Dong, the confirmation of their respective independence pursuant to Rule 3.13 of the Listing Rules. The Company has duly reviewed the confirmation of independence of each of these Directors.

We consider that our Independent Non-executive Directors have been independent during the year ended 31 December 2023 and remain so as of the date of this report.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As far as the Company is aware, as at 31 December 2023, the interests and short positions of our Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of our associated corporations (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code, were as follows:

Long Positions in the Company's Shares

Name of Director	Nature of Interest	Total Number of Shares/Underlying Shares	Approximate Percentage of Shareholding Interest ⁽¹⁾
Dr. Jisong Cui	Interest in controlled corporation, beneficial owner	100,222,916 (L) ⁽²⁾	5.68%
Dr. Renbin Zhao	Interest in controlled corporation, beneficial owner, interest of spouse	116,839,593 (L) ⁽³⁾	6.63%
Dr. Yigong Shi	Beneficial owner, interest of spouse	116,839,593 (L) ⁽⁴⁾	6.63%

REPORT OF DIRECTORS

Notes:

- (1) The calculation is based on the total number of 1,763,130,452 Shares issued as at 31 December 2023.
- (2) Including (i) 79,326,827 Shares indirectly held by Dr. Jisong Cui through Sunland BioMed Ltd as beneficial owner and (ii) 20,896,089 Shares directly held by Dr. Jisong Cui.
- (3) Including (i) 94,760,375 Shares indirectly held by Dr. Renbin Zhao through Sunny View Holdings Limited as beneficial owner, (ii) 20,479,218 Shares directly held by Dr. Renbin Zhao, and (iii) 1,600,000 Shares directly held by Dr. Yigong Shi, the spouse of Dr. Renbin Zhao.
- (4) Including (i) 1,600,000 Shares directly held by Dr. Yigong Shi, and (ii) the 115,239,593 Shares held by Dr. Renbin Zhao, the spouse of Dr. Yigong Shi.

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executives of the Company had or was deemed to have any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of the Part XV of the SFO (including interests and short positions which they were taken or deemed to have taken under such provisions of the SFO); or which were required to be recorded in the register to be kept by the Company pursuant to Section 352 of the SFO; or which were required, pursuant to the Model Code as contained in Appendix C3 to the Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2023, to the best of the knowledge of the Company and the Directors, the following are the persons, other than the Directors or chief executives of the Company, who had interests or short positions in the shares and underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO.

Interests in the Shares and Underlying Shares of the Company

Name of Shareholder	Nature of Interest	Total Number of Shares/Underlying Shares	Approximate Percentage of Shareholding Interest ⁽¹⁾
GIC Private Limited	Interest in controlled corporation	118,496,802 (L) ⁽²⁾	6.72%
Vivo Capital LLC	Interest in controlled corporation	123,028,118 (L) ⁽³⁾	6.98%
Mr. Hebert Pang Kee Chan	Interest in controlled corporation	158,988,012 (L) ⁽⁴⁾	9.02%
		46,692,200 (S) ⁽⁴⁾	2.65%
HHLR Advisors, Ltd.	Investment manager	208,671,222 (L) ⁽⁵⁾	11.84%
HHLR Fund, L.P.	Beneficial owner	200,475,300 (L) ⁽⁵⁾	11.37%
The Goldman Sachs Group, Inc.	Interest in controlled corporation	107,236,190 (L) ⁽⁶⁾	6.08%
		45,293,408 (S) ⁽⁷⁾	2.57%

Notes:

- (1) The calculation is based on the total number of 1,763,130,452 Shares issued as at 31 December 2023.
- (2) Highbury Investment Pte Ltd directly held 42,559,355 Shares and LVC Fund I LP directly held 20,882,157 Shares. For the purpose of the SFO, Highbury Investment Pte Ltd is also deemed to have an interest in 45,487,484 Shares held by Loyal Valley Capital Advantage Fund II LP and 9,567,806 Shares held by LVC Lion Fund LP as a limited partner with over one-third limited partnership interests in both Loyal Capital Advantage Fund II LP and LVC Lion Fund LP, respectively. To the best knowledge of the Company, Highbury Investment Pte Ltd is a private limited company incorporated in Singapore owned by GIC (Ventures) Private Limited and managed by GIC Special Investments Private Limited, which in turn is wholly-owned by GIC Private Limited. As such, under the SFO, each of GIC (Ventures) Private Limited, GIC Special Investments Private Limited and GIC Private Limited (through their interest in a controlled corporation) is deemed to be interested in the 118,496,802 Shares which Highbury Investment Pte Ltd has an interest in.
- (3) Vivo Capital LLC is the management company of (i) Vivo Opportunity Co-Invest, L.P., (ii) Vivo Capital Fund IX, L.P., (iii) Vivo Opportunity Fund, L.P., (iv) Vivo Capital Surplus Fund VIII, L.P., and (v) Vivo Capital Fund VIII, L.P., (collectively, the “**Vivo Entities**”), each of which held 2,699,286, 1,891,627, 24,673,087, 11,376,779, and 82,387,339 Shares, respectively. As such, under the SFO, Vivo Capital LLC (through its interest in the controlled corporations, i.e. the Vivo Entities) is deemed to be interested in 123,028,118 Shares collectively held by the Vivo Entities.
- (4) Mr. Hebert Pang Kee Chan indirectly held 158,988,012 Shares consisting of 51,643,680 Shares directly held through Success Growth Limited, 106,207,145 Shares directly held through King Bridge Investments Limited, and 1,137,187 Shares directly held through Sun Bridge Holdings Limited, a company wholly owned by Golden Sage Investments Limited. King Bridge Investments Limited is also interested in 46,692,200 Shares through the holding of certain unlisted derivatives — physically settled. To the best knowledge of the Company, Success Growth Limited and King Bridge Investments Limited is directly and wholly owned by Mr. Hebert Pang Kee Chan, and Mr. Hebert Pang Kee Chan holds Sun Bridge Holdings Limited indirectly through Golden Sage Investments Limited.
- (5) HHLR Advisors, Ltd. (formerly known as Hillhouse Capital Advisors, Ltd.) is the investment manager and general partner of HHLR Fund, L.P. (formerly known as Gaoling Fund, L.P.) and YHG Investment, L.P., (collectively “**Hillhouse Entities**”) of which HHLR Fund, L.P. held 200,475,300 Shares. As such, under the SFO, HHLR Advisors, Ltd. (through its interest in the controlled corporations, i.e. the Hillhouse Entities) is deemed to be interested in 208,671,222 Shares collectively held by the Hillhouse Entities.
- (6) The Goldman Sachs Group, Inc. is the management company of (i) Goldman Sachs International, (ii) Goldman Sachs Group UK Limited, and (iii) Goldman Sachs (UK) L.L.C (collectively “**Goldman Entities**”). As such, under the SFO, The Goldman Sachs Group, Inc. (through its interest in the controlled corporations, i.e. the Goldman Entities) is deemed to be interested in 107,236,190 Shares collectively held by the Goldman Entities, including through the holding of certain unlisted derivatives — physically settled (46,692,200 Shares) and cash settled 9,033,000 Shares).
- (7) The Goldman Sachs Group, Inc is also interested in 45,293,408 Shares, including through the holding of certain unlisted derivatives — cash settled (10,720,000).

Save as disclosed above, as at 31 December 2023, the Directors and the chief executives of the Company were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required to be entered in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, at no time during the year ended 31 December 2023 was the Company or any of its subsidiaries, a party to any arrangement that would enable the Directors to acquire benefits by means of 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 the equity or debt securities of the Company or any other body corporate or had exercised any such right.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors confirms that during the year ended 31 December 2023 and up to the date of this report, he or she did not have any interest in a business which competes or is likely to compete, directly or indirectly, with our business and requires disclosure under Rule 8.10 of the Listing Rules. From time to time our Non-executive Directors may serve on the boards of both private and public companies within the broader healthcare and biopharmaceutical industries. However, as these Non-executive Directors are not members of our executive management team, we do not believe that their interests in such companies as directors would render us incapable of carrying on our business independently from the other companies in which these Directors may hold directorships from time to time.

REPORT OF DIRECTORS

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2023, none of the related parties' transactions as disclosed in note 38 to the consolidated financial statements of the Group constitute any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules. During the year ended 31 December 2023, we have not entered into any non-exempt connected transaction or continuing connected transaction which should be disclosed pursuant to Rules 14A.49 and 14A.71 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENT AND CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, no Director or an entity connected with a Director was materially interested, either directly or indirectly, in any transaction, arrangement or contract which is significant in relation to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party subsisting during the year ended 31 December 2023 and up to the date of this report.

CONTRACT OF SIGNIFICANCE

Save as disclosed in this report, no contract of significance was entered into by the Company, or one of its subsidiary companies during the year ended 31 December 2023.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year and up to the date of this report between the Company and a person other than a Director or any person engaged in the full-time employment of the Company.

DIRECTORS' PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, the Company shall indemnify out of the assets of the Company, any Director against all losses or liabilities incurred or sustained by him/her as a Director of the Company in defending any proceeding, whether civil or criminal, in which judgment is given in his/her favour, or in which he is acquitted. The Company has arranged appropriate directors' liability insurance coverage for the Directors of the Group as at the end of the Reporting Period.

EMPLOYEES, REMUNERATION POLICY AND DIRECTORS' REMUNERATION

As at 31 December 2023, we had approximately 1,089 employees (as at 31 December 2022: approximately 939 employees). Our employees' remuneration comprises salaries, bonuses, employee provident fund and social security contributions and other welfare payments. In accordance with applicable PRC laws, 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 funds for our employees.

Our Directors receive compensation in the form of fees, salaries, bonuses, other allowances, benefits in kind, contribution to the pension scheme and other share-based compensation. We determine the compensation of our Directors based on each Director's responsibilities, qualification, position and seniority. The emolument of Executive Directors and senior management of the Group is determined by the Compensation Committee and the emolument of Non-executive Directors is recommended by the Compensation Committee. Details of the Directors' remuneration during the year are set out in note 8 to the consolidated financial statements of the Group in this report. No amount was paid to any Director or any of the five highest paid individual disclosed in note 9 to the consolidated financial statements of the Group as an inducement to join or upon joining the Company or as a compensation for loss of office. In addition, there was no arrangement under which a Director waived or agreed to waive any remuneration.

PRE-IPO INCENTIVISATION PLANS

The 2015 Pre-IPO Incentivisation Plan and the 2016 Pre-IPO Incentivisation Plan were adopted and approved by resolutions in writing by the Board and the Shareholders on 6 September 2016. The 2016 Pre-IPO Incentivisation Plan was subsequently amended by resolutions in writing by the Board and Shareholders passed on 5 February 2018. The 2018 Pre-IPO Incentivisation Plan was adopted and approved by resolutions in writing by the Board and the Shareholders on 28 November 2018. The terms of each of the Pre-IPO Incentivisation Plans are substantially similar.

The Pre-IPO Incentivisation Plans provides for awards of options, share purchase rights and RSUs.

1. **Options.** On and subject to the Pre-IPO Incentivisation Plans, the Administrator shall be entitled to make an offer to any eligible participant to take up options in respect of such number of Shares as the Administrator may determine and at the exercise price determined by the Administrator in its sole discretion and disclosed under the award agreement. An option shall be deemed exercised when the Company receives (i) notice in writing from the eligible participant to the Company in the specified form under the award agreement; (ii) full payment for the Shares with respect to which the option is exercised, together with any applicable tax withholding; and (iii) all representations, indemnifications and documents requested by the Administrator.
2. **Share Purchase Rights.** On and subject to the Pre-IPO Incentivisation Plans, each share purchase right shall be evidenced by an award agreement. The purchase price and exercise price (as the case may be) shall be determined by the Administrator in its sole discretion and any Shares awarded or sold pursuant to the share purchase rights shall be subject to such forfeiture conditions, rights of repurchase or redemption, rights of first refusal and other transfer restrictions as the Administrator may determine or as provided in the memorandum of association of the Company and the Articles of Association.
3. **RSUs.** A restricted share unit may be earned in whole or in part upon the passage of time or the attainment of performance criteria established by the Administrator and may be settled for cash, Shares or other securities or a combination of cash, Shares or other securities as established by the Administrator.

Summary of Terms

Purpose. The purpose of the Pre-IPO Incentivisation Plans is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentives to selected employees, Directors, and consultants and to promote the success of our business.

Eligible participants. Any employee, Director or consultant of the Company who is engaged by the Group to render consulting or advisory services to the Group shall be eligible to participate in the Pre-IPO Incentivisation Plans.

Administration. The Pre-IPO Incentivisation Plans shall be subject to the administration of the Board or a committee appointed by the Board. Each award or option granted under the Pre-IPO Incentivisation Plans shall be evidenced by an award agreement between the Company and a participant, the form of which shall be approved from time to time by the administrator of the Pre-IPO Incentivisation Plans (the “Administrator”).

Duration. Subject to the termination provisions under the Pre-IPO Incentivisation Plans, the Pre-IPO Incentivisation Plans shall be valid and effective for a period of 10 years commencing on the adoption date after which period no further awards or options will be granted, but the provisions thereof shall in all other respects remain in full force and effect and shall not affect the ability of the Administrator to exercise the powers granted to it under the Pre-IPO Incentivisation Plans with respect to awards granted under the Pre-IPO Incentivisation Plans prior to the date of such termination.

REPORT OF DIRECTORS

The Administrator shall determine the time or times at which an option may be exercised by the grantee in whole or in part, and vesting period of options or awards granted under the Pre-IPO Incentivisation Plans in whole or in part.

Effective from 31 August 2023, each of the 2015 Pre-IPO Incentivisation Plan, the 2016 Pre-IPO Incentivisation Plan and the 2018 Pre-IPO Incentivisation Plan was terminated and no new grants will be made pursuant to the foregoing plans thereupon. Following such termination, remaining life of each of the 2015 Pre-IPO Incentivisation Plan, the 2016 Pre-IPO Incentivisation Plan and the 2018 Pre-IPO Incentivisation Plan is not applicable.

Maximum number of Shares. Pursuant to the Pre-IPO Incentivisation Plans, the maximum number of Shares in respect of which options and awards may be granted shall not exceed 274,586,514 Shares (183,888,050 Shares for the 2015 Pre-IPO Incentivisation Plan, 22,200,000 Shares for the 2016 Pre-IPO Incentivisation Plan, and 68,498,464 Shares for the 2018 Pre-IPO Incentivisation Plan) which represents approximately 15.58% (10.43% for the 2015 Pre-IPO Incentivisation Plan, 1.26% for the 2016 Pre-IPO Incentivisation Plan, and 3.89% for the 2018 Pre-IPO Incentivisation Plan) of the total issued shares of the Company as at the date of this report.

As at 31 December 2023, an aggregate of 221,354,657 Shares have been issued to directors, senior management and employees of the Group or their affiliates pursuant to share awards already vested, and 21,797,750 Shares have been reserved and are currently held by Golden Autumn Group Limited and Strausberg Group Limited for vesting of awards only under the Pre-IPO Incentivisation Plans and held under trusts to be transferred to individual grantee after they exercise their grants. Such 21,797,750 Shares include (i) a total of 1,750,250 Shares held by the relevant trustees the underlying RSUs of which were lapsed during the Reporting Period; and (ii) a total of 20,047,500 Shares the underlying RSUs of which were granted but not yet vested prior to the termination of the Pre-IPO Incentivisation Plans. Each of Golden Autumn Group Limited and Strausberg Group Limited is a special purpose vehicle managed by the trustee of Lakeview Trust and Summit Trust, TMF (Cayman) Ltd., established for the purpose of holding Shares pursuant to the Pre-IPO Incentivisation Plans.

Following the terminations of all the Pre-IPO Incentivisation Plans on 31 August 2023, all remaining number of Shares held by Golden Autumn Group Limited and Strausberg Group Limited in connection thereto, being 51,481,607 Shares in aggregate (that is, excluding a total of 235,750 Shares held by the relevant trustees the underlying RSUs of which were lapsed during the Reporting Period), representing approximately 2.92% of the total issued share capital of the Company as at the date of shareholders' approval of the 2023 Share Award Scheme, have been used for further grant or vesting of awards under the 2023 Share Award Scheme. For details, please see the subsection headed "2023 Share Award Scheme" below.

52,278,357 and 1,750,250 awards were available for grant under the Pre-IPO Incentivisation Plans as of 1 January 2023 and 31 December 2023, respectively, as the Pre-IPO Incentivisation Plans were terminated on 31 August 2023.

Maximum entitlement of each participant. No employee of the Group shall be granted an award which, if exercised or settled in full, would result in such employee becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued under all the awards previously granted to him which have been exercised, and, issuable or settled under all the awards previously granted to him/her which are for the time being subsisting and unexercised, would exceed ten percent (10%) of the aggregate number of Shares for the time being issued and issuable under the plan.

Consideration. The consideration to be paid for the Shares to be issued under the Pre-IPO Incentivisation Plans, including the method of payment, shall be determined by the Administrator subject to the provisions in the Pre-IPO Incentivisation Plans and applicable law. The tax withholding to be paid for the Shares shall be determined according to the provisions in the Pre-IPO Incentivisation Plans and applicable law. Depending on the specific plan of the Pre-IPO Incentivisation Plans under which the underlying RSUs were granted, the relevant consideration for each RSU ranged between US\$0.000002 and US\$0.178. The Administrator may determine in its absolute discretion the purchase price of the RSUs, taking into account (including but not limited to) the purpose of the relevant Pre-IPO Incentivisation Plan and the characteristics and profile of the grantee. The Board believes that it is in the best interests of the Company to retain the flexibility to impose appropriate conditions in light of the particular circumstances of each grant, which would then be a more meaningful reward for the grantees' contribution or potential contribution. Such room for discretion provides the Board with flexibility to stipulate, if necessary, a purchase price for the RSUs, while balancing the purpose of the award and the interests of Shareholders. Therefore, the aforesaid term regarding the purchase price aligns with the purpose of the respective Pre-IPO Incentivisation Plan. There is no other payable amount on application or acceptance of the option or award. There is no prescribed period within which payments or calls must or may be made or loans for such purposes must be repaid in respect of the options and/or awards offered under the Pre-IPO Incentivisation Plans.

As at the date of this report, the aggregate number of underlying Shares available for issue pursuant to the unvested RSUs granted under the Pre-IPO Incentivisation Plans is 20,047,500 Shares (that is, excluding a total of 1,895,042 Shares held by the relevant trustees the underlying RSUs of which were lapsed during the Reporting Period) in aggregate, representing approximately 1.14% of the total issued share capital of the Company as at the date of this annual report. During the Reporting Period, there were no movements with regard to share options or share purchase rights. As at 31 December 2023, there were no outstanding share options or share purchase rights under the Pre-IPO Incentivisation Plans. Accordingly, there are no discloseable matters with regard to share options or share purchase rights pursuant to Rule 17.07 of the Listing Rules.

Vesting and Exercise period of the share options. All options available under the Pre-IPO Incentivisation Plans were granted and exercised prior to the commencement of the Reporting Period.

Vesting period of the RSUs. RSUs granted under the Pre-IPO Incentivisation Plans are subject to time based vesting condition of four or five years since the date of the grant and performance milestone vesting conditions.

For further details, please refer to the section headed "Statutory and General Information — Pre-IPO Incentivisation Plans" in Appendix V to the Prospectus and note 34 to the consolidated financial statements of the Group of this report.

Since the adoption of Pre-IPO Incentivisation Plans, and up to 31 December 2023, the Company did not grant or vest any share purchase rights pursuant to the Pre-IPO Incentivisation Plans.

POST-IPO RSU SCHEME

The Company has adopted the Post-IPO RSU Scheme by resolutions passed by the Board of the Company on 6 July 2020. The Post-IPO RSU Scheme does not comply with Chapter 17 of the Listing Rules.

Since the adoption of the Post-IPO RSU Scheme, and up to the date of its termination, the Company did not grant or vest any RSU pursuant to the Post-IPO RSU Scheme. Accordingly, as of the date of this report, no Share has been issued pursuant to or in connection with the Post-IPO RSU Scheme.

Accordingly, there are no discloseable matters with regard to RSUs under the Post-IPO RSU Scheme pursuant to Rule 17.07 of the Listing Rules.

Summary of Terms

Purpose. The purpose of the Post-IPO RSU Scheme is to reward employees for their past contribution to the success of the Company and to provide incentives to them to further contribute to the Company.

Eligible participants. The Eligible Participants include any employee or officer of the Company or any subsidiary including (without limitation to) any executive or non-executive director in the employment of or holding office in the Company or any subsidiary of the Company.

Administration. The Post-IPO RSU Scheme shall be subject to the administration of the Board who may delegate all or part of such administration to a committee or any other authorized agent. The decision of the Board or persons to whom the Board has delegated relevant powers shall be final and binding on all parties for any matters concerning the interpretation or application of this Post-IPO RSU Scheme.

Maximum number of Shares. The maximum number of Shares in respect of which RSU may be granted under the Post-IPO RSU Scheme when aggregated with the maximum number of Shares in respect of which options or awards may be granted under any other share-based incentive scheme shall not exceed 10% of the total issued share capital of the same class of the Company as of the date of adoption (or of the refreshment of the 10% limit).

Nil and nil Shares are underlying awards available for grant under the Post-IPO RSU Scheme as of 1 January 2023 and 31 December 2023, respectively.

Pursuant to the circular of the Company and the poll results announcement dated 16 August 2023 and 31 August 2023, respectively, the Post-IPO RSU Scheme was terminated on 31 August 2023, that is the date the 2023 Share Award Scheme, a Chapter 17 compliant share award scheme, was approved by the Shareholders. Following such termination, remaining life of the Post-IPO RSU Scheme is not applicable.

Accordingly, as at the date of this report, the total maximum number of Shares in respect of which RSUs may be granted under the Post-IPO RSU Scheme would be nil, representing 0% of the number of Shares in issue as at the date of this annual report.

Maximum entitlement of each participant. The Post-IPO RSU Scheme does not specify maximum entitlement of each participant.

Vesting period. The vesting schedule shall be determined by the Board subject to the provisions in the Post-IPO RSU Scheme and applicable laws.

Purchase price. The purchase price of RSUs shall be determined by the Board subject to the provisions in the Post-IPO RSU Scheme and applicable laws. No grant of RSUs under the Post-IPO RSU Scheme was made prior to the termination thereof.

REPORT OF DIRECTORS

Term. Unless terminated earlier in accordance with the rules of Post-IPO RSU Scheme, the Post-IPO RSU Scheme will be valid and effective for a period commencing from the date of adoption and expiring on the tenth anniversary thereof. Any early termination of the Post-IPO RSU Scheme shall not affect any subsisting rights of any grantee thereunder.

For further details, please refer to the announcement of the Company dated 6 July 2020.

2023 RMB SHARE INCENTIVE SCHEME

The Company adopted the 2023 RMB Share Incentive Scheme by upon approval of the Shareholders during the AGM held on 2 June 2023. The 2023 RMB Share Incentive Scheme is a share incentive scheme comprising awards in the form of restricted shares underlined by RMB Shares only, prepared in accordance with the PRC related financial regulations and listing rules and the Hong Kong Listing Rules. For details of the 2023 RMB Share Incentive Scheme, please refer to the circular of the Company dated 3 May 2023.

Summary of Terms

Purpose. The purpose of the 2023 RMB Share Incentive 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 bring together the interests of shareholders, the Company and core teams, enable all parties share a common concern for the long-term development of the Company, and under the premise of fully safeguarding the interests of shareholders.

Eligible participants. The eligible participants include the Directors, senior management, core technicians and other employees of the Group (together, the "Incentive Participants").

Administration. The Board, as authorised by the shareholders at the AGM held on 2 June 2023, will administer the 2023 RMB Share Incentive Scheme and be responsible for the implementation of the 2023 RMB Share Incentive Scheme.

Duration/validity period. The validity period of the 2023 RMB Share Incentive Scheme will be from 2 June 2023 and until all restricted shares are granted but in no event shall exceed 72 months since the date of the adoption thereof. The remaining life of the 2023 RMB Share Incentive Scheme is five years and one month.

Maximum number of restricted shares. The number of restricted shares to be granted to the Incentive Participants under the 2023 RMB Share Incentive Scheme is 8,948,750 RMB Shares, representing approximately 0.51% of the total issued shares of the Company as of 2 June 2023, being the date of adoption thereof, and 0.51% of the total issued shares of the Company as of 31 December 2023.

As at 31 December, 2023, an aggregate of 7,090,000 restricted shares have been granted to Directors, senior management, core technicians and other employees of the Group pursuant to the 2023 RMB Share Incentive Scheme. The remaining 1,739,750 restricted shares have been reserved for further grants that should take place within 12 months since 2 June 2023.

As of the date of this annual report, 8,829,750 Shares are available for issue under the 2023 RMB Share Incentive Scheme, representing 0.51% of total issued Shares as at the date of this annual report.

Maximum entitlement of each participant. Under the 2023 RMB Share Incentive Scheme, the number of issued Shares granted to any Incentive Participants through all share incentive schemes of the Company within the validity period will not exceed 1% of the total issued Shares of the Company as at 2 June 2023. In addition, for the Incentive Participants who are Directors or chief executives of the Company, the grant of share awards to such persons must be approved by the Independent Non-executive Directors, and the grant of share awards to such persons in any 12-month period will be subject to the approval of the Independent Shareholders if such grant exceeds 0.1% of the total issued Shares of the Company. There is no sublimit for a service provider as set out under Chapter 17 of the Listing Rules for the 2023 RMB Share Incentive Scheme.

Consideration. The consideration to be paid for the grants is RMB6.95 per restricted share which was determined with reference to 50% of the average trading price of RMB Shares on the 120 trading days preceding the date of announcement of the 2023 RMB Share Incentive Scheme. In accordance with the relevant provisions of the national tax laws and regulations, the Company shall withhold and pay the individual income tax and other taxes payable by the Incentive Participants for participation in the 2023 RMB Share Incentive Scheme. There is no other payable amount on application or acceptance of the option or award. There is no prescribed period within which payments or calls must or may be made or loans for such purposes must be repaid in respect of the options and/or awards offered under the 2023 RMB Share Incentive Scheme.

Vesting Period and conditions of the restricted shares. Subject to the Incentive Participants fulfilling the vesting conditions, the restricted shares so granted will be vested in equal instalments in the first trading day of the start of each of the four consecutive twelve-month periods since the date of the grant. For details of the vesting conditions, please refer to the circular of the Company dated 3 May 2023.

During the Reporting Period, the movements in the restricted shares granted under the 2023 RMB Share Incentive Scheme were as follows:

Name and category of grantee	Number of RSUs					Unvested as at 1 January 2023	Granted during the Reporting Period	Vested during the Reporting Period	Lapsed during the Reporting Period	Gavelled during the Reporting Period	Expired during the Reporting Period	Unvested as at 31 December 2023	Date of grant of restricted shares	Fair value of RSUs at the grant date ⁽¹⁾	Vesting period of restricted shares ⁽²⁾	Grant price of restricted shares	Closing price per Share immediately before the grant date	Weighted average closing price per Share underlying the restricted shares vested during the Reporting Period	Number of Shares underlying restricted shares outstanding as of 31 December 2023 divided by weighted average number of Shares
	Period	Period	Period	Period	Period														
(0,000 shares)																			
Directors, Senior Management and Core Technicians																			
Dr. Jisong Cui	0	165,000	0	0	0	165,000	2 June 2023	RMB9,916,500	Four accounting years from 2023 to 2026	RMB66.95	RMB12.23, HK07.13	N/A	0.62%						
Dr. Xiangang Chen	0	50,000	0	0	0	50,000	2 June 2023	RMB3,005,000					0.19%						
Dr. Reibin Zhao	0	40,000	0	0	0	40,000	2 June 2023	RMB2,404,000					0.15%						
Subtotal	0	255,000	0	0	0	255,000							0.96%						
Other Incentive Participants																			
Other employees whom the Board considers necessary to be incentivised (112 persons)	0	465,900	0	119	0	454	2 June 2023	RMB28,000,590	Four accounting years from 2023 to 2026	RMB66.95	RMB12.23, HK07.13	N/A	1.76%						
Subtotal	0	465,900	0	119	0	454							1.76%						
Total	0	720,900	0	119	0	709							2.72%						

Notes:

- (1) Details of the valuation of restricted shares granted during the Reporting Period, including the accounting standard and policy adopted for the 2023 RMB Share Incentive Scheme, are set out in note 34 and note 2.4 to the consolidated financial statements of the Group in this report.
- (2) For performance targets attached to the restricted shares granted during the year ended 31 December 2023, which comprise attaining satisfactory performance at both the individual and Group level, please refer to the circular of the Company dated 2 June 2023.

2023 SHARE AWARD SCHEME

Pursuant to the Company's circular dated 16 August 2023 on, among other things, the proposed adoption of the 2023 Share Award Scheme and the Scheme Mandate Limit, and the poll results announcement on 31 August 2023, the 2023 Share Award Scheme was approved by the Shareholders. Immediately following the successful adoption of the 2023 Share Award Scheme, the Company has terminated all existing share schemes, being the Pre-IPO Incentivization Plans and the Post-IPO RSU Scheme, in accordance with the relevant scheme rules thereof. The 2023 Share Award Scheme has been in operation since the date of the EGM on 31 August 2023, being the adoption date thereof.

Accordingly, the Company is able to make grants under the 2023 Share Award Scheme, a Chapter 17 compliant share scheme, also being the one and only share scheme with respect to Hong Kong Shares, and all underlying shares were issued prior to the Hong Kong IPO and are currently held by the relevant trustee (the "Trustee Shares"). These Trustee Shares, taking up 2.92% of the issued share capital as of the date of passing the 2023 Share Award Scheme, is the scheme mandate limit of the 2023 Share Award Scheme. Solely for the purpose of complying with the Listing Rules, the 2023 Share Award Scheme is to be regarded as a share scheme involving issue of new shares with respect of the Trustee Shares and accordingly is subject to the relevant provisions under Chapter 17 of the Listing Rules governing share schemes involving issue of new issues.

Summary of Terms

Purpose. The specific objectives of the 2023 Share Award Scheme are to: (i) recognise the contributions by certain selected participants with an opportunity to acquire a proprietary interest in the Company; (ii) encourage and retain such individuals for the continual operation and development of the Group; (iii) provide additional incentives for them to achieve performance goals; (iv) attract suitable personnel for further development of the Group; and (v) motivate the selected participants to maximise the value of the Company for the benefits of both the selected participants and the Company, with a view to achieving the objectives of increasing the value of the Group and aligning the interests of the selected participants directly to the shareholders of the Company through ownership of Shares.

Eligible participants. The eligible participants include employee participants and service providers, each as defined under the Listing Rules.

Administration. The 2023 Share Award Scheme shall be subject to the administration of the Board and the relevant trustee with respect to their respective functions in accordance with the terms of the 2023 Share Award Scheme and the relevant trust deed. Unless otherwise specified in the terms of the 2023 Share Award Scheme, the decision made in accordance with the trust deed regarding the administration and operation of the 2023 Share Award Scheme shall be final and binding on all parties.

Duration/validity period. Subject to any early termination, the 2023 Share Award Scheme shall be valid and effective for a term of 10 years commencing on the date of adoption on 31 August 2023. The remaining life of the 2023 Share Award Scheme is nine years and five months.

REPORT OF DIRECTORS

Maximum number of restricted shares. The number of Shares which may be awarded by the Board under the 2023 Share Award Scheme shall not exceed 51,481,607 Shares (that is, excluding a total of 117,000 Shares held by the relevant trustees the underlying RSUs of which were lapsed during the Reporting Period), representing approximately 2.92% of the total number of issued shares of the Company as at the adoption date, all of which were already issued to the relevant trustee in the form of Trustee Shares. Amongst which, the number of Shares that available for grant under the service provider sublimit shall not exceed 1,764,321 Shares, representing not more than 0.1% of the total number of issued Shares as of the adoption date.

As at 31 December 2023, an aggregate of 3,700,000 restricted shares have been granted to Directors, senior management, core technicians and other employees of the Group pursuant to the 2023 Share Award Scheme, representing 0.21% of the total issued capital of the Company as of the date of this report. The remaining 47,781,607 restricted shares have been reserved for further grants pursuant to the 2023 Share Award Scheme, representing 2.71% of the total issued capital of the Company as of the date of this report.

51,481,607 and 47,781,607 Shares are underlying awards available for grant under the 2023 Share Award Scheme as of its adoption date and 31 December 2023, respectively (representing 2.92% and 2.71% of the total issued capital of the Company as of the date of this report, respectively), within which 1,764,321 and 1,764,321 Shares are underlying awards available for grant to service providers under the 2023 Share Award Scheme as of its adoption date and 31 December 2023 (representing 0.1% and 0.1% of the total issued capital of the Company as of the date of this report, respectively).

As all Shares to satisfy the awards granted under the 2023 Share Award Scheme have been issued and held by the trustee for the purpose of the 2023 Share Award Scheme, there is no Share available for issue under the 2023 Share Award Scheme.

Maximum entitlement of each participant. No award may be granted to any one eligible participant such that the total number of Shares issued and to be issued in respect of all awards granted to such person (excluding any awards lapsed in accordance with the terms of the scheme) in any twelve (12) month period up to the date of the latest grant exceeds 1% of the total issued shares of the Company from time to time, unless such grant is separately approved by shareholders of the Company in general meeting with such grantee and his/her close associates (with the meaning ascribed thereto under the Listing Rules) (or his/her associates if the grantee is a connected person) abstaining from voting in accordance with Rule 17.03D(1) of the Listing Rules. The maximum number of new Shares which may be awarded to all of the selected participants who are Service Providers (including, where the Service Provider is an entity, its employees, directors, consultants, advisers or agents who provides service to the Group) in aggregate under the 2023 Share Award Scheme shall not exceed 0.1% of the issued Shares as at the adoption date.

Consideration. As the 2023 Share Award Scheme is an attempt for the Company to consolidate and bring the Pre-IPO Incentivization Plans into compliance with Chapter 17 of the Listing Rules, the basis for determination of the purchase price of the Award will follow those of the Existing Plans, that is to be at the Board's sole discretion. Accordingly, the Board has resolved to set the relevant consideration for each award to be within the range of US\$0.000002 and US\$0.178. In setting the consideration, the Board took into account (including but not limited to) the purpose of the 2023 Share Award Scheme and the characteristics and profile of the grantee. The Board believes that it is in the best interests of the Company to retain the flexibility to impose appropriate conditions in light of the particular circumstances of each grant, which would then be a more meaningful reward commensurate to the grantees' contribution or potential contribution. Such room for discretion provides the Board with flexibility to stipulate a purchase price for the restricted shares, while balancing the purpose of the award and the interests of Shareholders. Therefore, the aforesaid term regarding the purchase price aligns with the purpose of the 2023 Share Award Scheme.

Vesting Period and conditions of the restricted shares. Subject to fulfilling the relevant vesting conditions, the vesting period in respect of an award held by the Employee Participant must be at least 12 months, except a shorter vesting period may be granted to an Employee Participant in the circumstances referred in Question No. 10 of FAQ No. 092-2022 published by the Hong Kong Stock Exchange. For the avoidance of doubt, the vesting period in respect of an Award held by the selected participant that is a Service Provider must be at least 12 months with no exceptions allowing for a shorter vesting period thereof.

For details of the terms of the 2023 Share Award Scheme, see the Company's circular dated 16 August 2023.

During the Reporting Period, the movements in the RSUs granted under the 2023 Share Award Scheme were as follows:

Name and category of grantee	Number of RSUs				As at 1 January 2023	Granted during the Reporting Period	Vested during the Reporting Period	Lapsed during the Reporting Period	Cancelled during the Reporting Period	Expired during the Reporting Period	As at 31 December 2023	Date of grant of restricted shares	Fair value of RSUs at the grant date ⁽¹⁾	Vesting period of restricted shares ⁽²⁾	Purchase price per share	Closing price per Share immediately before the grant date of awards	Weighted average closing price per Share underlying the restricted shares vested during the Reporting Period	Number of Shares underlying restricted shares as of 31 December 2023 divided by weighted average number of Shares
	As at 1 January 2023	Granted during the Reporting Period	Vested during the Reporting Period	Lapsed during the Reporting Period														
Other grantees if any grantees is one of the five highest paid individuals, need to separate out	0	650,000	0	0	0	0	0	0	0	0	650,000	28 September 2023	USD398,151	(i) 450,000 RSUs shall vest in four equal tranches over one to four years from the grant date; (ii) 200,000 RSUs shall vest on performance-based vesting conditions	US\$0.178	HK\$6.19; RMB10.32	N/A	N/A
Nine employee participants	0	3,050,000	0	0	0	0	0	0	0	0	3,050,000	29 December 2023	USD2,145,880	(i) 2,550,000 RSUs shall vest in four equal tranches over one to four years from the grant date; (ii) 500,000 RSUs shall vest on performance-based vesting conditions	US\$0.178	HK\$6.89; RMB11.50	N/A	N/A
Subtotal	0	3,700,000	0	0	0	0	0	0	0	0	3,700,000							
Total	0	3,700,000	0	0	0	0	0	0	0	0	3,700,000							

- Notes:
- Details of the valuation of restricted shares granted during the Reporting Period, including the accounting standard and policy adopted for the 2023 RMB Share Incentive Scheme, are set out in note 34 and note 2.4 to the consolidated financial statements of the Group in this report.
 - For performance targets attached to the restricted shares granted during the year ended 31 December 2023, which comprise attaining satisfactory performance at both the individual and Group level, please refer to the circular of the Company dated 16 August 2023.

Other grantees if any grantees is one of the five highest paid individuals, need to separate out

REPORT OF DIRECTORS

EQUITY-LINKED AGREEMENT

Save as disclosed in this report, there was no equity-linked agreement entered into by the Company during the year ended 31 December 2023.

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2023, the respective percentage of purchases attributable to the Group's largest supplier and five largest suppliers in aggregate was 11.4% and 27.3% and the respective percentage of the total sales attributable to the Group's largest customer and five largest customers in aggregate was 33.8% and 76.4%, respectively. The Group's largest customer is an independent third party of the Group.

None of our Directors or any of their close associates or any Shareholder (which to the best knowledge of our Directors owned more than 5% of the Company's issued share capital) had any interest in any of our five largest suppliers or customers.

Our major customers comprise retailers of Orelabrutinib and biotechnology company to whom we provide R&D services. Their credit terms are generally between one to three months, expanding up to six months for some customers. No special provisions recognized to the receivables as of 31 December 2023 from such major customers. For sales of Orelabrutinib, the Group's major customers are state-owned large-scale drug distributors located in the PRC with whom the Group has been cooperating since 2021. The Group considers that such practice is in line with the unique norm of the bio-pharmaceutical industry in the PRC where primary drug distributors are state-owned enterprises. We have been maintaining strict control over outstanding receivables from all of our customers to minimize any credit risk.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES, TRANSACTION IN SECURITIES

On 8 September 2023, the Board approved and the Company announced a HK\$200 million share repurchase plan (the "Share Repurchase Plan") of the Shares listed on the Main Board of the Stock Exchange. During the Reporting Period, the Company repurchased 1,191,000 Shares on-market for a total consideration of HK\$6,876,550 pursuant to the Share Repurchase Plan. As at 31 December 2023, 1,011,000 and 180,000 Shares repurchased have been cancelled on 8 November and 28 December 2023, respectively. The Directors are of the view that repurchases of Shares may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

Details of the share repurchases during the Reporting Period are as follows:

Month of repurchase in 2023	Number of Shares and method of repurchased	Price per Share paid		Total consideration paid
		Highest	Lowest	
September 2023	451,000 Shares on the Stock Exchange	HK\$6	HK\$5.72	HK\$2,627,610
October 2023	560,000 Shares on the Stock Exchange	HK\$5.58	HK\$5.34	HK\$3,057,470
November 2023	180,000 Shares on the Stock Exchange	HK\$6.66	HK\$6.46	HK\$1,191,470
Total	1,191,000 Shares on the Stock Exchange			HK\$6,876,550

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Reporting Period. Save as disclosed above, there was no transaction in the Company's securities, or securities of its subsidiaries (in each case, in the nature of (1) convertible securities, options, warrants or similar rights issued or granted; (2) exercise of any conversion or subscription rights attached to the aforesaid; or (3) redemption, purchase or cancellation of redeemable securities) during the Reporting Period.

CHARITABLE CONTRIBUTIONS

During the Reporting Period, the Group has donated RMB0.2 million for fighting the flood and providing relief.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code contained in Appendix C1 to the Listing Rules. During the Reporting Period, the Board is of the opinion that the Company has complied with all applicable code provisions apart from the deviation below.

Pursuant to code provision C.2.1 of the CG Code, the responsibilities between the Chairperson and the Chief Executive should be segregated and should not be performed by the same individual. The roles of the Chairperson and Chief Executive Officer of the Company are held by Dr. Jisong Cui who is a co-founder of the Company. The Board believes that this structure will not impair the balance of power and authority between our Board and the management of the Company, given that: (i) a decision to be made by the Board requires approvals by at least a majority of Directors and that the Board comprises three independent non-executive Directors out of nine Directors, and the Board believes there is sufficient check and balance in the Board; (ii) Dr. Jisong Cui and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they act for the benefits and in the best interests of the Company and will make decisions for the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels. The Board also believes that the combined role of Chairperson and Chief Executive Officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Further, in view of Dr. Jisong Cui's experience, personal profile and her roles in the Company as mentioned above, Dr. Jisong Cui is the Director best suited to identify strategic opportunities and focus of the Board due to her extensive understanding of our business as the Chief Executive Officer. Finally, as Dr. Jisong Cui is the co-founder of the Company, the Board believes that vesting the roles of both Chairperson and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for and communication within the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of Chairperson and Chief Executive Officer is necessary.

The Company will continue to regularly review this annual result and monitor the corporate governance practices to ensure the compliance with the CG Code and maintain a high standard of the best practices. We aim to implement a high standard of corporate governance, which is crucial to safeguard the interests of the Shareholders.

Further information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" of this annual report.

REPORT OF DIRECTORS

CONTINUING DISCLOSURE OBLIGATIONS PURSUANT TO THE LISTING RULES

In respect of the year ended 31 December 2023, the Company does not have any disclosure obligations under Rules 13.17 to 13.22 of the Listing Rules.

AUDITOR

The consolidated financial statements of the Group for the year ended 31 December 2023 have been audited by Ernst & Young. As of the date of this report, there was no change in the Company's auditor in any of the preceding three years.

Ernst & Young shall retire and being eligible, offer itself for re-appointment, and a resolution to this effect shall be proposed at the forthcoming AGM.

By order of the Board of Directors

InnoCare Pharma Limited

Dr. Jisong Cui

Chairperson and Executive Director

PRC, 28 March 2024

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the principles and code provisions of the CG Code contained in Appendix C1 to the Listing Rules as the basis of the Company's corporate governance practices.

In the opinion of the Directors, for the year ended 31 December 2023, the Company has complied with all the applicable code provisions as set out in the CG Code, except for code provision C.2.1 of the CG Code which provides that the roles of Chairperson and Chief Executive Officer should be separated and should not be performed by the same individual, details of which are set out on page 87 under the section headed "Board of Directors — Chairperson and Chief Executive Officer" of this Corporate Governance Report.

CORPORATE GOVERNANCE CODE COMPLIANCE

Up to the date of this report, the Company has complied with the code provisions as set out in CG Code and supplementary requirements in force in material time in Appendix C1 to the Listing Rules. In the following corporate governance areas, the Company's practices have exceeded the relevant CG Code/Listing Rules requirements:

CORPORATE GOVERNANCE REPORT

Corporate Governance Areas	Details of Exceedance
Number of INED	<ul style="list-style-type: none"> The number of INEDs represents more than one-third of the Board, which exceeded the independence requirement under the Listing Rules. By ensuring the independent view available to corporate governance, in particular, the Company amended and updated four mechanisms in place in order to ensure a strong independent element on the Board which is the key to the Board's effectiveness. Please refer to Section Four in the amended Procedure for Directors Election, which is available on the website of the Company (www.innocarepharm.com) under Corporate Governance Section.
Number of INED in Audit Committee	The Audit Committee consists of two INEDs, which met the independence requirement under the listing Rules.
Number of Regular Board Meetings	The Company held fifteen Board meetings including 4 regular Board meetings and Special Board Meetings in this year are held as and when required, which exceeds the requirement under the CG Code.
Notice of the Regular Board Meetings	The dates of regular Board meetings for the following year are usually fixed in the fourth quarter of the preceding year.
Model Code Confirmation	Confirmation of Compliance with the Model Code is obtained from each Director and Executive Management every half year.
Evaluation of the Effectiveness of Internal Control and Risk Management System	The Company reviews not only the effectiveness of the internal control and risk management of the Company and its subsidiaries, but also that of its key associate operating in Mainland China and overseas.
Board Diversity Policy	The Company has a Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of the Board. In particular, there are four female board members, which exceeded the peers' board composition on the gender diversity.
Whistleblowing Policy	The Company adopted the Whistleblowing Policy in 2022 and is committed to maintaining high standards of business ethics and corporate governance. For the details, please refer to the Whistleblowing Policy, which is available on the website of the Company (www.innocarepharm.com) Corporate Governance Section.
Anti-corruption and Anti-bribery Policy	The Company adopted the Anti-corruption and Anti-bribery Policy in 2022 and is committed to conduct all its business in an honest and ethical manner. For the details, please refer to the Anti-corruption and Anti-bribery Policy, which is available on the website of the Company (www.innocarepharm.com) under Corporate Governance Section.

The Company continues to monitor developments in the area of corporate governance externally to ensure the suitability and robustness of its corporate governance framework in light of the evolving business and regulatory environment and to meet the expectations of shareholders and stakeholders.

BOARD OF DIRECTORS

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

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

Board Composition

The Board currently comprises eight Directors, consisting of two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors.

Executive Directors:

Dr. Jisong Cui (*Chairperson and Chief Executive Officer*)
Dr. Renbin Zhao

Non-executive Directors:

Dr. Yigong Shi
Mr. Ronggang Xie
Mr. Ming Jin
Mr. Shan Fu (*resigned with effect from 27 March 2023*)

Independent Non-executive Directors:

Ms. Lan Hu
Dr. Kaixian Chen
Dr. Zemin Jason Zhang (*resigned with effect from 14 July 2023*)
Dr. Dandan Dong (*appointed with effect from 11 October 2023*)

The biographical information of the Directors is set out in the section headed "Biographies of Directors and Senior Management — Directors" of this report.

Save as disclosed in the Prospectus and in this report, to the best knowledge of the Company, there has been no other financial, business, family, or other material/relevant relationships among members of the Board.

CORPORATE GOVERNANCE REPORT

Board Meetings and Directors' Attendance Records

Regular Board meetings should be held at least four times a year involving active participation, either in person or through electronic means of communication, of a majority of Directors. The attendance record of each Director at the annual general meeting, extraordinary general meeting, the Board meeting and the Board committee meetings of the Company held during the Reporting Period is set out in the table below:

Name of Directors	Attendance/Number of Meetings ⁽¹⁾				General Meeting
	Board	Audit Committee	Compensation Committee	Nomination Committee	
<i>Executive Directors</i>					
Dr. Jisong Cui (Chairperson and Chief Executive Officer)	15/15	—	6/6	3/3	2/2
Dr. Renbin Zhao	15/15	—	—	—	2/2
<i>Non-executive Directors</i>					
Dr. Yigong Shi	15/15	—	—	—	2/2
Mr. Shan Fu (resigned with effect from 27 March 2023)	3/3	—	—	—	—
Mr. Ronggang Xie	15/15	3/3	—	—	2/2
Mr. Ming Jin	15/15	—	—	—	2/2
<i>Independent Non-executive Directors</i>					
Dr. Zemin Jason Zhang (resigned with effect from 14 July 2023)	8/8	4/4	3/3	1/1	1/1
Ms. Lan Hu	15/15	7/7	6/6	1/1	2/2
Dr. Kaixian Chen	14/15	7/7	3/3	3/3	2/2
Dr. Dandan Dong (appointed with effect from 11 October 2023)	2/2	—	—	—	—

Note:

(1) No attendance was by an alternate of any Director.

Responsibilities, Accountabilities and Contributions of the Board and Management

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

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

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The Independent Non-executive Directors are responsible for ensuring a high standard of regulatory reporting of the Company and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations. All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company. The Directors shall disclose to the Company details of other offices held by them.

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

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

Independent Non-executive Directors

For the year ended 31 December 2023, the Board at all times met the requirements of Rules 3.10(1) and (2), and 3.10A of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company is of the view that all Independent Non-executive Directors had remained independent for the year ended 31 December 2023.

Code provision C.2.7 of the CG Code requires that the chairperson should at least annually hold meetings with independent non-executive Directors without the presence of other directors. During the year ended 31 December 2023, the Chairperson held 9 meeting(s) with the Independent Non-executive Directors without the presence of the other directors.

Continuous Professional Development of Directors

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

Every newly appointed Director has received a formal and comprehensive induction before or on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of a Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements. Such induction shall be supplemented by regular meetings with senior management of the Company to understand the Group's businesses, governance policies and regulatory environment.

CORPORATE GOVERNANCE REPORT

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

During the year ended 31 December 2023, all of the Directors participated in a training session conducted by the legal advisers of the Company, Listed Companies Association or Securities Regulatory Commission. The training session covered a wide range of relevant topics including directors' duties and responsibilities, continuing connected transaction, disclosure of interests and regulatory updates. In addition, relevant reading materials including compliance manual, legal and regulatory updates and seminar handouts have been provided to the Directors for their reference and studying.

The training records of the Directors as provided by the Directors during the year ended 31 December 2023 in compliance with code provision C.1.4 of the CG Code are summarized as follows:

Directors	Participated in continuous professional development ^{Note 1}
<i>Executive Directors</i>	
Dr. Jisong Cui (<i>Chairperson and Chief Executive Officer</i>)	✓
Dr. Renbin Zhao	✓
<i>Non-executive Directors</i>	
Dr. Yigong Shi	✓
Mr. Shan Fu (<i>resigned with effect from 27 March 2023</i>)	✓
Mr. Ronggang Xie	✓
Mr. Ming Jin	✓
<i>Independent Non-executive Directors</i>	
Dr. Zemin Jason Zhang (<i>resigned with effect from 14 July 2023</i>)	✓
Ms. Lan Hu	✓
Dr. Kaixian Chen	✓
Dr. Dandan Dong (<i>appointed with effect from 11 October 2023</i>)	✓

Note:

1. Attended training/seminar/conference conducted by the legal advisor of the Company, Listed Companies Association or Securities Regulatory Commission and studied the relevant reading materials.

Chairperson and Chief Executive Officer

The roles of the Chairperson and Chief Executive Officer of the Company are held by Dr. Jisong Cui who is a co-founder of the Company.

The Board believes that this structure will not impair the balance of power and authority between our Board and the management of the Company, given that: (i) a decision to be made by the Board requires approvals by at least a majority of Directors and that the Board comprises three Independent Non-executive Directors out of nine Directors, and the Board believes there is sufficient check and balance in the Board; (ii) Dr. Jisong Cui and the other Directors are aware of and undertake to fulfill their fiduciary duties as Directors, which require, among other things, that they act for the benefits and in the best interests of the Company and will make decisions for the Group accordingly; and (iii) the balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals who meet regularly to discuss issues affecting the operations of the Company. Moreover, the overall strategic and other key business, financial and operational policies of the Group are made collectively after thorough discussion at both the Board and senior management levels. The Board also believes that the combined role of Chairperson and Chief Executive Officer can promote the effective execution of strategic initiatives and facilitate the flow of information between management and the Board. Further, in view of Dr. Jisong Cui's experience, personal profile and her roles in the Company as mentioned above, Dr. Jisong Cui is the Director best suited to identify strategic opportunities and focus of the Board due to her extensive understanding of our business as the Chief Executive Officer. Finally, as Dr. Jisong Cui is the co-founder of the Company, the Board believes that vesting the roles of both Chairperson and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for and communication within the Group. The Board will continue to review the effectiveness of the corporate governance structure of the Group in order to assess whether separation of the roles of Chairperson and Chief Executive Officer is necessary.

Appointment and Re-election of Directors

Each of the Executive Directors and Non-executive Directors has entered into a service agreement with the Company under which the initial term of their service agreement shall commence from the date of their appointment until terminated in accordance with the terms and conditions of the service agreement or by either party giving to the other not less than three months' prior notice. Each of the Independent Non-executive Directors has entered into an appointment letter with the Company under which the initial term of their appointment letters shall commence from the date of their appointment for a period of three years (subject always to re-election as and when required under the Articles of Association) until terminated in accordance with the terms and conditions of the appointment letter or by either party giving to the other not less than one month's prior notice in writing. The appointments and re-election of Directors are subject to the provisions of retirement and rotation under the Articles of Association.

Under the Article 114(a) of the Articles of Association, at every AGM of the Company, one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to, but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. The Article 118 of the Articles of Association also provides that any Director appointed to fill a casual vacancy shall hold office until the first annual general meeting the Company after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

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

Audit Committee

The Audit Committee consists of three members, including one Non-executive Director, namely Mr. Ronggang Xie, and two Independent Non-executive Directors, namely Ms. Lan Hu and Dr. Kaixian Chen. Ms. Lan Hu, being the chairperson of the Audit Committee, holds the appropriate professional qualification as required under Rules 3.10(2) and 3.21 of the Listing Rules.

The terms of reference of the Audit Committee are of no less exacting terms than those set out in the CG Code. The main duties of the Audit Committee include assisting the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of the Group, overseeing the audit process and performing other duties and responsibilities as assigned by the Board of Directors.

During the Reporting Period, the Audit Committee held 7 meetings and all the members of the Audit Committee attended the meeting to, assist our Board of Directors by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management systems of our Group, overseeing the audit process and performing other duties and responsibilities as assigned by our Board of Directors review the quarter, interim and annual results, review the risk management and internal control systems and the effectiveness of the Company's internal audit function.

Compensation Committee

The Compensation Committee consists of three members, including one Executive Director, namely Dr. Jisong Cui, and two Independent Non-executive Directors, namely Ms. Lan Hu and Dr. Kaixian Chen. Ms. Lan Hu is the chairperson of the Compensation Committee.

The terms of reference of the Compensation Committee are of no less exacting terms than those set out in the CG Code. The primary duties of the Compensation Committee include (i) making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration; (ii) determining the specific remuneration packages of all Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

During the Reporting Period, the Compensation Committee held 6 meetings and all the members of the Compensation Committee attended the meeting to, review the remuneration policy and structure for the Directors and senior management, make recommendations to the Board on determining the annual remuneration packages of the Directors and the senior management and other related matters, assess and review performance of the Directors and senior management, approve the terms of the executive director's service contract, and reviewing and approving matters relating to share schemes under Chapter 17.

Material matters relating to the Pre-IPO Incentivisation Plans that were reviewed and approved by the Compensation Committee during the Reporting Period are set out below:

- (1) to grant 610,000 RSUs to seven employee participants and 500,000 RSUs to one service provider under the 2018 Pre-IPO Incentivisation Plan; and
- (2) to terminate the Pre-IPO Incentivisation Plans.

The material matter relating to the Post-IPO RSU Scheme that was reviewed and approved by the Compensation Committee during the Reporting Period is to terminate the Post-IPO RSU Scheme.

Material matters relating to the 2023 RMB Share Incentive Scheme that were reviewed and approved by the Compensation Committee during the Reporting Period are set out below:

- (1) to adopt the 2023 RMB Share Incentive Scheme; and
- (2) to grant 7,209,000 restricted shares to 113 employees and two Directors under the 2023 RMB Share Incentive Scheme.

Material matters relating to the 2023 Share Award Scheme that were reviewed and approved by the Compensation Committee during the Reporting Period are set out below:

- (1) to adopt the 2023 Share Award Scheme;
- (2) to grant 650,000 RSUs to two employees under the 2023 Share Award Scheme; and
- (3) to grant 3,050,000 RSUs to seven employees under the 2023 Share Award Scheme.

CORPORATE GOVERNANCE REPORT

The remuneration payable to the senior management of the Company (who are not the Directors) is shown in the following table by band:

	2023 Number of Individual(s)	2022 Number of Individual(s)
Annual Remuneration		
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$11,000,001 to HK\$11,500,000	1	–
HK\$14,000,001 to HK\$14,500,000	1	–
HK\$15,000,001 to HK\$15,500,000	1	–
HK\$15,500,001 to HK\$16,000,000	–	1
HK\$28,000,001 to HK\$28,500,000	–	1
HK\$30,500,001 to HK\$31,000,000	–	1
	4	4

Further details of the remuneration payable to the Directors and the five highest paid individuals for the year ended 31 December 2023 are set out in note 8 and note 9, respectively, to the consolidated financial statements of the Group in this report.

Details of the remuneration for the five highest paid employees of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	17,273	16,202
Performance related bonuses	7,613	7,424
Pension scheme contributions	279	249
Share-based payments	39,391	70,247
	64,556	94,122

Nomination Committee

The Nomination Committee consists of three members, including one Executive Director, namely Dr. Jisong Cui, and two Independent Non-executive Directors, namely Ms. Lan Hu and Dr. Kaixian Chen. Dr. Jisong Cui is the chairperson of the Nomination Committee.

The terms of reference of the Nomination Committee are of no less exacting terms than those set out in the CG Code. The principal duties of the Nomination Committee include without limitation, reviewing the structure, size and composition of the Board, assessing the independence of Independent Non-executive Directors and making recommendations to the Board on matters relating to the appointment of Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning board diversity as set out in the Company's board diversity policy (the "**Board Diversity Policy**"). The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Company's director nomination policy (the "**Director Nomination Policy**") that are necessary to complement the corporate strategy and achieve board diversity, where appropriate, before making recommendation to the Board.

During the Reporting Period, the Nomination Committee held 3 meeting(s) and all the members of the Nomination Committee attended the meeting to, among other things, review the policy for the nomination of Directors and terms of references and recommend to the Board for the nomination, re-appointment of new Directors in accordance with the following procedures and process: (a) the Nomination Committee shall first review and assess factors relating to the diversity of the Board, including but not limited to professional experience, skill, knowledge and length of service, gender, age, cultural and education background, and give consideration to the candidate's willingness to devote adequate time to the Board and independence of each INED based on the requirements of the Listing Rules as amended from time to time; (b) the Nomination Committee shall then nominate suitable candidates to the Board based on the then-current and anticipated future leadership needs of the Company, with a view to achieving a sustainable and balanced development of the Company; and (c) the Nomination Committee shall also monitor and review the implementation of the nomination policy, as appropriate from time to time, and will report to the Board annually.

Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee.

The Company has a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

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

- Reputation for integrity
- Commitment in respect of available time and relevant interest
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge, and length of service

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings.

The Nomination Committee will review the Director Nomination Policy, from time to time and as appropriate, to ensure its effectiveness.

CORPORATE GOVERNANCE REPORT

Mechanism to Ensure Independent Views and Input Available to the Board

The Company recognizes the importance of board independence to corporate governance. In particular, the following mechanisms are established during the Reporting Period in order to ensure that there is strong independent element on the Board which is key to the Board's effectiveness:

- In assessing whether a potential candidate is qualified to become an independent non-executive director of the Company, the Nomination Committee and the Board will consider, among others, whether the candidate is able to devote sufficient time on performing his/her duties as an independent non-executive director of the Company, and the background and qualification of the candidate, in order to assess whether such candidates are able to bring independent views to the Board Commitment in respect of available time and relevant interest.
- In considering whether an independent non-executive director should be proposed for re-election, the Nomination Committee and the Board will assess and evaluate the independent non-executive director's contribution to the Board during the term, in particular, whether the independent non-executive director was able to bring independent views to the Board.
- The Company will ensure that there are channels (in addition to independent non-executive directors) where independent views are available, including but not limited to availability of access by directors of the Company to external independent professional advice to assist their performance of duties.
- In connection with the preceding paragraphs, the Nomination Committee and the Board will consider a potential candidate's (or, in the case of re-election, a retiring independent non-executive director's) willingness to (i) commit the time required to fully discharge his/her responsibilities to the Board (as 3 independent non-executive director) and (ii) advance his/her opinion on matters where independent non-executive directors' views are required, including but not limited to the conflict of interest assessment, etc.

At the end of December, the Company reviewed the mechanism and are satisfied with the effectiveness and efficiency of the current version.

Corporate Governance Functions

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

For the year ended 31 December 2023, the Board had reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code, and the Company's compliance with the CG Code and the disclosure in this Corporate Governance Report.

COMPANY SECRETARY

Ms. Angel Pui Shan Lee, a corporate secretarial executive of SWCS Corporate Services Group (Hong Kong) Limited, as the company secretary of the Company, is responsible for advising the Board on corporate governance matters and ensuring that Board policy and procedures, and applicable laws, rules and regulations are followed. Ms. Bei Yuan, the Investor Relations Director of the Company, is the primary contact person of the company secretary of the Company.

For the year ended 31 December 2023, Ms. Angel Pui Shan Lee has undertaken not less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix C3 to the Listing Rules.

Specific enquiries have been made of all the Directors and they have confirmed that they have complied with the Model Code during the Reporting Period. The Company's employees, who are likely to be in possession of unpublished inside information of the Company, are subject to the Model Code. No incident of non-compliance of the Model Code by the employees was noted by the Company during the Reporting Period.

MATERIAL LITIGATION

The Company was not involved in any material litigation or arbitration during the Reporting Period. The Directors are also not aware of any material litigation or claims that are pending or threatened against the Group as at the end of the Reporting Period.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The internal audit department of the Group was set up on the Listing Date and assists the Board and the Audit Committee in their review of the adequacy and effectiveness of the risk management and internal control systems. The internal audit function examines key issues in relation to the accounting practices and all material controls. The Board had conducted a review of the effectiveness of the risk management and internal control systems of the Company in respect of the Reporting Period and considered the system effective and adequate.

Risk Management

The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives and establishing and maintaining appropriate and effective risk management and internal control systems. The Company recognizes that risk management is critical to the success of its business operation. Key operational risks faced by the Company include changes in general market conditions and the regulatory environment of the Chinese and global biologics markets, the Company's ability to develop, manufacture and commercialize its drug candidates, and its ability to compete with other pharmaceutical companies.

The Company has adopted a series of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor significant risks associated with its strategic objectives on an ongoing basis. The following key principles outline the Company's approach to risk management:

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

CORPORATE GOVERNANCE REPORT

- The Internal control department, is responsible for (i) formulating and updating the Company's risk management policy and targets; (ii) reviewing and approving major risk management issues of the Company; (iii) promulgating risk management measures; (iv) providing guidance on the Company's risk management approach to the relevant departments in the Company; (v) reviewing the relevant departments' reporting on key risks and providing feedback; (vi) supervising the implementation of the Company's risk management measures by the relevant departments; (vii) ensuring that the appropriate structure, processes and competencies are in place across the Group; and (viii) 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 and the human resources department, are responsible for implementing the Company's risk management policy and carrying out our day-to-day risk management practice. In order to standardize 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 significant 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 significant 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.

During the Reporting Period, the Company has regularly reviewed and enhanced its risk management system, around 2 times per annum. We consider that the Directors and members of the Company's senior management possess the necessary knowledge and experience in providing good corporate governance oversight in connection with risk management and internal control.

Internal Control

The Board is responsible for establishing and ensuring effective internal controls to always safeguard the Shareholder's investment. The Company's internal control policies set out a framework to identify, assess, evaluate, and monitor key risks associated with its strategic objectives on an ongoing basis.

The Company has established internal control function for risk management and internal control systems with relevant policies and procedures that we believe are appropriate for our business operations.

The Company has adopted various measures and procedures regarding each aspect of its business operation, such as protection of intellectual property, environmental protection, and occupational health and safety. The Company provides periodic training on these measures and procedures to its employees as part of its employee training program. The Company also constantly monitors the implementation of those measures and procedures through its on-site internal control team for each stage of the drug development process.

The Directors (who are responsible for monitoring the corporate governance of the Group), with help from the Company's legal advisors, periodically review its compliance status with all relevant laws and regulations. The Audit Committee (i) makes recommendations to the Directors on the appointment and removal of external auditors; and (ii) reviews the financial statements and render advice in respect of financial reporting as well as oversee internal control procedures of the Group.

The Company has engaged a PRC law firm to advise it on and keep it abreast of the PRC laws and regulations. The Company will continue to arrange various trainings sessions to be provided by internal and external legal advisors from time to time when necessary, and/or any appropriate accredited institution to update the Directors, senior management and relevant employees on the latest PRC laws and regulations.

The Company maintains strict Anti-corruption Policies and Anti-bribery Policy on personnel with external communication functions. The Company will also ensure that its commercialization team complies with applicable promotion and advertising requirements, which include restrictions on promoting drugs for unapproved uses or patient populations and limitations on industry-sponsored scientific and educational activities.

During the Reporting Period, the Company has regularly reviewed and enhanced its risk management and internal control system, around twice times per annum. The Audit Committee and legal department reviewed the adequacy and effectiveness of the Company's policies and procedures and the external auditor and external consultants (i.e. legal counsel) evaluated the risk management and regulatory compliance, and legal matters. In conjunction with the Board's ad-hoc review, the Company's risk management and internal control systems were adequate and effective with satisfaction during the Reporting Period to cover all the aspects of the current fast-paced development of the Company. Besides, the Company has complied satisfactorily with the requirements of the Corporate Governance Code in respect of risk management and internal control system. During the Reporting Period, the Group was not aware of any significant deficiencies or areas of concern in internal control of the Group.

Investment Risk Management

The Company engages in short-term investments with surplus cash on hand. The Company's investment portfolio primarily consists of wealth management products and time deposits. The Company's primary objective of short-term investment is to preserve principal and increase liquidity without significantly increasing risks. Under the supervision of the Company's Chief Financial Officer, the finance department is responsible for managing the Company's short-term investment activities. Before making any investment proposal, the finance department will assess the Company's cash flow levels, operational needs, and capital expenditures. The Company operates under a Board approved investment policy, which provides the guidelines and specific instructions on the investment of the Company's funds. The Company's investment policy is reviewed by the Board on an annual basis.

The Company's investment strategy aims to minimize risks by reasonably and conservatively matching the maturities of the portfolio to anticipated operating cash needs. The Company makes its investment decisions on a case-by-case basis after thoroughly considering several factors, including but not limited to macro-economic environment, general market conditions and the expected profit or potential loss of the investment. The Company's portfolio to date has been required to hold only instruments with an effective final maturity of 12 months or less, with effective final maturity being defined as the obligation of the issuer to repay principal and interest. Under the Company's investment policy, the Company is prohibited from investing in high-risk products and the proposed investment must not interfere with its business operation or capital expenditure. As of the date of this report, the Company's investment decisions did not deviate from its investment policy.

The Company believes that its internal investment policies and the related risk management mechanism are adequate. The Company had invested in wealth management products and time deposits consistent with its investment policy, after consultation with and approval by the Board.

Policy on the Disclosure of Inside Information

The Company has established an internal policy for the handling and disclosure of inside information in compliance with the SFO. The internal policy sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and provides the Directors, senior management, and relevant employees a general guide in monitoring information disclosure and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

CORPORATE GOVERNANCE REPORT

Whistleblowing Policy

A whistleblowing policy has been established to deal with concerns relating to fraudulent or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal, or reputational impacts on the Company. Such policy applies to all employees (including secondees), officers and directors of the Group (together, the "**Relevant Persons**") and external third parties who deal with the Group (including but not limited to customers and suppliers) ("**External Parties**"). The whistleblowing channels are available to all staff, parties who deal with the Company as well as the public. The Company has thoughtfully considered the protection for whistleblowers, confidentiality, malicious allegations, and false reports, etc., which the investigation procedure, anonymous report, and reporting channels have been put in place.

For the details, please refer to the Whistleblowing Policy, which is available on the website of the Company (www.innocarepharm.com) under Corporate Governance Section.

Anti-corruption and Anti-bribery Policy

Practicing integrity and responsible business ethics is paramount to the Company's continued success. The anti-corruption and anti-bribery policy was adopted during the Reporting Period and lays down the requirements of the Company in terms of ethical practices and obliges staff to operate transparently and under the highest principles of professional, fairness, impartiality and integrity in all of the places where the Company does business. The anti-corruption and anti-bribery policy are reviewed and will be updated periodically to ensure appropriateness and compliance with corporate and regulatory requirements.

To ensure our staff live up to the highest ethical standards, the Company encourages the staff to report existing or perceived violations of the policy as well as malpractices. Proper procedures related to the Whistleblowing Policy of the Company is in place, enabling staff to raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about any wrongdoings.

To assist new staff in embracing the Company's values and ethical commitments, briefing on the anti-corruption and anti-bribery policy is introduced during the staff orientation program. For the details, please refer to the anti-corruption and anti-bribery policy, which is available on the website of the Company.

AUDITOR'S REMUNERATION

The remuneration paid to the external auditors of the Company, Ernst & Young, in respect of audit and non-audit services for the year ended 31 December 2023 is set out below:

Service Category	Fees Paid/Payable (RMB'000)
Audit services	5,726
Total	5,726

DIVERSITY

Board Diversity Policy

The Company has a Board Diversity Policy which sets out the objective and approach to achieve and maintain diversity of our Board in order to enhance the effectiveness of the Board. Pursuant to the Board Diversity Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service. The Directors have a balanced mix of knowledge and skills, including knowledge and experience in the areas of business management, biotechnology, clinical research, life science, finance, investment, and accounting. They obtained degrees in various areas including microbiology, molecular genetics, biological sciences, biophysics, biophysical chemistry, biotechnology, materials sciences, engineering, management science, genetics, biochemistry, molecular biology, business administration, world economics and accounting. The Board Diversity Policy is well implemented as evidenced by the fact that there are both female and male Directors ranging from 38 years old to 78 years old with experience from different industries and sectors.

The Company is also committed to adopting a similar approach to promote diversity within management (including but not limited to the senior management) of the Company to enhance the effectiveness of corporate governance of the Company as a whole.

The Nomination Committee is delegated by the Board to be responsible for compliance with relevant codes governing board diversity under the Code. Our Nomination Committee reviews the Board Diversity Policy on an annual basis to ensure its continued effectiveness.

The Board currently has four female Directors and as such it is satisfy to achieved gender diversity in respect of the Board. We will continue to strive to enhance our female representation and achieve appropriate balance of gender diversity with reference to the stakeholders' expectation and international and local recommended best practices. We also consider that there is gender diversity when recruiting staff at mid to senior level and we are committed to provide career development opportunities for female staff so that we can have a pipeline of female senior management and potential successor to the Board in the near future.

CORPORATE GOVERNANCE REPORT

Corporate Gender Diversity and Objectives

Gender	Male (4)		Female (4)			
Designation	INED (3)		NED (3)		ED (2)	
Age Group	<=50 (2)		50-69 (5)			>=70 (1)
Numbers of Years as Board Members(Years)	0-1 (2)		2-3 (3)		4-5 (1)	>=6 (2)
Outside Directorships (Number of listed companies)	0 (4)		1-2 (2)		3-4 (2)	>=5 (0)

Note: As of 31 December 2023

At present, the Nomination Committee considered that the gender of the Board is sufficiently diverse, and the Board has set out below measurable objective in relation to other aspects.

Measurable objectives during the year include (i) at least one third of the Board shall be Independent Non-executive Directors; (ii) at least two Directors are female; (iii) at least one Director shall have obtained accounting or other professional qualifications; and (iv) at least four Directors shall have relevant healthcare or biotech background. For the year, all items of the above targets have been fulfilled. Whereas the current Board and Executive Management of the Company comprise of 21 members, viewing from the Company's perspective, as at 31 December 2023, the Company had 1,089 employees in total comprising of approximately 570 females and 519 males (that is, a female-to-male ratio of 52.34%: 47.66%), reflecting a gender equality principle generally adhered by the Company from top to the bottom with an extend to the entire company. The Board is mindful of the objectives for the factors as set out in the paragraph headed "Nomination Committee" for assessing the candidacy of the Board members and will ensure that any successors to the Board shall follow the gender diversity policy. Similar considerations shall also be in place to assess the candidacy of the Executive Management team from time to time. The Company is determined to maintain gender diversity and equality in terms of the whole workforce, and to procure the executive management team to achieve gender equality in terms of the gender ratio within an approximately five years' timeframe. The Company expects the above is achievable with suitable effort in promoting the gender diversity culture, which the Company has been advocating for so.

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS

The Company considers that effective communication with Shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. Therefore, The Company engages with the Shareholders through various communication channels. The Company also recognizes the importance of timely and non-selective disclosure of information, which will enable shareholders and investors to make the informed investment decisions.

Convening an Annual General Meeting

The Company endeavours to maintain an ongoing dialogue with Shareholders and in particular, through AGMs and other general meetings. At the AGMs, Directors (or their delegates as appropriate) should be available to meet Shareholders and answer their enquiries. The forthcoming AGM will be held on Thursday, 27 June 2024. The notice of the AGM will be published and dispatched in due course in the manner as required by the Listing Rules.

Convening an Extraordinary General Meeting

Pursuant to Article 66 of the Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members to the Board or the secretary of the Company, specifying the objects of the meeting and signed by the requisitionist(s), provided that such requisitionist(s) held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company; on a one vote per share basis in the share capital of the Company, and the foregoing Shareholders shall be able to add resolutions to the meeting agenda. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves may convene the general meeting in the same manner and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to them by the Company.

Putting Forward Proposals at General Meetings

There are no provisions under the Articles of Association or the Companies Law of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as a Director.

Shareholders may follow the procedures set out above to convene an extraordinary general meeting for any business specified in such written requisition.

For proposal of a person for election as Director, pursuant to Article 119 of the Articles of Association, no person, other than a retiring Director, shall, unless proposed by the Board pursuant to the recommendation of the Nomination Committee, be eligible for election to the office of Director at any general meeting unless during the period, which shall be at least seven days, commencing no earlier than the day after the dispatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been lodged at the principal office or at the registration office of the Company, a notice in writing by a member of the Company (not being the person to be proposed), entitled to attend and vote at the meeting for which such notice is given, of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected, and such person has been approved by the Nomination Committee and the Board.

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

In addition, to promote effective communication, the Company has established a two-way relationship and communication policy between the Company and the shareholders and maintaining such policy on the websites of the Company at www.innocarepharma.com where up-to-date information on the Company's business operations and developments, financial information, corporate governance practices and other information is available for public access.

CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board

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

Contact Details

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

Address: Building 8, No. 8 Life Science Park Road, Zhongguancun Life Science Park Changping District Beijing, PRC
Email: ir@innocarepharma.com

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

INVESTOR RELATIONS

The Shareholders' communication policy of the Company is set out in the section headed "Shareholders' Rights and Communications" in this report.

The two-way relationship communication policy is reviewed by the Company on an annual basis to ensure its continued effectiveness. The Company's proactive approach to investor relations has widened and expanded the coverage of the Company by global funds in and outside Hong Kong and Mainland China in 2023 for more than 30 sell-sides and over 30 sell-sides are actively holding investor group meetings and conference for us. A number of local and international sell-side firms and brokers published research reports on the Company, often on a regular basis, and the Company attracts attention of a wide range of institutional investors.

The Company's management and investor relations function take great efforts to maintain an open dialogue with the investment community to ensure a thorough understanding of the Company's business development, core strategies and corporate governance principles. In 2023, the Company participated in investor conferences, roadshows, healthcare summits on virtual basis and in-person. Nearly 600 investor meetings were held with institutional investors and research analysts in Hong Kong and internationally.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF THE COMPANY

At the Company's annual general meeting held on 2 June 2023, the Shareholders passed a special resolution in relation to the amendments to the memorandum and articles of association of the Company. The fourth amended and restated memorandum and articles of association of the Company became effective on 2 June 2023. For details, please refer to the Company's circular dated 3 May 2023.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2023.

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

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 110 to 115.

WHISTLEBLOWING AND ANTI-CORRUPTION POLICIES

The Company has established a whistleblowing policy and system for employees and those who deal with the Company (e.g. the Company's customers and suppliers) to raise concerns, in confidence and anonymity, with the Audit Committee about possible improprieties in any matter related to the Company.

The Company has also established an anti-corruption policy and anti-bribery policy and system to promote and support applicable anti-corruption laws and regulations in jurisdictions where the Company operates its business.

DIVIDEND POLICY

The Company has adopted a dividend policy on payment of dividends. The Company does not have any pre-determined dividend payout ratio. Depending on the financial conditions of the Company and the Group and the conditions and factors, among others, financial results, cash flow situation, business conditions and strategies and future operations and earnings, as set out in the dividend policy, dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to Shareholders' approval.

CORPORATE CULTURE

The Company is committed to fostering a positive and progressive culture rooted in our purpose, vision, and values. This culture empowers our employees across the Group to thrive, unlock their full potential, so that enables the Company to deliver long-term sustainable growth and success and to fulfil its role to become a global biopharmaceutical leader that develops and delivers innovative therapies for patients worldwide. Throughout 2023, InnoCare continued to strengthen its cultural framework by focusing on four specific areas: Dedicated & Responsible, Persistent & Perseverant, Creative & Innovative, Collaborative & Team-oriented, and Pursuit of Excellence, through various initiatives set out in the Business Review and the Governance sections of this annual report and the 2023 ESG Report.

In particular, the Board established and promotes corporate culture and expects and requires all employees to actively uphold and reinforce it.

The Company has always embraces the principle that "Science Drives Innovation for the Benefit of Patients". We are dedicated to improving the quality of life for patients worldwide through innovation and technology, and we aim to contribute to the advancement of the global pharmaceutical industry. Our core values are "Dedicated & Responsible, Persistent & Perseverant, Creative & Innovative, Collaborative & Team-oriented, and Pursuit of Excellence". These values serve as guiding principles for each of our employees, and the value propositions of our business operation. Dedicated & Responsible means being focused, efficient, dedicated, and responsible for the team and results. Persistent & Perseverant entails always taking initiative, keeping learning to improve problem solving abilities and taking on more responsibilities. Creative & Innovative emphasizes maintaining creative thinking, encouraging innovation and breakthroughs in both scientific research and daily operations. Collaborative & Team-oriented involves achieving common goals through mutual respect, cooperation and collaboration. Pursuit of Excellence means consistently striving for perfection. We consistently integrate our core values into business philosophy, internal management systems, and employee codes of conduct, translating them into practical actions. In embedding the culture of the Group into its operations, all of our new employees are required to attend orientation and training programs so that they have comprehensive understand our corporate culture, structure and policies, learn relevant laws and regulations, and raise their quality awareness. We provide timely recognition and encouragement to outstanding practitioners of our core values, creating a closed-loop management system from advocacy and promotion to implementation and rewards, thus deepening and carrying forward our core values more effectively. In addition to our mission and values, our corporate culture is also reflected in our business policies, ethical standards, talent philosophy, social responsibility, and various other aspects.

The Board considers that the corporate culture and the purpose, values and strategy of the Group are aligned.

INDEPENDENT AUDITOR'S REPORT



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To the shareholders of InnoCare Pharma Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of InnoCare Pharma Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 116 to 208, which comprise the consolidated statement of financial position as at 31 December 2023, 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 material accounting policy information.

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 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

Key audit matter

Recognition and measurement of research and development expenses

During the year ended 31 December 2023, the Group recognised research and development (“**R&D**”) expenses of approximately RMB751,176,000 which comprised the costs related to clinical trials and preclinical testing paid to third-party contract research organisations and clinical trial centres (collectively referred to as the “**outsourced service providers**”).

R&D is the Group’s major activity and the R&D activities with these outsourced service providers are documented in detailed contracts and are typically performed over an extended period. Recording of these expenses in the appropriate financial reporting periods based on the progress of the research and development projects involves estimates made by management and we identified the recognition and measurement of research and development expenses as a key audit matter.

The Group’s disclosures about research and development expenses are included in note 2.4 and note 6 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to research and development expenses included:

- (1) Evaluating and testing the internal controls over the R&D expenses;
- (2) Evaluating the reasonableness of R&D expenses by comparing them with prior year amounts and along with the progress of the R&D projects;
- (3) Examining the ending balances of prepayments and R&D related supporting contracts on a sample basis, and checking the settlement of long-term prepayments;
- (4) Reviewing the key terms set out in contracts with the outsourced service providers, inspecting supporting documents on a sample basis to test the accuracy of R&D expenses;
- (5) Performing background research of major service providers and examining the supporting documents to evaluate the commercial substance and the occurrence of underlying R&D activities;
- (6) Evaluating the appropriateness of the accrual amounts of R&D expenses by comparing the subsequent milestone billings received with the accruals at the year end on a sample basis;
- (7) Assessing the adequacy of the Group’s disclosures of the R&D expenses.

INDEPENDENT AUDITOR'S REPORT

Key audit matter

Fair value measurement of a convertible loan

A subsidiary of the Company has borrowed a convertible loan amounting to RMB930,000,000 from GZHT Technology Holdings (“**Guangzhou High-Tech**”, formerly named as Guangzhou Kaide Technology Development Co., Ltd.) and, in accordance with HKFRS 9, it was accounted for as a financial liability at fair value through profit or loss. As of 31 December 2023, the fair value of the convertible loan was RMB1,251,131,000.

The terms of the convertible loan are complex and the determination of the fair value of the convertible loan involves significant judgements and estimates made by management. Therefore, we identified the fair value measurement of the convertible loan as a key audit matter.

The Group’s disclosures about the convertible loan are included in note 2.4, note 29 and note 40 to the consolidated financial statements.

How our audit addressed the key audit matter

Our procedures in relation to fair value measurement of the convertible loan included:

- (1) Reviewing the key terms set out in the agreement and the articles of association of the subsidiary and assessing the appropriateness of the accounting treatment in accordance with relevant accounting standards;
- (2) Evaluating the competence, capabilities and objectivity of management’s specialist and evaluating the valuation techniques, methodologies and key assumptions applied with the assistance of our internal valuation specialists;
- (3) Reviewing the basis on which fair value measurement of management is based;
- (4) Interviewing with management on the arrangement and negotiation progress of the convertible loan;
- (5) Obtaining confirmation from Guangzhou High-Tech of the implementation progress of obligation;and
- (6) Assessing the adequacy of the Group’s disclosures of the fair value measurement of the convertible loan.

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 HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

Ernst & Young

Certified Public Accountants

Hong Kong

28 March 2024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
REVENUE	5	738,537	625,404
Cost of sales		(128,435)	(143,397)
Gross profit		610,102	482,007
Other income and gains	5	244,153	198,199
Selling and distribution expenses		(366,891)	(438,611)
Research and development expenses		(751,176)	(639,139)
Administrative expenses		(193,520)	(181,556)
Other expenses		(92,674)	(291,167)
Fair value change of a convertible loan	29	(53,963)	3,396
Impairment losses on financial assets		(268)	(100)
Share of losses of joint ventures		(4,900)	(9,711)
Finance costs	7	(35,069)	(17,045)
LOSS BEFORE TAX		(644,206)	(893,727)
Income tax expense	10	(1,426)	–
LOSS FOR THE YEAR		(645,632)	(893,727)
Attributable to:			
Owners of the parent		(631,263)	(886,593)
Non-controlling interests		(14,369)	(7,134)
		(645,632)	(893,727)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	12	(RMB0.37)	(RMB0.60)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2023

	2023 RMB'000	2022 RMB'000
LOSS FOR THE YEAR	(645,632)	(893,727)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	113,544	429,445
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	113,544	429,445
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(532,088)	(464,282)
Attributable to:		
Owners of the parent	(517,719)	(457,148)
Non-controlling interests	(14,369)	(7,134)
	(532,088)	(464,282)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	759,764	653,163
Right-of-use assets	14	293,837	284,103
Goodwill	15	3,125	3,125
Other intangible assets	16	39,007	41,305
Investment in a joint venture	17	5,660	11,712
Other non-current assets	18	52,413	28,042
Total non-current assets		1,153,806	1,021,450
CURRENT ASSETS			
Inventories	19	119,095	65,322
Trade and bills receivables	20	307,638	127,825
Prepayments, other receivables and other assets	21	113,994	95,344
Financial assets at fair value through profit or loss	22	–	313,290
Cash and bank balances	23	8,224,596	8,697,927
Total current assets		8,765,323	9,299,708
CURRENT LIABILITIES			
Trade payables	24	134,905	118,597
Contract liabilities	25	–	4,242
Other payables and accruals	26	667,717	727,552
Deferred income	28	12,008	7,757
Interest-bearing bank borrowings	27	5,000	–
Lease liabilities	14	23,233	20,112
Convertible loan	29	1,251,131	1,197,168
Total current liabilities		2,093,994	2,075,428
NET CURRENT ASSETS		6,671,329	7,224,280
TOTAL ASSETS LESS CURRENT LIABILITIES		7,825,135	8,245,730
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	26,300	–
Lease liabilities	14	43,647	35,439
Long term payables	30	305,577	287,761
Deferred income	28	268,906	278,203
Total non-current liabilities		644,430	601,403
Net assets		7,180,705	7,644,327

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2023

	Notes	31 December 2023 RMB'000	31 December 2022 RMB'000
EQUITY			
Equity attributable to owners of the parent			
Share capital	32	23	23
Reserves	33	7,147,825	7,597,078
		7,147,848	7,597,101
Non-controlling interests		32,857	47,226
Total equity		7,180,705	7,644,327

Name of director

Name of director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Attributable to owners of the parent									Total equity RMB'000
	Share capital RMB'000 (note 32)	Share premium RMB'000 (note 32)	Other reserve RMB'000 (note 33(a))	Share-based	Asset	Foreign	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	
				payment	revaluation	exchange				
				reserve	reserve	reserve				
			RMB'000 (note 34)	RMB'000	RMB'000 (note 33(b))					
At 1 January 2023	23	11,756,280*	(19,292)*	325,367*	(6,036)*	(36,313)*	(4,422,928)*	7,597,101	47,226	7,644,327
Loss for the year	-	-	-	-	-	-	(631,263)	(631,263)	(14,369)	(645,632)
Exchange differences on translation of foreign operations	-	-	-	-	-	113,544	-	113,544	-	113,544
Total comprehensive income for the year	-	-	-	-	-	113,544	(631,263)	(517,719)	(14,369)	(532,088)
Share-based payments (note 34)	-	-	-	65,103	-	-	-	65,103	-	65,103
Exercise of restricted stock units ("RSUs")	-	118,018	-	(108,355)	-	-	-	9,663	-	9,663
Purchase of own shares	-	(6,300)	-	-	-	-	-	(6,300)	-	(6,300)
At 31 December 2023	23	11,867,998*	(19,292)*	282,115*	(6,036)*	77,231*	(5,054,191)*	7,147,848	32,857	7,180,705

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2023

	Share capital RMB'000 (note 32)	Share premium RMB'000 (note 32)	Attributable to owners of the parent			Foreign exchange reserve RMB'000 (note 33(b))	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
			Other reserve RMB'000 (note 33(a))	Share-based payment reserve RMB'000 (note 34)	Asset revaluation reserve RMB'000					
At 1 January 2022	19	9,371,726	(19,292)	260,235	(6,036)	(465,758)	(3,536,335)	5,604,559	54,360	5,658,919
Loss for the year	-	-	-	-	-	-	(886,593)	(886,593)	(7,134)	(893,727)
Exchange differences on translation of foreign operations	-	-	-	-	-	429,445	-	429,445	-	429,445
Total comprehensive income for the year	-	-	-	-	-	429,445	(886,593)	(457,148)	(7,134)	(464,282)
A shares issued upon listing on the Science and Technology Innovation Board (the "STAR Market")	4	2,919,066	-	-	-	-	-	2,919,070	-	2,919,070
Share issue expenses	-	(149,902)	-	-	-	-	-	(149,902)	-	(149,902)
Share-based payments (note 34)	-	-	-	129,477	-	-	-	129,477	-	129,477
Exercise of RSUs	-	68,629	-	(64,345)	-	-	-	4,284	-	4,284
Obligation to acquire non-controlling interests in a subsidiary	-	(453,239)	-	-	-	-	-	(453,239)	-	(453,239)
At 31 December 2022	23	11,756,280*	(19,292)*	325,367*	(6,036)*	(36,313)*	(4,422,928)*	7,597,101	47,226	7,644,327

* These reserve accounts comprise the consolidated reserves of RMB7,147,825,000 (2022: RMB7,597,078,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(644,206)	(893,727)
Adjustments for:			
Impairment losses on financial assets	6	268	100
Finance costs	7	35,069	17,045
Foreign exchange losses, net		87,840	290,559
Interest income	5	(192,333)	(136,914)
Investment income of wealth management products	5	(10,472)	(8,486)
Share of losses of joint venture	17	4,900	9,711
Fair value changes of a convertible loan	29	53,963	(3,396)
Fair value changes of wealth management products	5	–	(6,557)
COVID-19-related rent concessions from lessors		–	(73)
Depreciation of property, plant and equipment	6	59,053	35,353
Depreciation of right-of-use assets	6	23,060	21,533
Amortisation of other intangible assets and other non-current assets		10,508	11,517
Loss on disposal of property, plant and equipment		20	–
Share-based payment expenses	6	65,103	129,477
		(507,227)	(533,858)
Increase in inventories		(42,461)	(52,116)
Increase in trade and bills receivables		(180,082)	(82,653)
Increase in prepayments, other receivables and other assets		(4,785)	(932)
Increase in trade payables		16,308	33,995
(Decrease)/Increase in other payables and accruals		(23,279)	35,354
Decrease in deferred income		(9,587)	(8,748)
Cash used in operations		(751,113)	(608,958)
Interest received		79,835	43,404
Overseas taxes paid		(62)	–
Net cash flows used in operating activities		(671,340)	(565,554)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment income in time deposits with original maturity of more than three months when acquired and wealth management products		118,708	98,372
Proceeds upon maturity of investments and time deposits with original maturity of more than three months when acquired		4,925,161	5,317,584
Purchases of items of property, plant and equipment and other non-current assets		(254,544)	(227,235)
Purchases of other intangible assets		(111)	(11,724)
Receipt of government grants for property, plant and equipment		5,850	74,971
Investment in a joint venture		–	(20,000)
Acquisition of a subsidiary		1,152	–
Proceeds from disposal of items of property, plant and equipment		12	–
Purchases of land use rights		–	(131,368)
Increase in time deposits with original maturity of more than three months when acquired		(4,129,314)	(6,826,954)
Net cash flows from/(used in) investing activities		666,914	(1,726,354)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		9,947	4,160
Proceeds from the A share listing		–	2,919,070
Payment of listing expenses		(6,010)	(128,686)
Proceeds from other borrowings		–	325,000
Proceeds from bank loans		33,800	–
Repayment of bank loans		(2,500)	–
Interest paid		(1,153)	(3,263)
Principal portion of lease payments		(26,476)	(21,775)
Repurchase of shares		(6,300)	–
Net cash flows from financing activities		1,308	3,094,506
Net (decrease)/increase in cash and cash equivalents		(3,118)	802,598
Cash and cash equivalents at beginning of year		4,179,984	3,237,484
Effect of foreign exchange rate changes, net		25,698	139,902
CASH AND CASH EQUIVALENTS AT END OF YEAR	23	4,202,564	4,179,984
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances as stated in the consolidated statement of financial position	23	8,224,596	8,697,927
Time deposits with original maturity of more than three months when acquired	23	(4,019,532)	(4,515,379)
Restricted cash	23	(2,500)	(2,564)
Cash and cash equivalents as stated in the consolidated statement of cash flows	23	4,202,564	4,179,984

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands on 3 November 2015. The registered office of the Company is located at the offices of Ogier Global (Cayman) Limited, 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands.

The Company is an investment holding company. The Company's subsidiaries are principally engaged in the research, development, manufacture and commercialisation of biological products. The Company's ordinary shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") and STAR Market of the Shanghai Stock Exchange on 23 March 2020 and on 21 September 2022, respectively.

Information about the subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Ocean Prominent Limited	British Virgin Islands	US\$1	100.00%	–	Investment holding
Sunny Investments Limited	Hong Kong	HK\$1	–	100.00%	Investment holding
InnoCare Pharma Inc.	United States of America (" USA ")	US\$3	–	100.00%	Research and development
InnoCare Pharma Australia Pty Ltd.	Australia	AU\$10	–	100.00%	Research and development
Beijing InnoCare Pharma Tech Co., Ltd. (" Beijing InnoCare ") ^(a)	People's Republic of China (" PRC ")/ Chinese Mainland	US\$80,000,000	–	100.00%	Research and development and commercialisation
Nanjing Tianyin Jian Hua Pharma Tech Co., Ltd. (" Nanjing InnoCare ") ^(b)	PRC/Chinese Mainland	RMB10,000,000	–	100.00%	Research and development
Beijing Tiancheng Pharma Tech Co., Ltd. (d) (" Beijing Tiancheng ") ^{(b)(e)}	PRC/Chinese Mainland	RMB66,474,400	–	93.39%	Research and development
Shanghai Tianjin Pharma Tech Co., Ltd. (" Shanghai Tianjin ") ^(b)	PRC/Chinese Mainland	RMB4,000,000	–	100.00%	Research and development
Guangzhou InnoCare Pharma Tech Co., Ltd. (" Guangzhou InnoCare ") ^(b)	PRC/Chinese Mainland	RMB1,000,000,000	–	93.00%	Development and manufacture

1. CORPORATE INFORMATION (continued)

Information about the subsidiaries (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Beijing Tianshi Pharma Tech Co., Ltd. ("Beijing Tianshi") ^{(b)(c)}	PRC/Chinese Mainland	RMB2,000,000	–	100.00%	Research and development
Guangzhou InnoCare Biological Tech Co., Ltd. ^{(c)(e)}	PRC/Chinese Mainland	US\$30,000,000	–	100.00%	Research and development

(a) Registered as wholly-foreign-owned enterprises under PRC law.

(b) Registered as limited liability companies under PRC law.

(c) On 26 October 2023, Beijing InnoCare acquired 50% equity of Beijing Tianshi from an independent third party for a cash consideration of RMB1,152,000.00. After acquisition, the Group holds 100% equity of the subsidiary. As of the acquisition date, Beijing Tianshi has not yet conducted actual business activities and only holds bank deposits. The acquired assets cannot be operated or managed in a business form to generate revenue. Therefore, in terms of accounting treatment, the Group determines that the acquisition of Beijing Tianshi does not constitute a business combination.

(d) The subsidiary was dissolved on 5 September 2023.

(e) On 23 February 2023, the registered share capital of Beijing Tiancheng increased from RMB49,225,100 to RMB66,474,400 and the percentage of equity interest attributable to the Company increased from 91.08% to 93.39%.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2023. 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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

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

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

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, any non-controlling interest and the foreign exchange reserve; and recognises the fair value of any investment retained and 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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 1 and
HKFRS Practice Statement 2

Amendments to HKAS 8
Amendments to HKAS 12

Amendments to HKAS 12

Disclosure of Accounting Policies

Definition of Accounting Estimates

*Deferred Tax related to Assets and Liabilities arising from a Single
Transaction*

International Tax Reform – Pillar Two Model Rules

2. ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policies and disclosures (continued)

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

- (a) Amendments to HKAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. Amendments to HKFRS Practice Statement 2 *Making Materiality Judgements* provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures. The Group has disclosed the material accounting policy information in note 2 to the financial statements. The amendments did not have any impact on the measurement, recognition or presentation of any items in the Group's financial statements.
- (b) Amendments to HKAS 8 clarify the distinction between changes in accounting estimates and changes in accounting policies. Accounting estimates are defined as monetary amounts in financial statements that are subject to measurement uncertainty. The amendments also clarify how entities use measurement techniques and inputs to develop accounting estimates. Since the Group's approach and policy align with the amendments, the amendments had no impact on the Group's financial statements.
- (c) Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* narrow the scope of the initial recognition exception in HKAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences, such as leases and decommissioning obligations. Therefore, entities are required to recognise a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability for temporary differences arising from these transactions. Upon the application of the amendments, the Group has determined the temporary differences arising from right-of-use assets and lease liabilities separately, which have been reflected in the reconciliation disclosed in note 31 to the financial statements. However, they did not have any impact on the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualified for offsetting under HKAS 12.
- (d) Amendments to HKAS 12 *International Tax Reform – Pillar Two Model Rules* introduce a mandatory temporary exception from the recognition and disclosure of deferred taxes arising from the implementation of the Pillar Two model rules published by the Organisation for Economic Co-operation and Development. The amendments also introduce disclosure requirements for the affected entities to help users of the financial statements better understand the entities' exposure to Pillar Two income taxes, including the disclosure of current tax related to Pillar Two income taxes separately in the periods when Pillar Two legislation is effective and the disclosure of known or reasonably estimable information of their exposure to Pillar Two income taxes in periods in which the legislation is enacted or substantively enacted but not yet in effect. The Group has applied the amendments retrospectively. Since the Group did not fall within the scope of the Pillar Two model rules, the amendments did not have any impact to the Group.

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31 December 2023

2. ACCOUNTING POLICIES (continued)

2.3 Issued but not yet effective hong kong financial reporting standards

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in these financial statements. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> ^{1, 4}
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> ^{1, 4}
Amendments to HKAS 7 and HKFRS 7	<i>Supplier Finance Arrangements</i> ¹
Amendments to HKAS 21	<i>Lack of Exchangeability</i> ²

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

2 Effective for annual periods beginning on or after 1 January 2025

3 No mandatory effective date yet determined but available for adoption

4 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

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

Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 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 constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor’s profit or loss only to the extent of the unrelated investor’s interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA. However, the amendments are available for adoption now.

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

2. ACCOUNTING POLICIES (continued)

2.3 Issued but not yet effective hong kong financial reporting standards (continued)

The 2020 Amendments clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The 2022 Amendments 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. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period. The amendments shall be applied retrospectively with earlier application permitted. An entity that applies the 2020 Amendments early is required to apply simultaneously the 2022 Amendments, and vice versa. The Group is currently assessing the impact of the amendments and whether existing loan agreements may require revision. Based on a preliminary assessment, the amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 7 and HKFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. Earlier application of the amendments is permitted. The amendments provide certain transition reliefs regarding comparative information, quantitative information as at the beginning of the annual reporting period and interim disclosures. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments require disclosures of information that enable users of financial statements to understand the impact of a currency not being exchangeable. Earlier application is permitted. When applying the amendments, an entity cannot restate comparative information. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening balance of retained profits or to the cumulative amount of translation differences accumulated in a separate component of equity, where appropriate, at the date of initial application. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. ACCOUNTING POLICIES (continued)

2.4 Material 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 has 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.

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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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 the 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 associate 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. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

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 case, 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 HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

The Group determines that it has acquired a business when the acquired set of activities and assets includes input and a substantive process that together significantly contribute to the ability to create outputs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Impairment of non-financial assets

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

In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

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

An assessment is made at the end of each of 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 CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material 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;
 - (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. ACCOUNTING POLICIES (continued)

2.4 Material 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. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". 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	5%
Office equipment, plant and machinery	10% to 33 $\frac{1}{3}$ %
Devices and servers	10% to 33 $\frac{1}{3}$ %
Leasehold improvements	Over the shorter of the lease terms and 10%

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

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 is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. ACCOUNTING POLICIES (continued)

2.4 Material 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.

Purchased 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.

Software is amortised on the straight-line basis over its useful life of 3 to 10 years.

Research and development costs

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

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

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

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.

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Leases (continued)

Group as a lessee

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

(a) Right-of-use assets

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

Office and laboratory	2 to 10 years
Leasehold land	50 years

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

(b) Lease liabilities

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Leases (continued)

Group as a lessee (continued)

(c) Short-term leases

The Group applies the short-term lease recognition exemption to its short-term leases of buildings, machinery and equipment (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).

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

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, 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 and bills 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 and bills receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

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

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

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

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in 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 the statement of 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 the statement of profit or loss.

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 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 the equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Derecognition of financial assets

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

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

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

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

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).

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

General approach (continued)

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 obvious indications reveals that counterparties are insolvent.

The Group considers a financial asset in default when counterparties go bankrupt. 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.

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 and bills receivables and contract assets 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 and bills 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, 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, a convertible loan, long term payables and interest-bearing bank borrowings.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities. The Group has designated its convertible loan as financial liabilities at fair value through profit or loss, details of which are included in note 29, respectively, to the financial statements.

Financial liabilities at amortised cost (trade and other payables, and borrowings)

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in 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 profit or loss.

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

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 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 assets and settle the liabilities simultaneously.

Inventories

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Provisions

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

When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Income tax

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

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the 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 each 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 goodwill or 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 does not give rise to equal taxable and deductible temporary differences; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and
- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of 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 utilised. 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.

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Income tax (continued)

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 each 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 other 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 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.

Where the Group receives grants of non-monetary assets, the grants are recorded at a nominal amount, and are released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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 HKFRS 15.

(a) Licence and collaboration revenue

The Group enters into a licence and collaboration agreement for research, development, manufacture and commercialisation services with one customer. The terms of these arrangements typically include: non-refundable upfront fees, milestone payments for development and regulatory application and royalties on net sales of licenced products. Milestone payment is a form of variable consideration which is included in the transaction price to the extent that it is highly probable that a significant reversal of accumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The contracts generally do not include a significant financing component.

As part of the accounting for this arrangement, the Group must use significant judgement to determine: (a) the performance obligations; and (b) the method to estimate variable consideration.

At contract inception, the Group assesses the goods or services promised within each contract and determines those that are performance obligations, and assesses whether each promised good or service is distinct.

The Group uses judgement to determine whether milestones or other variable consideration, except for royalties, should be included in the transaction price. The transaction price is allocated to each performance obligation on a relative stand-alone selling price basis, for which the Group recognises revenue as or when the performance obligations under the contract are satisfied. If a milestone or other variable consideration relates specifically to the Group's efforts to satisfy a single performance obligation or to a specific outcome from satisfying the performance obligation, the Group generally allocates that milestone amount entirely to that performance obligation once it is probable that a significant revenue reversal would not occur.

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Licence and collaboration revenue (continued)

The Group recognises revenue only when it satisfies a performance obligation by transferring control of the promised goods or services. The transfer of control can occur over time or at a point in time. A performance obligation is satisfied over time if it meets one of the following criteria.

- The counterparty simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- The Group's performance creates or enhances an asset that the counterparty controls as the asset is created or enhanced;
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The portion of the transaction price that is allocated to performance obligations satisfied at a point in time is recognised as revenue when control of the goods or services is transferred to the counterparty. If the performance obligation is satisfied over time, the portion of the transaction price allocated to that performance obligation is recognised as revenue as the performance obligation is satisfied. The Group adopts an appropriate method of measuring progress for the purpose of recognising revenue. The Group evaluates the measure of progress at the end of each reporting period and, if necessary, adjusts the measure of performance and related revenue recognition.

Upfront fees

Upfront payment is allocated to the performance obligations based on the Group's best estimate of their relative stand-alone selling prices.

Milestone payments

At the inception of each arrangement that includes milestone payments, the Group evaluates whether the milestones are considered probable of being achieved and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant reversal of cumulative revenue would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Group, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The Group evaluates factors such as the clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment. There is considerable judgement involved in determining whether it is probable that a significant reversal of cumulative revenue would not occur. At the end of each subsequent reporting period, the Group re-evaluates the probability of achievement of all milestones subject to constraint and, if necessary, adjusts its estimate of the overall transaction price. The milestone payments were allocated to the performance obligations based on the Group's best estimate of their relative stand-alone selling prices, unless the criteria under HKFRS 15.85 are met where the milestone payments are allocated entirely to the performance obligations to which the milestone payments are specifically related.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Licence and collaboration revenue (continued)

Licences of intellectual property

In assessing whether a licence is distinct from the other promises, the Group considers factors such as the research, development, manufacture and commercialisation capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace. In addition, the Group considers whether the counterparty can benefit from a licence for its intended purpose without the receipt of the remaining promise(s) by considering whether the value of the licence is dependent on the unsatisfied promise(s), whether there are other vendors that could provide the remaining promise(s), and whether it is separately identifiable from the remaining promise(s). The Group evaluates the nature of a promise to grant a licence in order to determine whether the promise is satisfied over time or at a point in time. The Group has evaluated that the licences are separate performance obligations which represent a right to use the Group's licence as it exists at the point in time that the licence is granted. Revenue from licences is recognised when the control of the right to use of the licence is transferred to the customer.

Research and development services

In assessing whether the research and development services is a promised service in the arrangement, the Group has concluded that the services are capable of being distinct from the intellectual property licences and distinct within the context of the contract based on a careful evaluation of the specific facts and circumstances. The performance obligation is satisfied over time as services are rendered. Revenue from research and development services is recognised on straight-line basis over the period when the research and development services are provided.

(b) Sale of goods

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

Other income

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

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Contract assets

If the Group performs by transferring goods or services to a customer before being unconditionally entitled to the consideration under the contract terms, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets. They are reclassified to trade and bills receivables when the right to the consideration becomes unconditional.

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).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

- (a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.
- (b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- (c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

Share-based payments

The Company operates share option, RSUs and restricted shares schemes. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**"). The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 34 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Share-based payments (continued)

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 instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding RSUs and restricted shares is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Chinese Mainland are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme. Under the scheme, the Group has no further obligations beyond the contributions made.

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements. Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements is presented in RMB. In the opinion of the directors, as the Group's operations are mainly in the PRC, the use of RMB as the presentation currency is more appropriate for the presentation of the Group's results and financial position. 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 each reporting period. Differences arising on settlement or translation of monetary items are recognised in 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2. ACCOUNTING POLICIES (continued)

2.4 Material accounting policies (continued)

Foreign currencies (continued)

The functional currencies of the Company and certain overseas subsidiaries are currencies other than RMB. The functional currency of the Company is the United States Dollar (“**US\$**”). 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 profit or loss are translated into RMB at the exchange rates that approximate to those prevailing at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve, except to the extent that the differences are attributable to non-controlling interests. On disposal of a foreign operation, the cumulative amount in the reserve relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Revenue from contracts with customers

The Group has applied the following judgements that significantly affect the determination of the performance obligations and the method to estimate variable consideration of revenue from contracts with customers:

(i) Determining the performance obligations of the contract

The Group identifies the performance obligations within the agreement and evaluates which performance obligations are distinct, which requires the use of judgement.

The Group has determined that both the licence and research and development services are each capable of being distinct. In assessing whether an item has standalone value, the Group considers factors such as the research, manufacture, and commercialisation capabilities of the collaboration partner and the availability of the associated expertise in the general marketplace, which indicates that the customer can benefit from both licence and service on their own. The Group also determined that the promises to transfer the licence and to provide research and development services are distinct within the context of the contract. The licence is separately identifiable in the contract and will be granted at contract inception. The licence is not an input that will be integrated with the service which represents a combined output. The preparation and attendance of the various steering committees is to assist in conducting clinical trials and obtaining regulatory approval of the technology, but does not modify the technology itself. In addition, the licence and research and development services are not highly interdependent or highly interrelated, because the delivery of the licence is not dependent on the service to be provided in the future, accordingly, it is not interdependent or interrelated with the service. Consequently, the Group has allocated a portion of the transaction price to licence and research and development services based on relative standalone selling prices.

(ii) Determining the timing of satisfaction of research and development services

The Group concluded that revenue from research and development services is recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the research and development that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs.

The Group determined that the input method is the best method in measuring the progress of the research and development services because there is a direct relationship between the Group's effort (i.e., cost incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the cost expended relative to the total budget cost to complete the services.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue from contracts with customers (continued)

(iii) Determining the method to estimate variable consideration and assessing the constraint for research and development services

Certain contract includes milestone payments that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The Group has determined that the most likely amount method is the appropriate method to use in estimating the variable consideration for the milestone payments as this method better predicts the amount of variable consideration to which the Group will be entitled.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group evaluates factors such as the clinical, regulatory, commercial, and other risks that must be overcome to achieve the particular milestone in making this assessment.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each 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.

Estimation of the fair value of financial assets and financial liabilities

Certain financial assets and financial liabilities are measured at fair value at the end of each reporting period as disclosed in note 39 to the financial statements.

The fair value of financial investments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in these assumptions and estimates could materially affect the fair value of these financial assets. Further details are included in notes 22 and 39 to the financial statements.

The convertible loan borrowed by a subsidiary of the Company exhibits the characteristics of an embedded derivative and the Group has designated the entire instrument as a financial liability at fair value through profit or loss. As it is not traded in an active market, the Group applied the discounted cash flow method to determine its fair value by using the risk-free rate plus an implied spread. Key assumptions such as the discount rate were based on the Group's best estimates. Further details are included in notes 29 and 40 to the financial statements.

Fair value measurement of share-based payments

The Group has set up certain share-based payment schemes and granted restricted stock units to the Company's directors and the Group's employees. The fair value of the restricted stock units is determined by a binomial model at the grant dates. Significant estimates on assumptions, including the expected volatility, risk-free interest rate and expected life of restricted stock units, are made by the board of directors of the Company. Further details are included in note 34 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate (“**IBR**”) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group “would have to pay”, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary’s functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

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.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax in Chinese Mainland losses at 31 December 2023 was RMB2,693,952,000 (2022: RMB1,511,700,000). Further details are contained in note 10 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION

The Group is engaged in biopharmaceutical research and development, manufacture, commercialisation and services, which are 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

	2023 RMB'000	2022 RMB'000
Chinese Mainland	673,134	568,035
Other countries/regions	65,403	57,369
Total revenue	738,537	625,404

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

(b) Non-current assets

	2023 RMB'000	2022 RMB'000
Chinese Mainland	1,153,392	1,020,695
Other countries/regions	414	755
Total non-current assets	1,153,806	1,021,450

The non-current asset information above is based on the locations of the assets and excludes deferred tax assets and financial instruments.

Information about major customers

Revenue from each of the major customers (aggregated if under common control) which accounted for 10% or more of the Group's revenue during the year is set out below:

	2023 RMB'000	2022 RMB'000
Customer A	249,438	224,090
Customer B	111,890	101,386
Customer C	93,421	81,916
	454,749	407,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	738,537	625,404

Revenue from contracts with customers

(a) Disaggregated revenue information

	2023 RMB'000	2022 RMB'000
Types of goods or services		
Sales of goods	671,582	566,755
Research and development services	59,758	57,369
Licence out	5,645	–
Other services	1,552	1,280
Total	738,537	625,404

Geographical markets

Chinese Mainland	673,134	568,035
Other countries/regions	65,403	57,369
Total	738,537	625,404

Timing of revenue recognition

Goods and service transferred at a point in time	678,779	568,035
Services transferred over time (note)	59,758	57,369
Total	738,537	625,404

Note: In February 2023, Biogen Inc. (“**Biogen**”) notified the Company of its decision to terminate its licence and collaboration agreement with the Company, an oral small molecule Bruton’s tyrosine kinase (“**BTK**”) inhibitor for the potential treatment of Multiple Sclerosis (“**MS**”) along with the research and development services. Following the termination, the Company would regain all global rights granted to Biogen, including related intellectual property, decision-making regarding research and development, manufacture, and commercialisation, and commercial proceeds generated from Orelabrutinib. The Company and Biogen have completed the transition in May.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(a) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2023 RMB'000	2022 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Research and development services	17,783	7,797

(b) Performance obligations

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

Licence out and research and development services

The performance obligation is satisfied at a point in time or over time as output generated from upon completion of transfer of know-how or the research and development activities is supplied to the customer, and payment is generally due within 60 days from the date of billing.

Sales of goods

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from the date of billing.

Other services

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

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

	2023 RMB'000	2022 RMB'000
Amounts expected to be recognised as revenue		
Within one year	-	17,783

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

Other services (continued)

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2023 RMB'000	2022 RMB'000
Other income		
Government grants (note)	41,006	46,159
Bank interest income	192,333	136,914
Investment income of investments from wealth management products	10,472	8,486
Others	342	83
Total other income	244,153	191,642
Gains		
Fair value changes of financial assets at fair value through profit or loss	-	6,557
Total other income and gains	244,153	198,199

Note: Government grants have been received from the PRC local government authorities to support the subsidiaries' research and development activities and compensate capital expenditures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Notes	2023 RMB'000	2022 RMB'000
Cost of inventories sold		90,468	95,585
Cost of services provided		37,967	47,812
Depreciation of property, plant and equipment		59,053	35,353
Depreciation of right-of-use assets		23,060	21,533
Amortisation of other intangible assets	16	5,542	4,585
Auditor's remuneration		5,726	5,683
Research and development costs, excluding share-based payment expenses		722,131	580,975
Fair value changes of a convertible loan	29	53,963	(3,396)
Fair value gain on financial assets at fair value through profit or loss		–	6,557
Foreign exchange losses, net		87,840	290,559
Impairment of trade receivables	20	268	100
Loss on disposal of property, plant and equipment		20	–
Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)):			
Wages and salaries		431,946	414,942
Pension scheme contributions		38,914	29,802
Staff welfare expenses		7,693	6,411
Share-based payment expenses		50,324	113,335
Total		528,877	564,490

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Notes	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	14(b)	1,743	2,704
Interest on long term payables		16,469	8,063
Interest on payable for acquisition of non-controlling interests in a subsidiary		16,819	6,278
Others		38	–
Total		35,069	17,045

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2023 RMB'000	2022 RMB'000
Fees	800	720
Other emoluments:		
Salaries, allowances and benefits in kind	7,254	6,445
Performance related bonuses	4,579	3,888
Pension scheme contributions	69	60
Share-based payment expenses	14,779	16,142
Subtotal	26,681	26,535
Total	27,481	27,255

Certain directors were granted RSUs and restricted shares, in respect of their services to the Group, under the restricted stock units and restricted shares scheme of the Company, further details of which are set out in note 34 to the financial statements. The fair values of such restricted stock units, which have been recognised in profit or loss over the vesting period, were determined as at the date of grant and the amounts included in the financial statements for the current year are included in the above directors' and chief executive's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2023 RMB'000	2022 RMB'000
Dandan Dong*	80	–
Zemin Zhang*	–	–
Kaixian Chen	360	360
Lan Hu	360	360
Total	800	720

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(b) Executive directors and non-executive directors' remuneration

	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
2023						
Executive directors:						
Jisong Cui (<i>chief executive</i>)	-	4,705	3,816	4	14,101***	22,626
Renbin Zhao	-	2,549	763	65	678****	4,055
Subtotal	-	7,254	4,579	69	14,779	26,681
Non-executive directors:						
Yigong Shi	-	-	-	-	-	-
Ronggang Xie	-	-	-	-	-	-
Shan Fu*	-	-	-	-	-	-
Ming Jin**	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Total	-	7,254	4,579	69	14,779	26,681

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)
(b) Executive directors and non-executive directors' remuneration (continued)

	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
2022						
Executive directors:						
Jisong Cui (<i>chief executive</i>)	–	4,247	3,240	–	16,142***	23,629
Renbin Zhao	–	2,198	648	60	–	2,906
Subtotal	–	6,445	3,888	60	16,142	26,535
Non-executive directors:						
Yigong Shi	–	–	–	–	–	–
Quanhong Yuan**	–	–	–	–	–	–
Ronggang Xie	–	–	–	–	–	–
Shan Fu*	–	–	–	–	–	–
Ming Jin**	–	–	–	–	–	–
Subtotal	–	–	–	–	–	–
Total	–	6,445	3,888	60	16,142	26,535

There were no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2022: Nil).

* On 27 March 2023, Shan Fu ceased to be a non-executive director. On 14 July 2023, Zemin Zhang ceased to be an independent non-executive director. On 11 October 2023, Dandan Dong was appointed as an independent non-executive director.

** On 31 March 2022, Ming Jin was appointed as a non-executive director, and Quanhong Yuan resigned as a non-executive director.

*** The share-based payment expenses related to one-time RSUs granted in January 2020 as well as restricted shares granted in June 2023 and are recognised over the periods in which the service conditions are fulfilled.

**** The share-based payment expenses related to restricted shares granted in June 2023 and are recognised over the periods in which the service conditions are fulfilled.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2022: one director), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining four (2022: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2023 RMB'000	2022 RMB'000
Salaries, allowances and benefits in kind	12,568	11,955
Performance related bonuses	3,797	4,184
Pension scheme contributions	275	249
Share-based payments	25,290	54,105
Total	41,930	70,493

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

	Number of employees	
	2023	2022
HK\$4,500,001 to HK\$5,000,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$11,000,001 to HK\$11,500,000	1	–
HK\$14,000,001 to HK\$14,500,000	1	–
HK\$15,000,001 to HK\$15,500,000	1	–
HK\$15,500,001 to HK\$16,000,000	–	1
HK\$28,000,001 to HK\$28,500,000	–	1
HK\$30,500,001 to HK\$31,000,000	–	1
Total	4	4

During the year and in prior years, RSUs and restricted shares were granted under the RSUs and restricted shares scheme to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in note 34 to the financial statements. The fair values of such granted RSUs and restricted shares, which have been recognised in the statement of profit or loss over the vesting period, were determined as at each of the grant dates and the amounts included in the financial statements for the current year are included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Cayman Islands

Under the current laws of the Cayman Islands, the Company is not subject to tax on income or capital gains. In addition, upon payments of dividends by the Company to its shareholders, no Cayman Islands withholding tax is imposed.

British Virgin Islands

Under the current laws of the British Virgin Islands (“**BVI**”), Ocean Prominent Limited is not subject to tax on income or capital gains. In addition, upon payments of dividends by Ocean Prominent Limited to its shareholder, no BVI withholding tax is imposed.

Hong Kong

The subsidiary incorporated in Hong Kong is subject to income tax at the rate of 16.5% (2022: 16.5%) on the estimated assessable profits arising in Hong Kong during the year which is a qualifying entity under the two-tiered profits tax rates regime. The first HK\$2,000,000 (2022: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2022: 8.25%) and the remaining assessable profits are taxed at 16.5% (2022: 16.5%).

Chinese Mainland

Pursuant to the Corporate Income Tax Law of the PRC and the respective regulations (the “**CIT Law**”), the subsidiaries which operate in Chinese Mainland are subject to CIT at a rate of 25% on the taxable income. Preferential tax treatment of 15% is available to entities recognised as High and New Technology Enterprises. Beijing InnoCare, Nanjing InnoCare and Guangzhou InnoCare were recognised as High and New Technology Enterprises and were entitled to a preferential tax rate of 15% in 2023 (2022: Beijing InnoCare, 15%; Nanjing InnoCare, 15%; Guangzhou InnoCare, 15%).

In 2022, the Ministry of Finance and the State Administration of Taxation issued the Notice on the Further Implementation of Preferential Income Tax for Small and Micro Enterprises (Cai Shui [2022] No. 13), which provides that the portion of annual taxable income of small and micro enterprises exceeding RMB1,000,000 but not exceeding RMB3,000,000 shall be deducted to 25% of the taxable income and subject to income tax at a rate of 20% for the period from 1 January 2022 to 31 December 2024. Beijing Tianshi was recognised as Small and Micro Enterprises and was entitled to a preferential tax rate of 20% in 2023 (2022: Beijing Tiancheng, 20%; Shanghai Tianjin 20%).

Australia

The subsidiary incorporated in Australia with less than AU\$50,000,000 of turnover was subject to income tax at the rate of 25% (2022: 25%) on the estimated assessable profits during the year.

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10. INCOME TAX (continued)

United States of America

The subsidiary incorporated in United States is subject to statutory United States federal corporate income tax at a rate of 21% (2022: 21%). It is also subject to the state income tax in relevant states to fulfil compliance requirements.

	2023 RMB'000	2022 RMB'000
Current income tax expense	1,426	–

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

	2023 RMB'000	2022 RMB'000
Loss before tax	(644,206)	(893,727)
Tax at the statutory tax rate of 25%	(161,052)	(223,432)
Effect of tax rate differences in other jurisdictions	16,747	97,152
Preferential tax rates applicable to certain subsidiaries	34,600	65,183
Adjustments in respect of current tax on foreign subsidiary of previous periods	62	–
Additional deductible allowance for qualified research and development costs	(111,915)	(62,491)
Tax losses not recognised	204,349	103,983
Expenses not deductible for tax	16,536	18,148
Losses attributable to joint ventures	735	1,457
Withholding tax from licence revenue	1,364	–
Tax charge at the Group's effective rate	1,426	–

The Group has tax losses arising in Chinese Mainland of RMB2,693,952,000 that will expire in one to ten years for offsetting against future taxable profits.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

11. DIVIDEND

No dividends have been declared and paid by the Company for the year ended 31 December 2023 (2022: Nil).

12. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount attributable to ordinary equity holders of the parent is based on the following data:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Loss		
Loss for the year attributable to ordinary equity holders of the parent, used in the basic loss per share calculation	(631,263)	(886,593)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation	1,687,470	1,479,565

The calculation of basic loss per share for the years ended 31 December 2023 and 2022 excluded the unvested restricted stock units of the Company. Details of these restricted stock units are set out in note 34 to the financial statements.

As the Group incurred losses, no adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2023 and 2022 in respect of a dilution as the impact of the conversion of the exercise of restricted stock units, had an anti-dilutive effect on the basic loss per share amounts presented. Accordingly, the dilutive loss per share amounts for the years ended 31 December 2023 and 2022 are the same as the basic loss per share amounts.

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13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Office equipment plant and machinery RMB'000	Devices and servers RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2023						
At 1 January 2023:						
Cost	224,408	238,193	9,939	35,437	197,650	705,627
Accumulated depreciation	(7,766)	(35,198)	(5,612)	(3,888)	-	(52,464)
Net carrying amount	216,642	202,995	4,327	31,549	197,650	653,163
At 1 January 2023, net of accumulated depreciation						
depreciation	216,642	202,995	4,327	31,549	197,650	653,163
Additions	-	6,387	1,765	169	162,767	171,088
Disposals	-	(30)	(2)	-	-	(32)
Depreciation provided during the year	(12,991)	(38,650)	(2,550)	(6,266)	-	(60,457)
Transfers	140,222	45,778	14	3,488	(193,508)	(4,006)
Exchange realignment	-	7	1	-	-	8
At 31 December 2023, net of accumulated depreciation	343,873	216,487	3,555	28,940	166,909	759,764
At 31 December 2023:						
Cost	364,630	290,335	11,717	39,094	166,909	872,685
Accumulated depreciation	(20,757)	(73,848)	(8,162)	(10,154)	-	(112,921)
Net carrying amount	343,873	216,487	3,555	28,940	166,909	759,764

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Office equipment plant and machinery RMB'000	Devices and servers RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2022						
At 1 January 2022:						
Cost	81,041	119,569	7,996	6,675	230,724	446,005
Accumulated depreciation	–	(11,917)	(3,037)	(970)	–	(15,924)
Net carrying amount	81,041	107,652	4,959	5,705	230,724	430,081
At 1 January 2022, net of accumulated depreciation						
depreciation	81,041	107,652	4,959	5,705	230,724	430,081
Additions	–	43,717	1,630	1,908	229,509	276,764
Depreciation provided during the year	(7,766)	(23,281)	(2,575)	(2,918)	–	(36,540)
Transfers	143,367	74,899	309	26,854	(262,583)	(17,154)
Exchange realignment	–	8	4	–	–	12
At 31 December 2022, net of accumulated depreciation						
	216,642	202,995	4,327	31,549	197,650	653,163
At 31 December 2022:						
Cost	224,408	238,193	9,939	35,437	197,650	705,627
Accumulated depreciation	(7,766)	(35,198)	(5,612)	(3,888)	–	(52,464)
Net carrying amount	216,642	202,995	4,327	31,549	197,650	653,163

Certain subsidiaries of the Company received government grants related to equipment. Details of such government grants are as follows:

- (a) A subsidiary of the Company, Beijing Tiancheng Pharma Tech Co., Ltd., has obtained the right to use certain items of equipment which were purchased and owned by the local government for the activities of research and development for a 5-year term since 2017 for free. The Group has recorded such government grants at a nominal amount.
- (b) A subsidiary of the Company, Nanjing InnoCare, has obtained the right to use certain items of equipment which were purchased and owned by the local government for the activities of research and development for a 3-year term at a below-market rental price since 2021. The Group has recorded such government grants at a nominal amount.

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14. LEASES

The Group as a lessee

The Group has lease contracts for various items of office and laboratory 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 office and laboratory have lease terms between 2 and 10 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:

	Office and laboratory RMB'000	Leasehold land RMB'000	Total RMB'000
As at 1 January 2022	62,719	73,280	135,999
Additions	9,542	163,368	172,910
Depreciation charge	(20,065)	(4,810)	(24,875)
Exchange realignment	69	–	69
As at 31 December 2022 and 1 January 2023	52,265	231,838	284,103
Additions	1,974	–	1,974
Lease changes	34,078	–	34,078
Depreciation charge	(21,517)	(4,810)	(26,327)
Exchange realignment	9	–	9
As at 31 December 2023	66,809	227,028	293,837

At 31 December 2023, the Group's leasehold land with net carrying amounts of approximately RMB156,834,000, (2022: RMB160,101,000) were pledged to secure loans granted to the Group (note 27 and 30).

Certain subsidiaries of the Company were granted by the local governments to occupy certain buildings owned by them. Details of such government grants are as follows:

- i. A subsidiary of the Company, Beijing InnoCare, has obtained the right to use two buildings, each of which covers 6,640 square metres and 1,650 square metres, at a below-market rental price to conduct research and development activities during the periods from January 2016 to December 2023 and from June 2016 to May 2024, respectively. The Group has recorded such government grants at a nominal amount.

14. LEASES (continued)

The Group as a lessee (continued)

(b) Lease liabilities

	2023 RMB'000	2022 RMB'000
Carrying amount at 1 January	55,551	67,778
New leases	1,974	9,542
Lease changes	34,078	–
Accretion of interest recognised during the year	1,743	2,704
COVID-19-related rent concessions from lessors	–	(73)
Payments	(26,476)	(24,478)
Exchange realignment	10	78
Carrying amount at 31 December	66,880	55,551
Analysed into:		
Current portion	23,233	20,112
Non-current portion	43,647	35,439

The maturity analysis of lease liabilities is disclosed in note 41 to the financial statements.

The Group applied the practical expedient to all eligible COVID-19-related rent concessions granted by the lessors during the year ended 31 December 2022.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2023 RMB'000	2022 RMB'000
Interest on lease liabilities	1,743	2,704
Depreciation charge of right-of-use assets	26,327	24,875
Expense relating to short-term leases	618	1,943
COVID-19-related rent concessions from lessors	–	(73)
Total amount recognised in profit or loss	28,688	29,449

The cash outflows for leases are disclosed in note 35(c) to the financial statements.

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15. GOODWILL

	2023 RMB'000	2022 RMB'000
Cost and net carrying amount at beginning and end of the year	3,125	3,125

The goodwill was resulted from the acquisition of a subsidiary of the Group, Beijing InnoCare.

Impairment testing of goodwill

The cash flows generated from the subsidiary acquired are independent from those of the other subsidiaries of the Group. Therefore, management considered that Beijing InnoCare is a separate cash-generating unit ("CGU"). For the purpose of performing the impairment test, the goodwill is allocated to this acquired subsidiary.

The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering up a period greater than 5 years based on the valid term of the relevant patents. The cash flows of the unit are projected based on the forecasted sales of the goods and within the patent protection periods. No revenue and cash flows are forecasted after the expiration of the patents. Senior management considers that using the above forecast period from the financial budget in the goodwill impairment test is appropriate because it reflects the useful lives of Beijing InnoCare's relevant intellectual properties are, and it generally takes longer for a biotechnology company to reach a perpetual growth mode, compared to companies in other industries, especially when its products are still under clinical trials and the markets of such products are at an early stage of development with substantial growth potential. Hence, the financial budget covering a period greater than 5 years was used as the senior management of the Group believes that a forecasted period longer than 5 years is feasible and reflects a more accurate entity value.

Key assumptions used in the calculation are as follows:

	2023	2022
Gross margin (% of revenue)	60.70%-89.60%	60.70%-90.00%
Terminal growth rate	0.00%	0.00%
Pre-tax discount rate	13.92%	14.48%

Assumptions were used in the value-in-use calculation of the cash-generating unit as at 31 December 2023 and 31 December 2022. The following describes each key assumption on which senior management has based its cash flow projections to undertake impairment testing of goodwill:

Gross margin – The basis used to determine the value assigned to the budgeted gross margin is the average gross margin expected to achieve since the year when Beijing InnoCare's products were launched.

15. GOODWILL (continued)

Impairment testing of goodwill (continued)

Terminal growth rate – The forecasted terminal growth rate is based on senior management’s expectations and does not exceed the long-term average growth rate for the industry relevant to the cash-generating unit.

The pre-tax discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

Based on the result of the goodwill impairment testing, the recoverable amount of the cash-generating unit exceeded its carrying amount as at 31 December 2023.

Considering that there was sufficient headroom based on the impairment testing, the directors of the Company believe that any reasonably possible change in any of the key assumptions would not cause the carrying amount of the CGU to be less than its recoverable amount as at 31 December 2023.

16. OTHER INTANGIBLE ASSETS

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2023			
At 1 January 2023:			
Cost	36,580	13,096	49,676
Accumulated amortisation	(7,316)	(1,055)	(8,371)
Net carrying amount	29,264	12,041	41,305
Cost at 1 January 2023, net of accumulated amortisation	29,264	12,041	41,305
Addition	–	3,244	3,244
Amortisation provided during the year	(3,658)	(1,884)	(5,542)
At 31 December 2023	25,606	13,401	39,007
At 31 December 2023:			
Cost	36,580	16,340	52,920
Accumulated amortisation	(10,974)	(2,939)	(13,913)
Net carrying amount	25,606	13,401	39,007

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16. OTHER INTANGIBLE ASSETS (continued)

	Patents and licences RMB'000	Software RMB'000	Total RMB'000
31 December 2022			
At 1 January 2022:			
Cost	36,580	2,431	39,011
Accumulated amortisation	(3,658)	(1,187)	(4,845)
Net carrying amount	32,922	1,244	34,166
Cost at 1 January 2022, net of accumulated amortisation	32,922	1,244	34,166
Addition	–	11,724	11,724
Amortisation provided during the year	(3,658)	(927)	(4,585)
At 31 December 2022	29,264	12,041	41,305
At 31 December 2022:			
Cost	36,580	13,096	49,676
Accumulated amortisation	(7,316)	(1,055)	(8,371)
Net carrying amount	29,264	12,041	41,305

17. INVESTMENT IN A JOINT VENTURE

	2023 RMB'000	2022 RMB'000
Share of net assets	5,660	11,712

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of			Principal activities
			Ownership interest	Voting power	Principle sharing	
Beijing Tiannuo Pharma Tech Co., Ltd. ("Beijing Tiannuo")	RMB2,816,400	PRC/Chinese Mainland	50%	50%	50%	Research and development

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17. INVESTMENT IN A JOINT VENTURE (continued)

The following table illustrates the aggregate financial information of the Beijing Tiannuo that are not individually material:

	2023 RMB'000	2022 RMB'000
Share of the joint venture loss for the year	4,900	9,715
Share of the joint venture total comprehensive income	4,900	9,715
Carrying amount of the Group's investment in the joint venture	5,660	10,560

18. OTHER NON-CURRENT ASSETS

	2023 RMB'000	2022 RMB'000
Prepayment for property, plant and equipment	35,438	14,947
Prepayment for database system	4,358	8,273
Value-added tax recoverable	5,418	–
Deposits and others	7,199	4,822
Total	52,413	28,042

19. INVENTORIES

	2023 RMB'000	2022 RMB'000
Finished goods	53,876	23,556
Raw materials	36,758	25,753
Work in progress	28,461	16,013
Total	119,095	65,322

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20. TRADE AND BILLS RECEIVABLES

	2023 RMB'000	2022 RMB'000
Trade receivables	276,778	127,957
Bills receivable	31,261	–
Impairment	(401)	(132)
Net carrying amount	307,638	127,825

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to three months, expanding up for some customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2023 RMB'000	2022 RMB'000
Within 3 months	248,942	127,822
3 months to 6 months	58,696	3
Total	307,638	127,825

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

	2023 RMB'000	2022 RMB'000
At beginning of year	132	31
Impairment losses	268	100
Foreign exchange differences	1	1
At end of year	401	132

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision is based on exposure at default, probability of default and loss given default. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

20. TRADE AND BILLS RECEIVABLES (continued)

Set out below is the information about the credit risk exposure on the Group's trade and bills receivables using a provision matrix:

As at 31 December 2023

	Gross carrying Amount RMB'000	Expected loss rate	Expected credit loss RMB'000
Trade and bills receivables aged in less than 1 year	276,778	0.14%	401

As at 31 December 2022

	Gross carrying Amount RMB'000	Expected loss rate	Expected credit loss RMB'000
Trade and bills receivables aged in less than 1 year	127,957	0.10%	132

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2023 RMB'000	2022 RMB'000
Interest receivable	62,540	44,987
Prepayments	39,044	33,557
Value-added tax recoverable and advance payment of income tax	10,390	12,147
Other receivables	2,020	4,653
Total	113,994	95,344

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2023 and 2022, the loss allowance was assessed to be minimal.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2023 RMB'000	2022 RMB'000
Financial assets at fair value through profit or loss (note 40)	-	313,290

The above investments were wealth management products issued by banks in Chinese Mainland. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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23. CASH AND BANK BALANCES

	2023 RMB'000	2022 RMB'000
Cash and bank balances	8,224,596	8,697,927
Less: Time deposits with original maturity of more than three months	(4,019,532)	(4,515,379)
Restricted cash	(2,500)	(2,564)
Cash and cash equivalents	4,202,564	4,179,984
Denominated in:		
RMB	4,100,770	3,947,918
US\$	83,610	215,970
Others	18,184	16,096
Cash and cash equivalents	4,202,564	4,179,984

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between seven days 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 RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, and Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Time deposits are made for varying periods of between three months and twelve 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 time deposits are deposited with creditworthy banks with no recent history of default.

24. TRADE PAYABLES

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

	2023 RMB'000	2022 RMB'000
Within 1 year	124,207	111,186
1 year to 2 years	10,432	7,335
2 years to 3 years	199	66
Over 3 years	67	10
Total	134,905	118,597

The trade payables are non-interest-bearing.

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25. CONTRACT LIABILITIES

	2023 RMB'000	2022 RMB'000
Advances received from customer, net of contract assets	–	4,242

Contract assets are initially recognised for revenue earned from research and development service as the receipt of consideration is conditional on achieving of operational milestones under development plan. Upon achievement of operational milestones, the amounts recognised as contract assets are reclassified to trade and bills receivables. As at 31 December 2023 and 2022, the allowance for expected credit losses on contract assets is minimal.

For presentation purpose, the Group netted the contract assets and contract liabilities of RMB13,541,000 as at 31 December 2022 and presented a net contract liabilities of RMB4,242,000. Changes during the year ended 31 December 2023 in contract liabilities are due to the termination of the Group's cooperation with Biogen, as detailed in note 5.

26. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Payable for property, plant and equipment	58,190	104,050
Payroll payable	52,999	57,014
Individual income tax and other taxes	15,253	32,580
Sales rebate	11,853	7,628
Accruals	38,336	51,391
Payable for acquisition of non-controlling interests in the subsidiary (note)	476,336	459,517
Others	14,750	15,372
Total	667,717	727,552

Other payables are non-interest-bearing and repayable on demand.

Note: Pursuant to the framework agreement on equity arrangement with Guangzhou High-Tech, the Group agreed to redeem the non-controlling interests hold by Guangzhou High-Tech in subsidiary of the Company within a year of listing on STAR Market of the Shanghai Stock Exchange or at a time otherwise agreed by the two parties. The amounts represented net present value of such payable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK BORROWINGS

	2023			2022		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Current portion of long term bank loans – secured	3.5	2024	5,000	–	–	–
Non-current						
Non-current portion of long term bank loans – secured	3.3–3.5	2025–2027	26,300	–	–	–
				2023 RMB'000		2022 RMB'000
Analysed into:						
Bank loans repayable:						
Within one year or on demand				5,000		–
In the second year				5,000		–
In the third year				5,000		–
In the fourth year				16,300		–
Total				31,300		–

The carrying amounts of borrowings are denominated in the following currencies:

	2023 RMB'000	2022 RMB'000
RMB	31,300	–

Notes:

- (a) The Group's overdraft facilities amounting to RMB400,000,000 (2022:Nil), of which RMB33,800,000 has been utilised as the end of the reporting period.
- (b) The Group's bank loans are guaranteed by Beijing Changxin Construction Investment Co., Ltd.

In addition, The Group mortgaged leasehold land to Beijing Changxin Construction Investment Co., Ltd. which had a net carrying value at the end of the reporting period of approximately RMB156,834,000 (2022: RMB160,101,000) for the guarantee above and entrusted loan from Beijing Changxin Construction Investment Co., Ltd. amounting to RMB375,000,000 as at the end of the reporting period (note 30).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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28. DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
Government grants		
Current	12,008	7,757
Non-current	268,906	278,203
Total	280,914	285,960

The movements in government grants during the year are as follows:

	2023 RMB'000	2022 RMB'000
At 1 January	285,960	136,258
Grants received during the year	18,976	197,062
Amount recognised in profit or loss	(22,713)	(46,051)
Amount recognised to offset the interest for loans at lower than market interest rate	(1,309)	(1,309)
At 31 December	280,914	285,960

The grants related to the subsidies from local government authorities and a discount portion of long term payable from a government related entity to support the subsidiaries' research and development activities and capital expenditures. The related expenditures and capital expenditures have not yet been incurred are included in deferred income in the statement of financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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29. CONVERTIBLE LOAN

	2023 RMB'000	2022 RMB'000
Current portion	1,251,131	1,197,168
		Convertible loan RMB'000
At 1 January 2022		1,200,564
Changes in fair value		(3,396)
At 31 December 2022 and 1 January 2023		1,197,168
Changes in fair value		53,963
At 31 December 2023		1,251,131

In August 2018, Guangzhou InnoCare was jointly established by Guangzhou High-Tech and a subsidiary of the Company, Beijing InnoCare. In addition, Guangzhou High-Tech provided Guangzhou InnoCare with a convertible loan amounting to RMB930 million, which bears interest at 6.5% per annum and is due on 31 December 2024. Under the loan agreement, Guangzhou InnoCare has to convert the loan into ordinary shares of Guangzhou InnoCare under certain conditions. The Group does not bifurcate any embedded derivatives from the host instrument and has designated the loan from Guangzhou High-Tech with a conversion right as a financial liability at fair value through profit or loss. Further details are included in note 40 to the consolidated financial statements.

The conversion feature was triggered in 2022. As at the date of this report, Beijing InnoCare has not issued a written notice to initiate the conversion, and the company is still communicating with Guangzhou High-Tech on the specific plan of equity conversion and loan repayment. The convertible loan will become due on 31 December 2024.

30. LONG TERM PAYABLES

The movements in long term payables during the year are as follows:

	2023 RMB'000	2022 RMB'000
At 1 January	287,761	37,693
Additions	18,969	250,627
Less: interest paid	(1,153)	(559)
At 31 December	305,577	287,761

In December 2021, a government-related entity provided a five-year loan amounting to RMB50,000,000 at an interest rate of 0.35% per annual to the Group and nominally holds equity interest, the Group has the right of early redemption. In June 2022, the Group received five-year loans from the government related entity amounting to RMB325,000,000 bearing interest at 0.35% per annual. The Group measured the loans by applying effective interest rate method and the rest portions for the discount part were recognised as government grants recorded in deferred income.

The Group's leasehold land was pledged for a long term loan granted to the Group in June 2022 (note 14).

31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries RMB'000	2023 Right-of-use assets RMB'000	Total RMB'000
At 31 December 2022	4,828	–	4,828
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	7,877	7,877
At 1 January 2023 (restated)	4,828	7,877	12,705
Deferred tax charged/(credited) to profit or loss during the year	(604)	2,210	1,606
Gross deferred tax liabilities at 31 December 2023	4,224	10,087	14,311

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31. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

	2022		
	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Right-of-use assets RMB'000	Total RMB'000
At 31 December 2021	5,432	–	5,432
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	–	9,460	9,460
At 1 January 2022 (restated)	5,432	9,460	14,892
Deferred tax credited to profit or loss during the year (restated)	(604)	(1,583)	(2,187)
Gross deferred tax liabilities at 31 December 2022 (restated)	4,828	7,877	12,705

Deferred tax assets

	2023		
	Losses available for offsetting against future taxable profits RMB'000	Lease liabilities RMB'000	Total RMB'000
At 31 December 2022	4,828	–	4,828
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	200	7,677	7,877
At 1 January 2023 (restated)	5,028	7,677	12,705
Deferred tax (charged)/credited to profit or loss during the year	(267)	1,873	1,606
Gross deferred tax assets at 31 December 2023	4,761	9,550	14,311

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31. DEFERRED TAX (continued)

Deferred tax assets (continued)

	2022		Total RMB'000
	Losses available for offsetting against future taxable profits RMB'000	Lease liabilities RMB'000	
At 31 December 2021	5,432	–	5,432
Effect of adoption of amendments to HKAS 12 (note 2.2(c))	23	9,437	9,460
At 1 January 2022 (restated)	5,455	9,437	14,892
Deferred tax credited to profit or loss during the year (restated)	(427)	(1,760)	(2,187)
Gross deferred tax assets at 31 December 2022 (restated)	5,028	7,677	12,705

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

	2023 RMB'000	2022 RMB'000 (Restated)
Net deferred tax assets recognised in the consolidated statement of financial position	–	–
Net deferred tax liabilities recognised in the consolidated statement of financial position	–	–

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32. SHARE CAPITAL

Shares

The Company was incorporated in the Cayman Islands on 3 November 2015 with initial authorised share capital of US\$50,000 divided into 500,000,000 shares with a par value of US\$0.0001 each. In September 2016, the authorised share capital was further sub-divided into 25,000,000,000 shares with a par value of US\$0.000002 each.

	2023 RMB'000	2022 RMB'000
Issued and fully paid:		
1,763,130,452 (2022: 1,764,321,452) ordinary shares of US\$0.000002 each	23	23

A summary of the movements in the Company's share capital is as follows:

	Number of shares in issue '000	Share capital RMB'000	Share premium RMB'000
At 1 January 2022	1,409,849	19	9,371,726
Issue of A shares (note (a))	264,648	4	2,919,066
Share issue expenses	–	–	(149,902)
Acquisition of non-controlling interests in the subsidiary	–	–	(453,239)
Exercise of RSUs	7,713	–	68,629
At 31 December 2022 and 1 January 2023	1,682,210	23	11,756,280
Shares repurchased and cancelled (note (b))	(1,191)	–	(6,300)
Exercise of RSUs	8,832	–	118,018
At 31 December 2023	1,689,851	23	11,867,998

Notes:

- (a) In connection with the A shares issued upon listing on the STAR Market, 264,648,217 ordinary shares of US\$0.000002 each were issued at a price of RMB11.03 per share for a total cash consideration, before deducting the listing expenses, of approximately RMB2,919,070,000. Dealings in these shares on the Shanghai Stock Exchange commenced on 21 September 2022.
- (b) The Company purchased 1,191,000 of its shares on the Hong Kong Stock Exchange at a total consideration of HK\$6,876,550 (RMB6,300,000, equivalently) which was paid wholly out of retained profits in accordance with section 257 of the Hong Kong Companies Ordinance. The purchased shares were cancelled during the year.

As at 31 December 2023, 73,279,361 shares (31 December 2022: 82,111,118 shares) were reserved under the share-based payment schemes for future share grant or vesting of awards and held under trusts to be transferred to individual grantees after they exercise their rights. Details of the Company's share-based payment schemes are included in note 34 to the consolidated financial statements.

33. 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) Other reserve

The Group's other reserve includes:

- i. The excess of the consideration for purchasing the remaining 10% shares of its subsidiary held by a non-controlling shareholder over the proportion of the carrying amounts of the subsidiary's net assets acquired; and
- ii. The capital contribution was from a holder of the preferred shares of the Company. The Company obtained and fully settled an interest-free loan of US\$6.59 million from King Bridge in previous years. The management of the Company measured the loan at fair value on initial recognition, and the difference between the loan amount and its fair value was treated as a contribution to the Company.

(b) Foreign exchange reserve

The foreign exchange 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.

34. SHARE-BASED PAYMENTS

The Company operates five H share-based payment schemes, 2015 Global Share Plan, 2016 Global Share Plan, 2018 Global Share Plan, 2020 Global Share Plan and 2023 Share Award Scheme (the "**Schemes**") and one A share Incentive Scheme, namely, 2023 STAR Market Restricted Share Incentive Scheme (the "**A Share Scheme**"), for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Schemes and A Share Scheme include the Company's directors, the Group's employees and consultants.

"Class A Ordinary Shares" refers to the Company's class A ordinary shares, with a par value of US\$0.000002 per share.

"Class B Ordinary Shares" refers to the Company's class B ordinary shares, with a par value of US\$0.000002 per share, all of which shall be reserved and issued for employee incentive purposes under the employee stock option plan as adopted by the board of directors of the Company.

2015 Global Share Plan

The 2015 Global Share Plan became effective on 6 September 2016 and, unless otherwise cancelled or amended, will continue in effect for a term of 10 years from the date of grant. The maximum aggregate number of shares that may be issued under this plan is 183,888,050 Class B Ordinary Shares. The 2015 Global Share Plan permits the awards of share options and RSUs. Share options and RSUs do not confer rights to the holders to vote or receive dividends or any other rights until the shares are issued.

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34. SHARE-BASED PAYMENTS (continued)

2016 Global Share Plan

The 2016 Global Share Plan became effective on 6 September 2016 and, unless otherwise cancelled or amended, will continue in effect for a term of 10 years from the date of grant. The maximum aggregate number of shares that may be issued under this plan is 22,200,000 Class B Ordinary Shares. The 2016 Global Share Plan permits the awards of RSUs, which do not confer rights to the holders to vote or receive dividends or any other rights until the shares are issued.

2018 Global Share Plan

The 2018 Global Share Plan became effective on 28 November 2018 and, unless otherwise cancelled or amended, will continue in effect for a term of 10 years from the date of grant. The maximum aggregate number of shares that may be issued under this plan is 68,498,464 Class B Ordinary Shares. The 2018 Global Share Plan permits the awards of RSUs, which do not confer rights to the holders to vote or receive dividends or any other rights until the shares are issued.

2020 Global Share Plan

The 2020 Global Share Plan became effective on 3 July 2020 and, unless otherwise cancelled or amended, will continue in effect for a term of 10 years from the date of grant. The maximum number of shares in respect of which RSUs may be granted under the 2020 Global Share Plan when aggregated with the maximum number of shares in respect of which share options or RSUs may be granted under any other share-based incentive scheme shall not exceed 10% of the total issued share capital of the same class of the Company as of the Adoption Date (or of the refreshment of the 10% limit). The 2020 Global Share Plan permits the awards of RSUs, which do not confer rights to the holders to vote or receive dividends or any other rights until the shares are issued.

2023 Share Award Scheme

The 2023 Share Award Scheme became effective on 31 August 2023 and, unless otherwise cancelled or amended, will continue in effect for a term of 10 years from the date of grant. The maximum aggregate number of shares that may be issued under this plan is 51,481,607 Class B Ordinary Shares. The 2023 Share Award Scheme permits the awards of RSUs, which do not confer rights to the holders to vote or receive dividends or any other rights until the shares are issued. 2015 Global Share Plan, 2016 Global Share Plan, 2018 Global Share Plan and 2020 Global Share Plan terminated on 11 August 2023, approved by directors of the Company. The shares granted under 2015 Global Share Plan, 2016 Global Share Plan, 2018 Global Share Plan and 2020 Global Share Plan will continue to be implemented as originally planned, while ungranted shares will be transferred to the 2023 Share Award Scheme.

RSUs

Subject to the achievement of certain milestone conditions, certain performance conditions and the directors and employees' continued status as a service provider through each of the applicable vesting dates, and to the extent permitted by applicable law, the RSUs shall be vested in whole or in part in accordance with the rules and the vesting schedule.

34. SHARE-BASED PAYMENTS (continued)

RSUs (continued)

The following RSUs were outstanding under the Schemes:

	2023		2022	
	Weighted average exercise price US\$ per share	Number of RSUs '000	Weighted average exercise price US\$ per share	Number of RSUs '000
At 1 January	0.1433	29,833	0.1261	37,571
Granted during the year	0.1780	4,810	0.1780	2,700
Forfeited during the year	0.1512	(2,063)	0.1133	(2,725)
Exercised during the year	0.1584	(8,832)	0.0825	(7,713)
At 31 December	0.1440	23,748	0.1433	29,833

The weighted average share price at the date of exercise for RSUs exercised during the year was US\$1.0131 per share (2022: US\$1.2028).

2023

Number of RSUs '000	Exercise price US\$ Per share	Exercise period
2,650	0.000002	1 October 2020 to 1 August 2029
1,450	0.055	16 March 2022 to 15 September 2031
19,648	0.178	2 August 2020 to 29 December 2033
23,748		

2022

Number of RSUs '000	Exercise price US\$ Per share	Exercise period
3,225	0.000002	1 October 2020 to 2 September 2031
2,475	0.055	16 March 2022 to 15 September 2031
24,133	0.178	2 August 2020 to 15 September 2032
29,833		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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34. SHARE-BASED PAYMENTS (continued)

RSUs (continued)

The fair value of each RSU at the respective grant dates is determined by using the binomial method, taking into account the terms and conditions upon which the RSUs were granted. The following table lists the key assumptions that the model used.

	2023	2022
Expected volatility (%)	64.77–66.04	42.68–46.57
Risk-free interest rate (%)	3.64–5.21	2.19–3.42
Expected life (years)	10	10
Closing price of grant dates(US\$ per share)	0.7911–1.0663	1.2690–1.4015

The Group recognised share-based payment expenses of RSU of RMB52.98 million for the year ended 31 December 2023 (2022: RMB129.5 million).

The 8,832,000 RSUs exercised during the year resulted in the increase of 8,832,000 shares in issue of the Company and increase of share capital of less than RMB1,000, as further detailed in note 32 to the consolidated financial statements.

At the end of the reporting period, the Company had 23,748,000 RSUs outstanding under the Schemes. The exercise in full of the outstanding RSUs would, under the present capital structure of the Company, result in the increase of 23,748,000 shares in issue of the Company and increase of share capital of less than RMB1,000.

Subsequent to the end of the reporting period, no RSUs were granted under the Schemes. At the date of approval of the consolidated financial statements, the Company has 49,531,857 shares which have been reserved for further grant or vesting under the Schemes, representing approximately 2.93% of the Company's shares in issue.

A Share Scheme

The A Share Scheme became effective on 2 June 2023 and the validity period of this scheme is from 2 June 2023 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 72 months. The number of restricted shares to be granted to incentive objects in the A Share Scheme is 8,948,750, accounting for 0.51% of the total share capital of the Company. The A Share Scheme permits the awards of restricted shares, which do not confer rights to the holders to vote or receive dividends or any other rights until the shares are issued.

The Group recognised share-based payment expenses of A Share Scheme of RMB12.12 million for the years ended 31 December 2023 (2022: Nil).

34. SHARE-BASED PAYMENTS (continued)

A Share Scheme (continued)

The following restricted shares were outstanding under the A Share Scheme during the period:

	2023		2022	
	Weighted average exercise price RMB per share	Number of restricted shares '000	Weighted average exercise price RMB per share	Number of restricted shares '000
At 1 January	–	–	NA	NA
Granted during the year	6.95	7,209	NA	NA
Forfeited during the year	6.95	(119)	NA	NA
At 31 December	6.95	7,090	NA	NA

2023

Number of restricted shares '000	Exercise price RMB per share	Exercise period
7,090	6.95	2 June 2024 to 2 June 2029

The fair value of the equity-settled incentive granted on the grant date is estimated using the Black-Scholes option pricing model, in combination with the terms and conditions of the equity incentive granted. The following table lists the inputs to the model used:

	2023	2022
Expected volatility (%)	30.63–35.68	NA
Risk-free interest rate (%)	1.97–2.33	NA
Expected life (years)	2–5	NA
Closing price of grant date (RMB per share)	12.28	NA

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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35. 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 RMB36,052,000 and RMB36,052,000, respectively, in respect of lease arrangements for office and laboratory (2022: RMB9,542,000 and RMB9,542,000, respectively).

During the year, the Group had non-cash settlement of variable consideration in revenue from contracts with customers and other payables of RMB19,075,000 (2022: RMB49,217,000).

(b) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Payable for acquisition of non-controlling interests in the subsidiary RMB'000	Convertible loan RMB'000	Long term payables RMB'000	Lease liabilities RMB'000	Bank loans RMB'000	Total RMB'000
At 1 January 2023	459,517	1,197,168	287,761	55,551	–	1,999,997
Changes from financing activities	–	–	(1,153)	(26,476)	31,300	3,671
Changes in fair value	–	53,963	–	–	–	53,963
Currency translation differences	–	–	–	10	–	10
New lease arrangements	–	–	–	36,052	–	36,052
Accretion of interest (included both-finance cost and capitalisation)	16,819	–	18,969	1,743	–	37,531
At 31 December 2023	476,336	1,251,131	305,577	66,880	31,300	2,131,224

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

	Payable for acquisition of non-controlling interests in the subsidiary RMB'000	Convertible loan RMB'000	Long term payables RMB'000	Lease liabilities RMB'000	Total RMB'000
At 1 January 2022	–	1,200,564	37,693	67,778	1,306,035
Changes from financing activities	–	–	324,441	(24,478)	299,963
Changes in fair value	453,239	(3,396)	–	–	449,843
Reclassified to deferred income	–	–	(84,788)	–	(84,788)
Currency translation differences	–	–	–	78	78
New lease arrangements	–	–	–	9,542	9,542
COVID-19-related rent concessions from lessors	–	–	–	(73)	(73)
Accretion of interest (included both-finance cost and capitalisation)	6,278	–	10,415	2,704	19,397
At 31 December 2022	459,517	1,197,168	287,761	55,551	1,999,997

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2023 RMB'000	2022 RMB'000
Within operating activities	618	1,943
Within financing activities	26,476	24,478
Total	27,094	26,421

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36. PLEDGE OF ASSETS

Details of the Group's assets pledged for the loans from a government related entity amounting to RMB325,000,000 are included in notes 14 and 30, respectively, to the financial statements.

37. COMMITMENTS

The Group had the following contractual commitments at the end of the reporting period:

	2023 RMB'000	2022 RMB'000
Plant and machinery	46,980	130,956

On 5 May 2015, Beijing Huicheng Jianhua Pharma Technology Co., Ltd. ("**Beijing Huicheng Jianhua**", currently known as Beijing InnoCare Pharma Tech Co., Ltd.) entered into an agreement with Shanghai Runnuo Biotech Co., Ltd. ("**Shanghai Runnuo**") for the transfer of Bruton's Tyrosine Kinase ("**BTK**")-related intellectual property rights, pursuant to which Shanghai Runnuo has agreed to irrevocably transfer its worldwide rights and interests in the BTK-related intellectual property rights held by Shanghai Runnuo and its related parties to Beijing Huicheng Jianhua. Subject to the approval of the application of launching the new drug under BTK in other regions outside the People's Republic of China, (1) if Beijing Huicheng Jianhua licenses out the rights under the agreement to other regions outside the People's Republic of China, Beijing Huicheng Jianhua should pay a certain percentage of licence fee received to Shanghai Runnuo, and (2) if Beijing Huicheng Jianhua produces its own new drug under BTK and sell it in other regions outside the People's Republic of China, Beijing Huicheng Jianhua should pay a certain percentage of the oversea sales to Shanghai Runnuo.

On 29 November 2023, Beijing Huicheng Jianhua and Shanghai Runnuo has entered into an agreement for termination of the agreement of transfer BTK-related intellectual property rights, pursuant to which, the agreement of transfer BTK-related intellectual property rights signed in 2015 has terminated and Beijing Huicheng Jianhua no longer has any payment obligations related to BTK-related intellectual property rights to Shanghai Runnuo except to pay a cash consideration of RMB10,766,700 to Shanghai Runnuo.

38. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel of the Group:

	2023 RMB'000	2022 RMB'000
Short-term employee benefits	21,368	23,337
Pension scheme contributions	232	221
Share-based payment expenses	33,267	59,397
Total compensation paid to key management personnel	54,867	82,955

(b) Name and relationships of the related parties:

Name	Relationship
Dimai Biological Medicine technology (Shanghai) Co., Ltd. (" Dimai ")	Director of the entity acts as a non-executive director of the Company
Beijing Baiaozhahui Technology Co., Ltd. (" Beijing Baiaozhahui ")	Controlled by immediate family member of an independent non-executive director of the Company
Vivo Opportunity Fund, L.P. and Vivo Opportunity Co-Invest, L.P.	Acting in concert with shareholders whose shareholding exceeds 5% of the Company
Shanghai Baishida Pharmaceutical Technology Co., Ltd. (" Baishida ")	Director of the entity acts as non-executive director of the Company
Nanjing Bowang Pharmaceutical Technology Co., Ltd. (" Nanjing Bowang ")	Director of the entity acts as an executive director of the Company and controlled by their immediate family members
Zemin Jason Zhang (" Zemin ")*	Independent non-executive director of the Company
Shi Yigong	Non-executive director of the Company
Beijing Tiannuo Jiancheng Pharmaceutical Technology Co., Ltd. (" Beijing Tiannuo Jiancheng ")	Joint venture

* On 14 July 2023, Zemin resigned as an independent non-executive director.

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38. RELATED PARTY TRANSACTIONS (continued)

(c) Transactions with related parties:

	2023 RMB'000	2022 RMB'000
Service from Baishida	–	507
Service from Nanjing Bowang(note (i))	345	–
Payments on behalf of Nanjing Bowang	131	134

Notes:

- (i) As mutually agreed between the Group and Nanjing Bowang, the Group pays to the lessor on behalf of Nanjing Bowang for using certain of machinery and equipment.
- (ii) On 4 January 2016 and 8 August 2019, Beijing InnoCare signed the strategic cooperation agreements with Zemin, which are valid for three years, respectively. The main content of the above strategic cooperation agreements is that Zemin provides diversified services to the Group, such as assisting the Group in explaining the relationship between cancer and cancer specific oncogene and applying advanced technologies (such as single-cell sequencing) in the study of the heterogeneity and drug resistance of tumours by using his existing technology and platform. During the reporting period, no specific cooperation projects were carried out under above strategic cooperation agreements. The agreements were not renewed after they expired.
- (iii) On 4 January 2016, Beijing InnoCare signed the strategic cooperation agreement with Shi Yigong. On 8 August 2018, Beijing InnoCare signed the strategic cooperation agreement with Shi Yigong, Shi Yigong Tsinghua University Laboratory (Shi Yigong is the principal of the scientific research laboratory), which refined and replaced the above strategic cooperation agreement signed on 4 January 2016. On 10 July 2020, Beijing InnoCare and its subsidiaries signed the strategic cooperation agreement with Shi Yigong and Shi Yigong Tsinghua University Laboratory, which refined and replaced the previously signed strategic cooperation agreement. The main content of the above strategic cooperation agreement is that Shi Yigong or Shi Yigong Tsinghua University Laboratory provide diversified services to the Group, such as assisting the Group to solve specific problems in protein crystal screening, protein structure analysis, protein function analysis, combination optimisation of target protein and candidate compounds encountered in the process of new drug research and development and provide in-depth guidance on the selection of drug targets by using existing technology and platform. During the reporting period, no specific cooperation projects were carried out under the above strategic cooperation agreement.

(d) Outstanding balances with related parties

	31 December 2023 RMB'000	31 December 2022 RMB'000
Amount due from related party		
Nanjing Bowang	–	134
Amounts due to related parties		
Nanjing Bowang	3	–
Baishida	–	117
	3	117

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2023

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Trade and bills receivables	276,377	31,261	307,638
Financial assets included in prepayments, other receivables and other assets	64,560	–	64,560
Cash and bank balances	8,224,596	–	8,224,596
Total	8,565,533	31,261	8,596,794

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Trade payables	134,905	–	134,905
Long term payables	305,577	–	305,577
Financial liabilities included in other payables and accruals	599,465	–	599,465
Interest-bearing bank borrowings	31,300	–	31,300
Convertible loan	–	1,251,131	1,251,131
Total	1,071,247	1,251,131	2,322,378

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39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2022

Financial assets

	Financial assets at amortised cost RMB'000	Financial assets at fair value through other comprehensive income RMB'000	Total RMB'000
Trade and bills receivables	127,825	–	127,825
Financial assets at fair value through profit or loss	–	313,290	313,290
Financial assets included in prepayments, other receivables and other assets	49,640	–	49,640
Cash and bank balances	8,697,927	–	8,697,927
Total	8,875,392	313,290	9,188,682

Financial liabilities

	Financial liabilities at amortised cost RMB'000	Financial liabilities at fair value through profit or loss RMB'000	Total RMB'000
Trade payables	118,597	–	118,597
Long term payables	287,761	–	287,761
Financial liabilities included in other payables and accruals	637,959	–	637,959
Convertible loan	–	1,197,168	1,197,168
Total	1,044,317	1,197,168	2,241,485

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and bank balances, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, trade payables, loans and borrowings, 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 Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the finance head and the audit committee. At each reporting date the finance department analysed the movements in the values of financial instruments and determined 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 audit committee twice a year for interim and annual financial reporting.

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.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2023				
Financial assets at fair value through other comprehensive income:				
Bills receivables	–	31,261	–	31,261
As at 31 December 2022				
Financial assets at fair value through profit or loss	–	313,290	–	313,290

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40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
As at 31 December 2023				
Financial liabilities at fair value through profit or loss:				
Convertible loan	–	–	1,251,131	1,251,131
As at 31 December 2022				
Financial liabilities at fair value through profit or loss:				
Convertible loan	–	–	1,197,168	1,197,168

(i) *Fair values of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

Financial instruments in Level 2

The fair value of investments in wealth management products and bills issued by commercial banks is determined by referring to the publicly quoted price from the commercial banks.

Financial instruments in Level 3

The following table gives information about how the fair value of the convertible loan is determined. Further details of the convertible loan are included in note 29 to the financial statements.

	Fair value RMB'000	Significant unobservable input	Range of input (%)
At 31 December 2023	1,251,131	Discount rate	2.17~4.32
At 31 December 2022	1,197,168	Discount rate	2.15~4.30

The Group applied the discounted cash flow method to determine the fair value of the convertible loan, which is the probability-weighted average of the convertible option and straight loan. The discount rate for the convertible option is the risk-free rate while the discount rate for the straight loan at the end of the reporting period is the risk-free rate plus an implied spread. The Group estimated the risk-free interest rate based on the yield of the China Government Bond Zero Curve as of the valuation date with the term corresponding to the time to maturity of the convertible loan.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

- (i) *Fair values of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)*

Financial instruments in Level 3 (continued)

Below is a summary of significant unobservable inputs to the valuation of the convertible loan with a quantitative sensitivity analysis as at the end of the reporting period.

	Valuation technique	Significant unobservable input	Range	Sensitivity of fair value to the input RMB'000
Convertible loan	Discount cash flow method	Risk-free interest rate	31 December 2023: 2.17%	1% increase/(decrease) would result in a (decrease)/increase in fair value by (11,901)/12,132
			31 December 2022: 2.15%	1% increase/(decrease) would result in a (decrease)/increase in fair value by (11,430)/11,652
		Interest spread	31 December 2023: 2.15%	1% increase/(decrease) would result in a (decrease)/increase in fair value by (10,818)/11,028
			31 December 2022: 2.15%	1% increase/(decrease) would result in a (decrease)/increase in fair value by (8,533)/8,698

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.

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and bank balances, financial assets at fair value through profit or loss, loans and borrowings and a convertible loan. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables, trade 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. To keep the Group's exposure to these risks at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect the Group's financial condition and results of operations. The Group seeks to limit its exposure to foreign currency risk by minimising its net foreign currency position.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in the rate of foreign currency (%)	Increase/ (decrease) in profit before tax RMB'000
2023		
If RMB weakens against US\$	5	7,024
If RMB strengthens against US\$	(5)	(7,024)
If RMB weakens against HK\$	5	497
If RMB strengthens against HK\$	(5)	(497)
2022		
If RMB weakens against US\$	5	5,237
If RMB strengthens against US\$	(5)	(5,237)
If RMB weakens against HK\$	5	191
If RMB strengthens against HK\$	(5)	(191)

Credit risk

The carrying amounts of cash and bank balances, financial assets at fair value through profit or loss, trade and bills receivables, other receivables and other financial assets represent the Group's maximum exposure equal to credit risk in relation to the financial assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The Group expects that there is no significant credit risk associated with cash and bank balances and financial assets at fair value through profit or loss since they are substantially held in reputable state-owned banks and other medium or large-sized listed banks. Management does not expect that there will be any significant losses from no-performance by these counterparties.

At the end of the reporting period, the Group had certain concentrations of credit risk as 37.13% (2022: 40.25%) and 89.11% (2022: 89.69%) of the Group's trade receivables were due from the Group's largest customer (aggregated if under common control) and five largest customers (aggregated if under common control), respectively.

The Group also expects that there is no significant credit risk associated with other receivables and other financial assets since counterparties to these financial assets have no history of default.

As at 31 December 2023

	12-month	Lifetime ECLs			Total
	ECLs	Simplified			
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	–	–	–	307,638	307,638
Financial assets included in prepayments, other receivables and other assets	64,560	–	–	–	64,560
Cash and bank balances	8,224,596	–	–	–	8,224,596
Total	8,289,156	–	–	307,638	8,596,794

As at 31 December 2022

	12-month	Lifetime ECLs			Total
	ECLs	Simplified			
	Stage 1	Stage 2	Stage 3	approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	–	–	–	127,825	127,825
Financial assets included in prepayments, other receivables and other assets	49,640	–	–	–	49,640
Cash and bank balances	8,697,927	–	–	–	8,697,927
Total	8,747,567	–	–	127,825	8,875,392

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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41. 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 reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2023			
	On demand and less than			
	1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	134,905	–	–	134,905
Financial liabilities included in other payables and accruals	599,465	–	–	599,465
Interest-bearing loans and borrowings	6,004	27,996	–	34,000
Lease liabilities	25,124	45,936	–	71,060
Long term payables	1,138	378,718	–	379,856
Convertible loan (note a)	1,317,888	–	–	1,317,888
Total	2,084,524	452,650	–	2,537,174

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	As at 31 December 2022			
	On demand and less than			
	1 year RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Trade payables	118,597	–	–	118,597
Financial liabilities included in other payables and accruals	654,778	–	–	654,778
Lease liabilities	23,822	37,799	–	61,621
Long term payables	1,138	379,856	–	380,994
Convertible loan (note a)	1,242,325	–	–	1,242,325
Total	2,040,660	417,655	–	2,458,315

Note:

- (a) The conversion feature was triggered in 2022 that the Group needs to initiate conversion. The convertible loan will become due on 31 December 2024. Further details are included in note 29 to the consolidated financial statements

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2023 and 31 December 2022.

The Group monitors capital using a gearing ratio, which is calculated as total debt divided by total assets. The total debt includes Interest-bearing bank borrowings, long term payables, convertible loan and, payable for acquisition of non-controlling interests in the subsidiary. The gearing ratios as at the end of the reporting periods were as follows:

	2023 RMB'000	2022 RMB'000
Current and non-current liabilities:		
Interest-bearing bank borrowings	31,300	–
Long term payables	305,577	287,761
Convertible loan	1,251,131	1,197,168
Payable for acquisition of non-controlling interests in the subsidiary	476,336	459,517
Total debt	2,064,344	1,944,446
Total assets	9,919,129	10,321,158
Gearing ratio	21%	19%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2023 RMB'000	2022 RMB'000
NON-CURRENT ASSETS		
Long-term receivables from subsidiaries	745,694	–
Total non-current assets	745,694	–
CURRENT ASSETS		
Due from subsidiaries	2,988,172	2,450,509
Cash and bank balances	5,892,905	6,970,068
Prepayments, other receivables and other assets	1,014	41,201
Total current assets	8,882,091	9,461,778
CURRENT LIABILITIES		
Other payables and accruals	6,254	12,944
Total current liabilities	6,254	12,944
NET CURRENT ASSETS	8,875,837	9,448,834
TOTAL ASSETS LESS CURRENT LIABILITIES	9,621,531	9,448,834
Net assets	9,621,531	9,448,834
EQUITY		
Share capital	23	23
Reserves (note)	9,621,508	9,448,811
TOTAL EQUITY	9,621,531	9,448,834

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31 December 2023

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	31 December 2023					
	Share premium RMB'000	Other reserve RMB'000	Share-based payment reserve RMB'000	Foreign exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2023	12,209,980	602	325,367	76,382	(3,163,520)	9,448,811
Loss for the year	-	-	-	-	(56,346)	(56,346)
Exchange differences on translation of foreign operations into the presentation currency	-	-	-	160,577	-	160,577
Total comprehensive income for the year	-	-	-	160,577	(56,346)	104,231
Equity-settled share-based payment expenses	-	-	65,103	-	-	65,103
Exercise of RSUs	118,018	-	(108,355)	-	-	9,663
Purchase of own shares	(6,300)	-	-	-	-	(6,300)
At 31 December 2023	12,321,698	602	282,115	236,959	(3,219,866)	9,621,508
	31 December 2022					
	Share premium RMB'000	Other reserve RMB'000	Share-based payment reserve RMB'000	Foreign exchange reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	9,371,725	602	260,235	(515,562)	(2,771,431)	6,345,569
Loss for the year	-	-	-	-	(392,089)	(392,089)
Exchange differences on translation of foreign operations into the presentation currency	-	-	-	591,944	-	591,944
Total comprehensive income for the year	-	-	-	591,944	(392,089)	199,855
A Shares issued upon listing on the STAR Market	2,919,066	-	-	-	-	2,919,066
Share issue expenses	(149,440)	-	-	-	-	(149,440)
Equity-settled share-based payment expenses	-	-	129,477	-	-	129,477
Exercise of RSUs	68,629	-	(64,345)	-	-	4,284
At 31 December 2022	12,209,980	602	325,367	76,382	(3,163,520)	9,448,811

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

43. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in the consolidated financial statements, the Group has the following events taken place subsequent to 31 December 2023:

From 12 January 2024 to 23 February 2024, the Company repurchased an aggregate of 2,198,000 shares on The Hong Kong Stock Exchange at the highest and lowest prices of HK\$6.00 and HK\$4.54 per share, respectively. The aggregate purchase price paid for the share repurchase was approximately HK\$11.30 million.

As at the date of this report, a total of 548,000 shares repurchased in January 2024 have been cancelled on 7 February 2024 and a total of 1,650,000 shares repurchased in February 2024 have not yet been cancelled.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2024.

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